

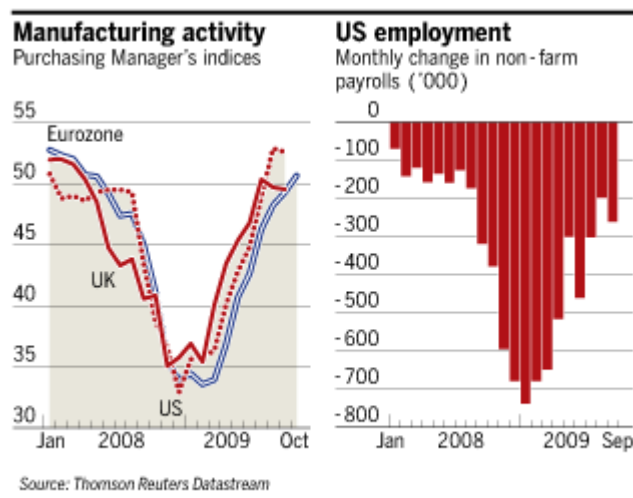
Today's Notes:

1. Sustainability
2. Momentum to Mine Uranium

1. SUSTAINABILITY

With massive fiscal spending and loose monetary policy we have, at least by definition, pulled out of the longest and deepest economic recession since the Great Depression. US GDP is up 3.5%. This malaise has been an 80 year event. This episode is also different from any of its recent predecessors in that it has been world wide. It has highlighted the embedded imbalances and the frailty of the world's fiat currency regime, derivative markets and banking systems. If anyone doubted the existence of these embedded weaknesses they need only watch the price of gold. Normally the central bankers of the world work hard to cap the price of gold. It now appears that the golden "cat is out of the bag." Gold is not trading on its fundamentals today. It is the US dollar and its paper cousins that are now problematical. A weak dollar and strong Euro for example will send tremors through the European Union.

There are signs of significant growth, particularly in Asia. China has been quite effective in spending its \$600 billion recovery fund. This has stimulated the global commodity markets. Australia and Norway have raised interest rates, quite a surprise. It is one that those governments believe foretells a need for tightening. The central question is; are things getting better or worse?



In the US there is little or no inflation. Unemployment (U3) is worryingly high near 10%. Friday we expect to see another 150,000 to 200,000 workers join the unemployment lines. UBS suggest that there is another 6 months of rising unemployment in the US. In Spain, for example, youth unemployment is 40%. The US problems are compounded by Washington's rush to tackle every major problem on the dais. Health care, global warming, financial re-regulation and two wars on terror are the major issues.

Budget deficits of \$1 to 2 trillion are staring US taxpayers and their grandchildren's children squarely in the face. This means that taxes are likely to be raised next year retroactive to January 1, 2010 – in my view. It also means that the Federal Reserve will do everything possible to inflate away as much debt as possible. They are trying to do that now with little success. Contrary to expectations other countries are not interested in a weak US dollar. Nevertheless the trend in the dollar seems down.

The economy has been a benefactor of the federal government with all its various spending and “too-big-to-fail” plans. Cash for Clunkers, the \$300 billion treasury purchase plan, the first time housing purchase rebate, TARP and TALF and numerous bailouts have capped the banking crisis – for now.

But the question of sustainability remains. What will happen when the federal government steps away? Banks are not lending even as the feds are. But what will happen when / if the federal government pulls back? At present they cannot. Deflationary forces still have an icy grip on the economy. Commercial real estate is still problematical. In short, the banks are still a problem. FDIC Chairwoman Bair tells us that 106 so far have capsized in the US and it is likely that the FDIC will need \$200 to \$300 billion more to rescue the remaining 500 weak sisters.

At present we do not think that the recovery is sustainable without continued and significant government intervention. We are all Keynesian addicts now – to paraphrase another famous politician. The socialization of the US “state” is well underway in Washington. Who was it that remarked,

“You don't ever want a crisis to go to waste; it's an opportunity to do important things that you would otherwise avoid?”

Of course the state will be sustained but perhaps it will not be allowed to sustain itself.

2. URANIUM

Last week I wrote on the necessity for North America to develop her significant domestic resources. I suggested that such development can be accomplished with environmental integrity and that the consequence of not following this path (particularly in commodity sector) could be catastrophic for the economy. Why should we be held hostage any longer to foreign governments that do not have our best interest at heart?

Apparently the public sees it differently now as well. The pendulum is swinging slowly back to the middle ground on the concerns of employment and the environment. Recently a Pew Research Center poll noted the following trends. According to the poll the public will increasingly tradeoff the environment for the economy. Jobs mean everything as the Christmas season approaches.

Environmental Protection Loses Ground in Tradeoff with Economy				
% agree	2002	2007	2009	07-09 change
Need stricter laws & regs to protect environment	83	83	83	0
Protecting environment a priority even if it causes slower growth/job losses	69	66	51	-15
Should be willing to pay higher prices to protect environment	62	60	49	-11

**PEW RESEARCH POLITICAL VALUES SURVEY
MARCH 31-APRIL 21 AMONG 3,013 ADULTS**

By October 4 the support for “solid evidence” of Global Warming while still high, had eroded significantly. In April of 2008 71% of the populace believed there was solid evidence for global warming. That ratio declined to 57% - a very significant decline – by October 4, 2009. The administration’s use of the politics of fear is clearly flagging.

Summer Temperatures and Global Warming Attitudes						
	October 2009			April 2008		08-09 change in % “Yes”
	Yes %	No %	N	Yes %	No %	
<i>Is there ‘solid evidence’ earth is warming?</i>						
Total	57	33	1500	71	21	-14
<i>July-Sept 2009 temps*</i>						
Much below normal	46	44	262	64	24	-18
Below normal	59	32	542	71	21	-12
Near normal	60	32	345	74	19	-14
Above normal**	59	29	351	74	22	-15

*Based on 2009 state level temperature data from the National Climate Data Center.
**Also includes people in states with temperatures much above normal.

**PEW RESEARCH SURVEY
SEPT. 30-OCT. 4 AMONG 1,500 ADULTS**

On another note nuclear energy is back on the table as a renewable energy source in Washington. This means that uranium is likely to become an important source of energy. In July Interior Secretary, Ken Salazar effectively barred new exploration for uranium on the Arizona Strip. Quaterra Resources had made several discoveries of high grade uranium pipes and had uncovered over 200 uranium targets that are ready for further exploration. The revocation (unilateral withdrawal of lands on the Arizona Strip) by Secretary Salazar contravened several previous agreements including the Arizona Wilderness Act of 1984. In the meantime Washington has agreed to buy uranium from Russia – another example of pending dependence on a potential adversary.

There are significant economic consequences of shutting down exploration and mining on the Arizona Strip’s uranium. The Governor of Arizona, Janice Brewer, Senator Hatch and an independent study (By Tetra Tech) released letters and studies last week on the economic consequences of halting all Az. Strip exploration and mining for two years. These have been sent to Interior Secretary Salazar. Page 1 of the Tetra Tech study referencing the economic benefits is included below.

ECONOMIC IMPACT OF URANIUM MINING ON
COCONINO & MOHAVE COUNTIES, ARIZONA
EXECUTIVE SUMMARY

This analysis¹ was prepared to estimate the potential economic impact of mining uranium contained in 1,069,000 acres in northern Arizona (see Figure 1), in an area known as the Arizona Strip Uranium District (ASUD). The lands are being considered for withdrawal from mineral leasing and claim processing by the U.S. Department of Interior.

Mining the ASUD uranium would have enormous economic impacts to businesses and households in Coconino and Mohave Counties, Arizona, nearby counties in Utah, the State of Arizona, regional mining service suppliers, and the federal government.

Coconino and Mohave Counties are the region of influence for this analysis, which also addresses impacts on neighboring counties in Utah and on regional mining service centers. The economic impacts are based on estimates by the United States Geological Survey and private companies that 375 million pounds of uranium oxide could be derived from uranium ore in the ASUD. This analysis uses a conservative sales price of \$50 per pound for uranium oxide; higher prices in the future would yield greater economic benefits.

- Economic impacts of ASUD mining:**
- 1,078 new jobs in the project area
 - \$40 million annually from payroll
 - \$29.4 billion in output over the 42-year life of the project
 - \$2 billion in federal and state corporate income taxes
 - \$168 million in state severance taxes
 - \$9.5 million in claims payments and fees to local governments

Economic Impacts

The northern Arizona uranium mining operations would provide a significant long-term benefit to the area, state, and region: a direct total sales impact of \$18,900 million over the 42-year duration of the project, with indirect impacts of \$10,508 million, for a **total impact of \$29,408 million, or an average annual impact of \$700 million.**²

Summary of Economic Benefits

	ACERT Companies	Indirect Impact	Total Impact
Over the 42-year life of the project:			
Sales (\$ Millions)	\$18,900	\$10,508	\$29,408
Average Annual Impacts:			
Sales (\$ Millions)	\$450	\$250	\$700
Earnings (\$ Millions)	\$25	\$15	\$40
Employment (number of jobs)	390	688	1,078

¹ This report was prepared by Tetra Tech, Inc., an internationally known environmental consulting firm. Tetra Tech's qualifications are found in Section 9, List of Preparers. The report was commissioned by the American Clean Energy Resources Trust (ACERT), and ACERT and its members have provided production and employment estimates. The analysis is also based on other information obtained from other sources deemed to be reliable (see Section 8, References). Although funded by ACERT, the report is an independent assessment of the potential value of the uranium resource and the economic impacts of mining the resource. The report was prepared for use by third parties (legislative bodies and government agencies of the United States, Arizona, and Utah) to assist in policy decisions.

² These estimates are based on a conservatively assumed constant price of \$50 per pound for uranium oxide, with six mines in operation per year over a 42-year period, except for start-up and close-out, when not all six mines would be in production. The analytical methodology is discussed in Section 4, Methodology & Definitions.

Governor Brewer noted that there has not been any environmental impact from previous uranium mining on the Arizona Strip. She concludes that the uranium mines on the strip, ***“Would generate more than \$10 billion to the local economy over the life of the mines”***

and will generate ***“hundreds of high paying jobs in a rural economy that desperately needs employment opportunities.”***

Governor Brewer urged ***“the Department to consider national security and energy independence as an additional basis to vacate the withdrawal of the lands for uranium mining.”***

The pendulum is in fact swinging back to the middle – at least in the critical natural resource space. We hope this momentum continues to increase. This is a very good sign indeed. If the Administration in Washington can unilaterally withdraw rights granted by Congress (1872, 1974 and 1984) under pressure from vocal but small special interest

groups what else can they do to small companies and individual citizens? Will investors step forward under such heavy handed government actions and invest the risk capital necessary to move this economy forward? I own shares in Quaterra Resources.

Dr. Michael Berry is the former Wheat First Professor of Investments at James Madison University and an Assistant Professor of Business Administration at The Darden School, University of Virginia. He is also a former Wall Street money manager. He has spent the last 5 years developing the discipline of Discovery Investing. Dr. Berry believes that the coming resource constraints in the world, stimulated by a rising Quality of Life Cycle in the emerging world, will require significant discovery efforts in many different areas including natural resources, bio tech, high tech and infrastructure development. He publishes Morning Notes by Michael Berry. These are complementary and may be accessed at:

www.DiscoveryInvesting.com