**Today's Notes:**

1. **Gold and the Currency System**
2. **Names Only in Montreal**
3.

## 1. Gold and The Currency System

Sunday Robert Zoellick, President of the World Bank, called for a new Bretton Woods, the third such agreement, to replace the current Bretton Woods II floating exchange rate system. In July 1944 a fixed exchange rate currency regime was created with gold backing in Bretton Woods, New Hampshire with the US dollar at its center as the world reserve currency. It was subsequently disassembled by the Nixon administration in 1971 after the United States unilaterally decoupled the dollar from gold. By 1971 when France and other countries realized the inherent vulnerabilities of the dollar-based system and French president Charles de Gaulle begin to exchange US dollars for gold.

Zoellick, a former US Treasury official in the 1980s, recommended a new Bretton Woods agreement to replace the current system which is inherently inflexible and prone to what I have termed "a currency race to the bottom." I believe we are now witnessing the beginnings of this phenomenon. As the US depreciates its currency other countries purposefully depreciate their currencies in response to inflate their prodigious debt loads away or simply to protect their economies. In the view of most observers US currency depreciation appears to be the only effective option the United States now has other than a sovereign debt default which cannot occur. Last week's $600 billion quantitative easing decision by the Federal Reserve is indicative of this tendency to depreciate the dollar. Competitive currency devaluations or currency controls might now escalate worldwide resulting in a trade war. Associated problems such as trade wars, capital controls, hot money flows due to carry traders are endemic to such a situation. One must not forget that in the 20th century World War two, one of the most devastating wars mankind has ever witnessed, resulted from such deflationary/ inflationary dynamics. Mr. Zoellick said,

***"The system should also consider employing gold as an international reference point of market expectations about inflation, deflation and future currency values. Although textbooks may view gold as the old money, markets are using gold as an alternative monetary asset today."***

Mr. Zoellick makes five major points in his recommendations in the November 7th issue of the Financial Times, **The G20 Must Look beyond Bretton Woods**. He refers to the work done by James Baker, then president Reagan's Treasury Secretary, who avoided a global protectionist system with the launch of the WTO and eventually North American free-trade. Mr. Zoellick's five points are:

1. The US and China must agree on specific, mutual steps to boost growth. China must agree on appreciation of the renminbi. The US, in turn, must desist from punitive, tit-for-tat trade actions. Open-market agreements are critical.
2. Other major economies, starting with the G7 and not including all G 20 initially, must agree to forgo currency intervention. This is the cause of what we called the global currency race to the bottom. These situations tend to end badly for all participants.

3. Emerging economies should have access to tools to suppress hot money flows which occur frequently. They are the cause of asset bubbles and high rates of inflation which derail developing economies.
4. The supply-side picture is critical. The developing countries in the G 20 make up half the world's demand. Supply-side bottlenecks are developing in many emerging countries. Import demand is rising worldwide. There is a need in these economies for the development of skilled labor forces, agriculture and infrastructure.
5. Whatever currency system is finally agreed upon it must reflect the growth and needs of emerging world. Such a system will involve a basket of currencies including not only the dollar but also the euro, yen and the renminbi. In the future other currencies will be included in this group. In effect this reflects the emergence of a new reserve currency "portfolio" and a new reserve currency system. Such a system is already beginning to develop. It must move toward internationalization and open capital accounts.

Mr. Zoellick does not suggest that currencies must be redeemable in gold. Simply that gold should be used as a reference point for determining and combating inflationary and deflationary tendencies in the future currency system. This is disappointing but a first important step towards recognizing gold and silver as the ultimate money and the backstop for any new agreed-upon currency system.

The development and acceptance of this system will take time and will require much soul-searching and give-and-take on the part of the haves and have-nots. But it is patently clear that we need new approach. We also need a new cadre of economists and economic thinking to cope with the serious problems that we now face. In spite of the meeting of the G 20 in Korea this week one cannot escape from the issue that debtor nations around the world have a most serious problem on their hands and that emerging countries have a different kind of problem, no less serious. We hope this is simply a first step in the evolution of a new system that will restore order and fiscal balances in the world.

It is the United States that has been the owner of the world's reserve currency since 1945, the issuer of unlimited debt because of this status. She now must pay the piper. Neither the US nor Western Europe can continue to run their huge welfare schemes without inflating their currencies to pay for the debt that must be undertaken. It will now be interesting to see if the G20 can reach an agreement on a system designed to cure the ills and the imbalances of the world today.

Perhaps the most controversial part of Mr. Zoellick's plan is his recommendation of gold as reference point. The FT this morning says ***"While there are occasional calls for return gold as an anchor for currency values most policymakers and economists regard the idea as liable to lead to overly tight monetary policy with growth and unemployment taking the brunt of economic shocks."***

Most economists still seem to regard gold the barbarous relic. Yet the Bernanke printing press is not working. Isn't gold exactly the sort of constraint that we need to have on the political system. Perhaps a basket of commodities, not only gold, priced globally would lead to less tight monetary policy with subsequent unemployment problems. As it is now Keynesian monetary prescriptions have failed. Monetarist prescriptions are failing to provide adequate growth and lower levels of unemployment.

We think the current price of gold and the proclivity of leaders of China and South Korea to suggest that more of their foreign-exchange reserves should be invested in gold indicates the reality of the situation. As we mentioned in the previous morning notes, if China is to maintain its 1.7% weighting in gold she will have to buy 1,500 tons in the next five years. At present Korea only has a .2 percentage weighting in gold indicating should she decide to buy gold a significant open-market purchase is in the offing. It is hard to understand how gold can be rejected in a in a monetary system when central bankers around the world are now beginning to purchase and horde gold and silver.

In the meantime discovery investors have the opportunity to protect themselves through homemade leverage by owning gold and silver and if they so choose, the equities or the ETF investment vehicles that offer exposure to those precious metals.

On Friday at the Cambridge House Investment Symposium in Montréal I had the pleasure of listening to a speech by Mr. Eric Sprott a famous Canadian investor. It was a speech in which he forcefully outlined the role of silver in our future. It was one of the most convincing speeches I have ever heard on the rationale for silver to make its price appreciation as gold has. I am therefore re-emphasizing this morning that investors seriously consider devoting an appropriate allocation to gold and silver. Mr. Sprott noted the first resistance level for silver is $50 per ounce. He also noted that huge margin calls had been made in the silver market in the past week or two. Precious metals seem to be ascending the system as we write this morning note today.

## 2. Names from the Montreal Cambridge House Symposium

Here are a few of the interesting names we researched and met with in Montreal over the weekend. I will not review them here, simply leave it to you to do your homework if you choose - might be a good way to exercise the Discovery Investing 10 point grid.
More on these later as we accumulate information. They are:

1. Sama Resources (nickel, copper polymetallics)
2. Quest Rare Minerals Limited
3. Amazon Mining (potash)
4. Matamec (rare earths)
5. Osisko and Clifton Star (gold)
6. Lithium Americas Corp.
7. Commerce Resources
8. Primary Petroleum

Today we meet with Geologix Explorations Inc. (GIX.v) in New York City to assess the progress on the Tepal deposit in Mexico. We are looking forward to meeting the management.

*the forward looking statements. Such risks and uncertainties include, but are not limited to future events and financial performance of the company which are inherently uncertain and actual events and / or results may differ materially. In addition Dr. Berry may review investments that are not registered in the U.S. He owns shares and in Goldcorp, Senesco Technologies, Horseshoe Gold, Terraco Gold, Neuralstem, Piedmont Mining, MegaWest Energy, CGX Energy, Revett Minerals and Quaterra Resources. We cannot attest to nor certify the correctness of any information in this note. Please consult your financial advisor and perform your own due diligence before considering any companies mentioned in this informational bulletin.*