

Today's Notes:

1. The Buck
2. Revett's 2010 Plans

1. THE BUCK

“Don't confuse fiat dollar strength or weakness with the real problem – the reserve currency status of the dollar and the penchant for Congress to use the fiat dollar's status to create naked liabilities.”

Last week, I gave a speech at the Cambridge House Symposium titled, *“The Rise and Fall of the Reserve Currency Dollar.”* In that speech I contended that the reserve currency status of the U.S. dollar was doomed. This preferential status has been abused by our elected leaders who have pushed the borrowing “face” of the U.S. at the expense of the rest of the world. For some countries this has been advantageous. China has been a major beneficiary of the U.S. consumers' debt-induced, fiat, reserve-dollar buying spree. In the meantime, of course, the “standard of greed” in the West has accelerated with vast increases in the fiat money supply and vast amounts of debt to finance the greed. All the while Central bankers in the West, particularly in Washington, led us down the garden path (not the yellow brick road) of belief in the invulnerability of central banking and the end of the annoying business cycle.

Post World War II the US has been the world's greatest economic power. She has rebuilt the post-war world and saved civilization from 20th century tyrants. The dollar has for the past 60 years or so held its rightful position as the world's reserve currency. However all that changed on August 15, 1971. President Richard Nixon decoupled gold from the dollar and allowed currency exchange rates to float. The notion sold to the public at the time was that central bankers would be able to control these relative currency prices and provide global currency and economic stability. The notion was that markets would efficiently price a country's currency based on global confidence in its leaders and their policies. Instead we have had a litany of 20th century economic disasters. I won't list them here but the recent crisis speaks for itself.

In November 1990 Mr. Lew Lehrman published a seminal, must read article in the Wall Street Journal titled (*The Curse of the Fiat Dollar*). In that article, which captivated my attention, Mr. Lehrman prognosticated on two significant points,

“Managed exchange rates are exploited to subsidize exports and tax imports ... just another Smoot Hawley.”

“Under floating exchange rates the US has suffered unprecedented financial instability for 60 years.”

Evidently few took his admonitions seriously. 20 years later we are confronted with a monumental schism in our economy and its money. It is no longer the **Curse of the Fiat Dollar** – today it has become the **Curse of the Reserve Currency Dollar**.

In April 2008 Professors Carmen Reinhart and Kenneth Rogoff published an NBER paper, (*This Time Is Different: A Panoramic View of Eight centuries of Financial Crises*). In this article the two professors traced the “march toward fiat currencies” as a human imperative. The ultimate debasement and demise of the silver and gold backing of currencies over 800 years and the subsequent economic catastrophe’s that followed reminds us that human nature and the assumption of power that creating money awards is the issue at that drives currency debasement. It is now and has always been driven thus.

Recently Mr. Lehrman and John Mueller wrote again – this time on the Curse of the Reserve Currency Status of the Dollar. (see Go Forward To Gold: How To Lift The Reserve-Currency Curse, National Review, Dec 15, 2008).

They contend that:

‘There is now total dependence on currency-reserve financing to expand government spending for current consumption. It is much worse this time because Treasury bonds were joined in the mix by mortgage-backed securities issued by Fannie Mae and Freddie Mac and implicitly backed by the government.’

“This funneled inflation (and then deflation) into residential real estate at the very time when Congress was forcing Fannie and Freddie to lower the quality of their mortgage loans to promote homeownership.”

“Though he almost certainly doesn't realize it yet, President Barack Obama will either set the dollar's reserve-currency status on the path to extinction or risk becoming the next victim.”

Today most people focus on the dollar’s daily rise or fall. This AM the dollar is strengthening. Once again whiffs of deflation (oil and gold falling) are in the air. Notables such as Robert Prechter contend, this AM, that we are headed into a massive deflation that will send the market, and with it, commodities of all sorts to lower levels. That scenario may obtain but be assured that even in that scenario the discovery of hard assets will continue to generate wealth.

Exchange Rates

(Exchange rates displayed are the middle point between bid and ask)

Currency	Chg% X=1\$USD	NY Time	X=	X\$USD	Gold	Gold	Gold
			1\$USD	=1	Price/oz	Chg	Chg%
US Dollar	--	01/26-09:33	--	--	1089.60	-7.50 ▼	-0.68%
Australian Dollar	-0.95%	01/26-09:30	1.1162	0.8959	1216.16	+3.15 ▲	+0.26%
Brazilian Real	-1.57%	01/26-09:33	1.8451	0.5420	2010.42	+17.54 ▲	+0.88%
British Pound	-0.67%	01/26-09:31	0.6200	1.6130	675.50	-0.15 ▼	-0.02%
Canadian Dollar	-1.08%	01/26-09:33	1.0688	0.9357	1164.51	+4.49 ▲	+0.39%
Chinese Yuan	0.00%	01/26-05:59	6.8221	0.1466	7433.36	-50.95 ▼	-0.68%
Euro	-0.54%	01/26-09:33	0.7109	1.4068	774.54	-1.16 ▼	-0.15%
Hong Kong Dollar	-0.20%	01/26-09:32	7.7797	0.1285	8476.76	-40.90 ▼	-0.48%
Indian Rupee	+0.48%	01/26-09:27	45.8528	0.0218	49961.16	-587.73 ▼	-1.16%
Japanese Yen	+0.79%	01/26-09:33	89.5600	0.0112	97584.58	-1450.64 ▼	-1.46%
Mexican Pesos	-1.02%	01/26-09:32	12.9694	0.0771	14131.46	+46.34 ▲	+0.33%
Russian Ruble	-0.81%	01/26-09:31	30.3590	0.0329	33079.17	+40.33 ▲	+0.12%
S.African Rand	-0.57%	01/26-09:33	7.6293	0.1311	8312.89	-9.99 ▼	-0.12%
Swiss Franc	-0.62%	01/26-09:33	1.0464	0.9557	1140.10	-0.83 ▼	-0.07%

By the way an examination of today's' currency chart from Kitco does suggest several issues. Volatility in exchange rates is fostered by floating rates controlled by central bankers who try to satisfy domestic objectives, (exports, jobs, etc.). Once again in spite of their entreaties that they will float the Yuan 5 % higher China continues to peg its currency to the fiat dollar. Second, we live in a world of "carry trade speculation" and the ultimate short coverings that result from senseless speculation in fiat currency interest rates. By tying the entire world's currencies to a basket of real goods (gold, silver or commodities for example) and valuing each country's currency in terms of its hard commodity worth (gold or otherwise) damaging and excess speculation could be controlled.

The question, therefore, is not nearly whether the dollar will rise or fall in value. That is short run noise. It is instead whether the dollar can relinquish its role as the world's sole reserve currency. Of course it must and it will stand down – it is simply a matter of time. That will mean that as global events dictate there will be less of a rush to the dollar as the safe haven in tough times for it will no longer be the world's sole reserve currency. The real questions for the president and the Congress are as follows:

- 1) Specifically, how can we achieve "sound" money?
- 2) What asset or portfolio of assets should back the dollar or the dollar's replacement?
- 3) How should / will the role of the world's central bankers change in a new sound money regime?
- 4) How can we educate the public that creation of fiat money and with it its unmatched liabilities is truly the curse of the reserve dollar that is at the heart of this problem and others that have occurred in the twentieth century.

Please remember that every citizen must have a say in these issues. You all have the duty to have a say. In the final analysis it is your money.

2. REVETT MINERALS

On January 19th Revett Minerals (RVM TSXV, RVMIF OTCBB) released its guidance for 2010. I think it is instructive to include portions of the company's press release for your analysis. In addition I have placed my Factor Model for Revett on the Discovery Investing website www.discoveryinvesting.com.

Spokane Valley, Washington January 19, 2010; Revett Minerals Inc. ("Revett" or the "Company") (TSX:RVM/OTCBB:RVMIF) is pleased to issue operational guidance and an outline of its metals hedging program for 2010.

"... In 2010: major focus will include the following:

- **Advance development stage Rock Creek project.** All necessary permits for Phase One are in place and the Company is currently working with government agencies to finalize reclamation bonding. Ruling on environmental challenges is anticipated by the end of first quarter 2010.

- Development of the Revett Formation “C beds”, commencing in late January with operations to access this new zone. The higher grade “C-beds” are located approximately 370 feet below current workings at the Troy Mine and production from the “C-beds” is expected to occur by the end of this year.
- ... operate the producing Troy Mine in a safe and environmentally conscious manner, while improving productivity and maintaining direct operating cost reductions.
- Further exploration in and around the Troy mine through expanding our current land position and by continuing drill programs designed to extend and evaluate mineralization.
- ... review new business opportunities which could provide significant value and growth

John Shanahan, President and CEO stated, *“In 2009, the Company completed many of its near-term objectives by reducing direct operating costs at the producing Troy Mine, restructuring debt and streamlining the corporate structure. As a result, we enter 2010 with a stronger and clean balance sheet, a solid operating record and greater capacity to expand our development and growth efforts for both the Troy Mine and Rock Creek project.”*

Operational Guidance

Production at the Troy Mine is expected to be approximately 1.3 million ounces of silver and 10.7 million pounds of Copper for 2010.

Based on the current mine plan, mill throughput is anticipated to exceed the 2009 estimated average of 3,745 tons per day, averaging 4,049 tons per day for 2010.

Grades are also anticipated to improve slightly averaging 1.01 ounces per ton silver and 0.43% copper; compared to 1.00 ounces per ton silver & 0.39% Cu in 2009.

A key objective is to maintain operating costs in a range similar to those in 2009 which were approximately 20% lower than 2008.

Estimated Production for 2010:

Troy Production Summary	1st Quarter 2010	2nd Quarter 2010	3rd Quarter 2010	4th Quarter 2010	2010
<u>Mill Production</u>					
Mill Feed (st)	351,558	361,658	367,317	369,008	1,449,542
Mill Feed Rate (stpd)	3,950	4,064	4,081	4,100	4,049
<u>Silver</u>					
Feed Grade - Oz/Ton Ag	0.93	1.03	1.01	1.07	1.01
Mill Recovery - Ag	87.31%	86.60%	88.12%	89.68%	87.97%
Recovered Ounces	286,901	321,637	327,149	354,814	1,290,500
<u>Copper</u>					
Feed Grade - % Cu	0.42	0.45	0.44	0.43	0.43
Mill Recovery - Cu	85.02%	84.32%	85.80%	87.33%	85.63%

Recovered Pounds	2,482,626	2,719,868	2,748,005	2,799,203	10,749,703
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Hedging

Revett has hedged approximately 50% of its estimated 2010 copper production in two tranches at an average of US\$2.94 per pound; and, 25% of its estimated silver production at US\$16.25 per ounce. This hedging ensures that approximately 75% of estimated monthly cash operating costs are covered with the Company's hedging program. The remaining 50% of copper and 75% of silver production that has not been hedged enables the Company to capitalize on potential future metal price increases.

Please see my Factor Model evaluation of Revett on the website.

My take on RVM's News release? It does appear that Revett is likely to give intent and move forward on development of Rock Creek (130 million ounces silver and 2 billion pounds copper) in 2010. They have the permit and the right to move forward. The company expects to hear from Judge Molloy in the near future as well. A positive court decision would be a major catalyst for the share price. In any event the company is successfully mining the Troy mine currently. They believe that grades and tonnage will improve on the C-Beds at Troy. This should provide comfortable free cash flow if all these events obtain. At 40 cents we think Revett is an excellent contrarian discovery investment with world class holdings in copper and silver and an operating mine.



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