

Today's Notes:

1. Thanksgiving Day

1. Thanksgiving Day

Yesterday was Thanksgiving Day in Canada. In spite of all our global debt troubles we all have so much to be thankful for.

I think the Canadian Thanksgiving makes so much sense situated as it is in October at the end of the harvest season; harvesting our God-given natural resources each year is such a sensible cause for celebration. In the U.S. Thanksgiving celebration is in my mind simply a consumer run-up to Christmas – the beginning of the U.S. consumption season and retail sales. This year may not turn out to be very consumptive, as I shall shortly discuss.

The cultural divide between Americans and Canadians is often imperceptible but placement and celebration of Thanksgiving is where the two cultures really do contrast each other. Canadian football and US football is another divide but Canada's love of ice hockey is defining. At any rate markets were closed in Canada yesterday but here in the US they soared. The Dow Jones Industrials rose 330 points (2.97 %) and the NASDAQ (up 87, 3.5%) and the S&P 500 (up 39, 3.41%) followed suit. S&P small caps were up 4.16%!

Perhaps more important the Philadelphia Bank index appreciated 5.26% on the day. At the same time gold and silver both rose significantly. Gold rose \$35.30 and silver \$.85 per ounce. Our old energy nemesis oil rose like there was another Oil Sheik falling in the Middle East – up \$3.02 to \$85.80 per barrel.

US Treasury yields rose for the third day in a row – an epiphany if we have ever seen one. The Ten Year Note now yields over 2% (2.07) after 3 successive days of yield increases, was laying at 1.96% one week ago.



All this good stuff occurred yesterday and with Canadian markets on the sidelines carving the Thanksgiving Turkey and enjoying a beautiful extended October weekend. Last night Asia followed suit. Hong Kong's Hang Seng appreciated 2.43% and Japan's Nikkei 1.95%. What are we to make of this event? It would appear that almost all the markets are shouting in unison, that inflation and growth have returned!

Is the worst over?

After all it has been 4 years since the global credit crisis began with the follow-on economic quicksand. In historical hindsight this will be known as one of the longest economic recession and contraction.

But not so fast.

Yesterday's positive market reaction may have been stimulated by the Franco / German announcement that the two countries were considering a major bank rescue program. Markets have been climbing the Euro wall of worry for quite some time now. Chancellor Merkel and President Sarkozy provided few details on how this would work but the markets seemed to issue a sigh of relief at the HOPE that Europe would at last solve its sovereign debt problems.

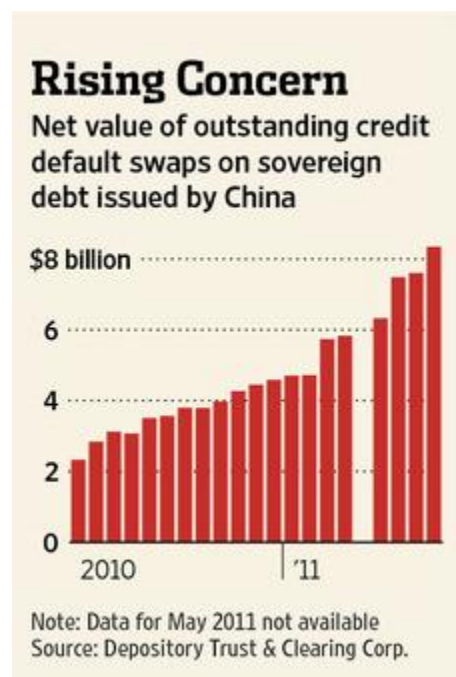
Another country stepped into the banking fray perhaps giving the world hope. It was China. China moved to shore up its banking sector, an underreported event. Markets have been losing trust in China's banks since May. See the graph below from the WSJ.



China's sovereign wealth fund jumped into the market to buy its bank shares. Enthusiasm is also waning for China's Dim-Sum bonds. This AM the WSJ said,

“The net value of credit default swaps on Chinese government debt doubled at the end of September from a year earlier, according to data from New York-based Depository Trust & Clearing Corp.”

Whatever the cause and effect, yesterday's market's madness was indeed impressive. It is one thing for European banking problems to disappear – a definite positive. It will be orders of magnitude more critical if China's insulated banking system begins to crater. So perhaps the markets feel good about both Europe and China. Only time will tell.



In spite of market exuberance there are still many troubling economic issues. US bank reserves are still under pressure as evidenced in their share prices and reluctance to lend. The home mortgage mess is still with us. Two of the biggest states, New York and California have withdrawn their proposals to settle banks' bad mortgage debt. See Ian Gordon's debt admonition below.

Then again, yesterday, a study was released by two former Census Bureau officials that showed that since the official end of the "recession" in June 2009 real household income fell by 6.7%. This was more than double its decline during the official NBER recession. This is bad news of course because U.S. consumers still owe \$13 trillion in consumer debts. These must be settled. More than 1/3rd of prime mortgage borrowers are under water according to an October 5th report by Fitch. With housing prices expected to drop another 10%, Fitch thinks this ratio of troubled mortgagees could rise to 50%.

Since the beginning of the recession in 2007 the drop in real income for Americans has been 9.8%.

The authors called this drop "a significant reduction in the American standard of living." The level of real income in the U.S. is being throttled by the number of people who are now outside the labor force (disgruntled and not looking for work) and the lower rates of pay being offered in today's job market. Professor Henry Farber at Princeton University recently found that those who lost jobs in the recession and later found work made 17.5% less than in their old jobs.

So why the euphoria in the commodity, equity and bond markets yesterday? Was this an anomaly to celebrate Canadian Thanksgiving? Sorry for the dark humor.

One issue that seems more certain is that the Great Global Convergence (of lifestyles) that we have so often discussed and documented is well underway. It will not be reversed easily and it will not be painless for Americans and Canadians. Have you seen any U.S. politician, Democrat or Republican that even acknowledges this problem of declining standard of life?

As for yesterday's markets' surge we are still agnostic. Yes, we would very much like to see great wealth creating bull markets evolve. In spite of yesterday's exuberance we continue to doubt the wisdom of the markets. I quote Canadian Ian Gordon in his recent interview with The Gold Report. In response to the interviewer's question on how long this will last he says,

"TGR: My final question is, how long will winter (of the long cycle) last?"

IG: It will last until the debt has been eradicated from the economies of the world. So, to give it a date is difficult. If the whole world monetary system collapses under the massive mountain of debt that has accumulated worldwide, then it will happen reasonably fast, and a new world monetary system will evolve. I think that new system will be based on gold."

Happy belated Thanksgiving Day, Canada.

The material herein is for informational purposes only and is not intended to and does not constitute the rendering of investment advice or the solicitation of an offer to buy securities. The foregoing discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (The Act). In particular when used in the preceding discussion the

words “plan,” confident that, believe, scheduled, expect, or intend to, and similar conditional expressions are intended to identify forward-looking statements subject to the safe harbor created by the ACT. Such statements are subject to certain risks and uncertainties and actual results could differ materially from those expressed in any of 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 we may review investments that are not registered in the U.S. We own shares in 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.