Today's Notes:

1. Gold: Bright Future

1. GOLD

Two years ago, almost to the day, gold had soared to $789 / ounce. Many prognosticators and market savants suggested quite vehemently that gold's move was too strong and must correct. They maintained that there was no fundamental basis for Gold's showing. At the time we wrote,

"Gold has risen to new highs this AM. It is the festive Diwali and marriage season in India and investors there are buying. More important, gold has made new highs in several different currencies, not only dollars."

In August 2007 the yellow metal bottomed under $660 per ounce. Since then, approximately two years and two months later, gold has appreciated ~$400 per ounce - 66%. If you have owned the coins, bullion or mining stocks you can realize, in hindsight, the "store of value" utility of gold. Interestingly gold mining companies such as Goldcorp have not responded similarly to gold's gigantic move in the past two years.

If you need to be convinced of the store of value characteristic of gold, you have it this AM. Despite (perhaps in response to) serious economic crises around our blue globe, gold has risen to new nominal highs at $1066 per ounce. In this same time period the US currency has fallen by ~5%. Oil is trading at $78 per barrel almost exactly where it traded two years ago.

Back in those halcyon days of October 2007 when US housing prices were just beginning to break, we wrote,

"If you wish to see the nature of this new World Economic Order (the Quality of Life explosion) it is before you. $100 oil per barrel and $800 gold per ounce seem to be quite possible in the near future. Is the world beginning to see the weaknesses of central banking? Is the global race to devalue fiat currencies on? … The sheer momentum of these moves is unnerving for the stability of the world economy. "

We feel much the same today and that is why, in our view, that you must still hold core positions in gold and silver. As you can see, from the graph below, gold has powered its way to new nominal highs in spite of the greatest economic contraction since the Great Depression. We have been strong advocates of both gold and silver during this timeframe. The advice has paid Discovery Investors handsomely.

At the same time the US dollar has fallen, another prediction we made consistently throughout this timeframe despite the relatively short term strength it showed after the Paulson dollar reversal speech of July 2008. .

The steep decline in the dollar evident after March 2009 appears quite likely to continue under the lavish spending plans of this Administration and Congress. Yesterday, perhaps in response, Dr. Bernanke admonished the White House speaking in Santa Barbara that America must save and reduce its burgeoning deficits and Asians must begin to consume and not rely on exports. The good news is that a slow rebalancing process is now beginning to take shape. China is producing and selling more cars than the US, for example. Dr. Bernanke called for a strong US dollar based upon a realignment of the current trade and consumption imbalances. The Federal Reserve is by law independent of Washington's policies and strange ethers and so from time to time speaks out at odds with Congressional tendencies.

Why then all the hand wringing when such a powerful bull market in gold has persisted for the past ten years? All the prognosticators can trade all they want around gold and proclaim that it must fall but the gold market has spoken loudly and definitively in the longer run.

This is partly in response to the demise of the dollar which we see clearly in the future. It is partly in response to gold's historical role as a store of value. As Asians trade dollars for gold and silver to seek protection from the anticipated dollar debasement, gold prices must appreciate in the longer run. Silver, in our view, is particularly undervalued. The commercial shorts in silver are now larger than ever. We are told that J P Morgan alone makes up 40% of this commercial short position.

Is there any stopping the powerful bull market in precious metals? The answer is – yes. Even though the recent announcement of the sale of 403 tons of gold by the IMF was a non-event for gold prices, we think that the gold bull could be contained. If our policymakers in Washington agreed to cease and desist in printing dollars to protect the banks to big to fail and to run trillion dollar deficits it is quite possible that the dollar could stabilize and strengthen. Then again if the economic fundamentals tip decisively in favor of deflation, as they seem to be doing today, a stronger dollar (and lower gold price) is indeed possible.

But we remain convinced that Washington is will attempt to print its way out of its debt-induced predicament. Mr. Bernanke forewarned in 2002 that The Federal Reserve "has a printing press." He is foremost an inflation targeter. Down the street from the Fed, the Obama Administration and Speaker Pelosi's House are determined to run trillion dollar deficits for universal health care, the Afghan war and funding of absurdly expensive and inefficient alternative energy options. Meanwhile Main Street suffers.

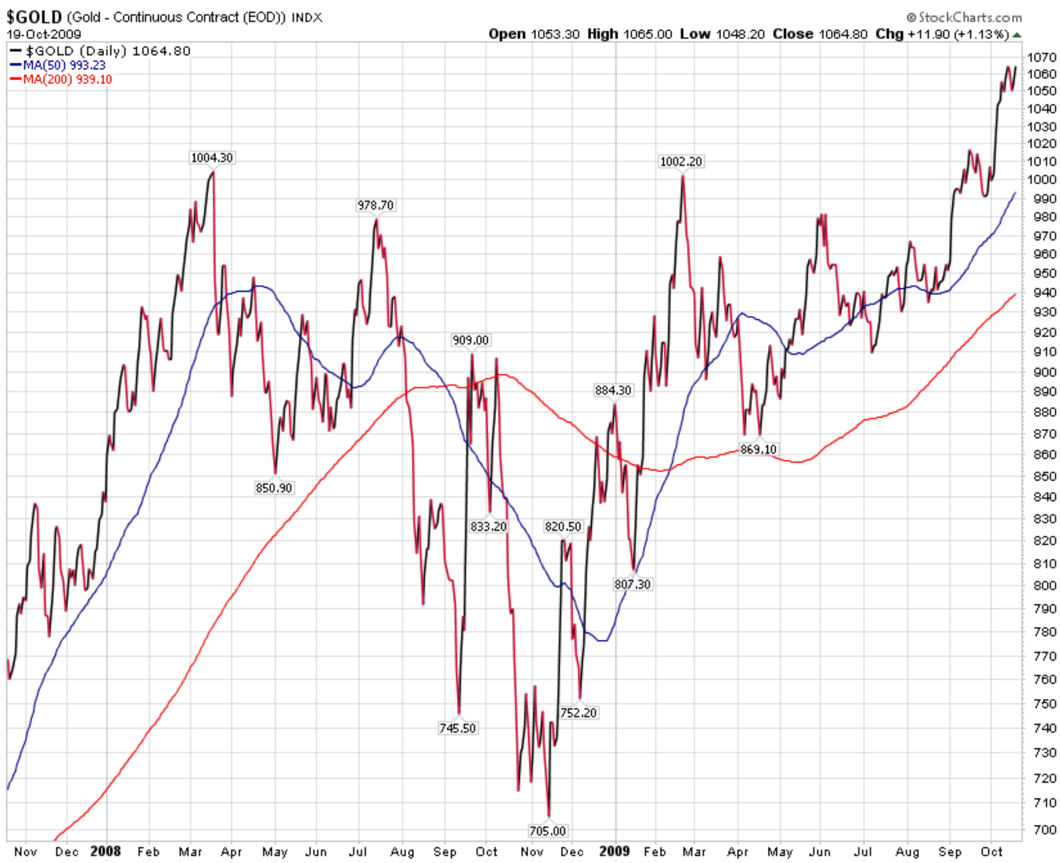
You must answer only one question; will Washington decide to stop spending and printing? I leave that question to you.

We forecast the following most likely scenario:

1) The dollar will test its March 2007 low point of .7132 (see graph above).
2) Gold will appreciate over the next two years toward the $1500 mark, silver toward $35.
3) The current 8 month bear market equity rally will stall.

4) Asia and particularly Chinese citizens will seek safety in a dollar-for-gold and silver trade. Please remember that China was yanked off the silver standard by an American president many decades ago.
5) The jury is our on interest rates and the inflation – deflation tug of war rages on. Eventually we think interest rates must rise.

We are particularly fond of Goldcorp which has defined well over 1 billion ounces of silver and 20 million ounces of gold at Peñasquito (Zacatecas, Mexico) – and counting. We think the shares are cheap and a good value and we own the stock. We also like the Colombian gold plays. Ventana is a Mature Discovery investment, while Galway (coal and gold potential) and Antioquia are excellent Incubator opportunities in the Discovery Investing space.



Discovery Investing may provide you with immunity to Washington's spending proclivities and the Fed's most difficult and pending indecisions. A world class discovery in the resource sector, particularly within the Quality of Life cycle in place in the rest of the world today is a value-creating event in almost all economic scenarios. This has been proven true even through the recent economic malaise. Please reflect on precious metals and the positive impact of Discovery Investing on your family's future.

Dr. Michael Berry is the former Wheat First Professor of Investments at James Madison University and an Assistant Professor of Business Administration at The 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