Today's Notes:

1. What The Future Holds

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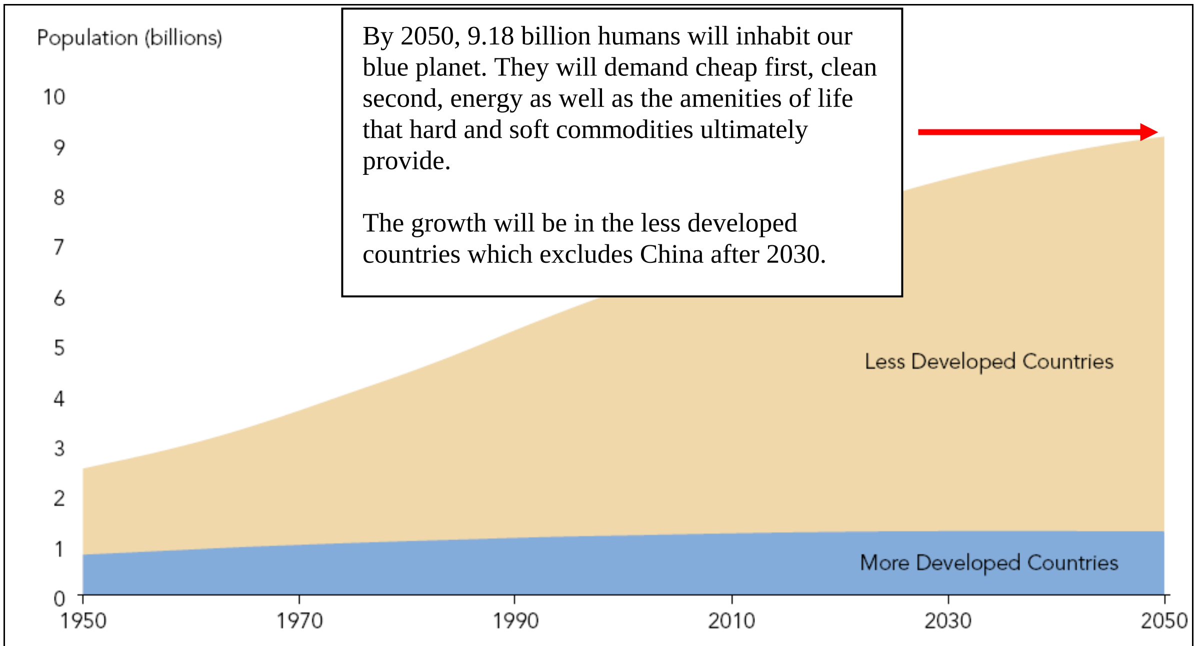
The first decade of the new millennium slips into history, "not with a bang but a whimper." T S Elliot had it right; this decade has, in the final analysis, been "the hollow decade." The first decade of the millennium ended in a fundamental shifting of the global workplace. As the ball falls in Times Square tomorrow night the revelation that the world has changed forever and in many new ways is inexorably upon us all.

The next decade may bring profound change to world. I recently read a superb article (***The New Population Bomb***) in the Journal ***Foreign Affairs*** that identified demographic issues facing the world. In short, the developed world is aging.

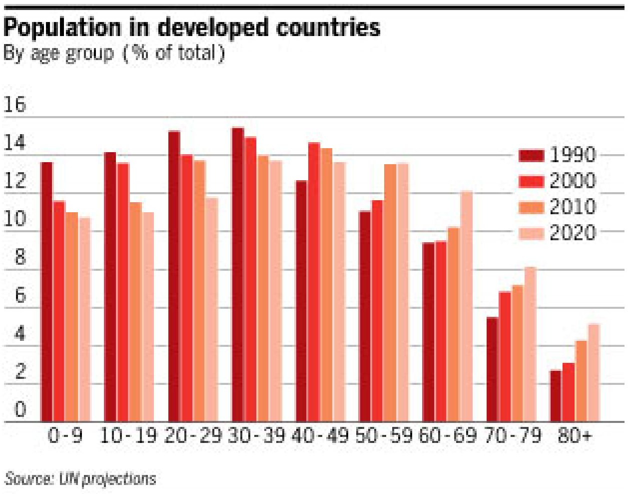
By 2050 the population of the world will finally stabilize at 9.15 billion people. According to the United Nations there are now 6.83 billion souls on plane earth. That implies a 34% increase – in 40 very short years! After 2050, according to the UN, we will enter a no growth phase in the world's population.



Source: UN Population Division, *World Population Prospects: The 2008 Revision*, medium variant (2009).

As a result, four major demographic changes will ensue. First, the relative weight of the world's developed countries is dropping. Second, those countries' work forces (as in the US, Canada and China by 2030) will decline – dramatically. Third, the populations of the poorest, youngest and most heavily Muslim countries are growing at very high rates.

Finally, the world is quickly becoming more urban than rural as the quality of life cycle works its lifestyle magic.



This chart from the FT shows that by 2020, one short decade from now, the developed countries age.

For example the 60 to 69 age group will comprise 12% of the population up from 9% in 1990. The 30-to 39 age chart will decline from 16% to 14%. Developed countries include the US, Canada, Europe, Japan, Korea and, after, 2030 China.

Despite our troubling economic times, in the longer run, global growth will once again resume; therefore per capita income will increase significantly furthering the QOL cycle. Economic power will shift to the developing nations. World economic growth thrives on young, educated and productive participants. This scenario is unlikely to unfold in the next 40 to 50 years in the developed economies who will be forced to spend much more on pensions and health care and rely less on productive and youthful workers. This is why you must consider a program of legacy investing even as you ride off into your sunset years during the next 4 decades. Discovery investing, in part, can provide that legacy.

The great population increases (shown above) will occur in Muslim countries where education lags world standards and the amenities of life are scarce. The FT relates, this AM, the difference between January 1, 2000 and December 28, 2009. Then Treasury Secretary Larry Summers boasted that the government would buy back its treasury bonds with tax revenues because of government surplus. He announced the US would start to use tax revenues to purchase US Treasury bonds before they fell due. He further predicted the country faced ***"the prospect we will pay off the whole national debt some time in the next 15 years."*** That fearless prediction seems less then assured for the oncoming decade. The FT notes,

"The optimism was catching. It reflected the economic success and favourable demographics of the 1990s. In 2000, advanced economies had almost four people of working age for everyone above 65, with the most dense part of the age distribution being people aged between 25 and 45, when they were at their most productive. Hope for the noughties (first decade of 2000) was overwhelming. And wrong."

Health care and pension costs will derail growth in some, if not all, the highly developed countries because of their aging demographics. Productivity must fall in the developed world and immigration will be welcomed. The immigrants to Europe will be dominated by the burgeoning Muslim population. Immigrants to the US will migrate from Latin America.

The UN forecast for population increases through 2050 follows.

The less developed and least developed countries are expected to have birth rates of 3.1 and 4.6 respectively. This is far more than replacement (2.2) by 2050. Population of less developed countries (excluding China) will grow from 5.6 billion to 6.8 billion by 2025 and to 8.1 billion (48%) by 2050.

POPULATION, HEALTH, AND ENVIRONMENT DATA AND ESTIMATES FOR THE COUNTRIES AND REGIONS OF THE WORLD

	Population mid-2009 (millions)	Births per 1,000 Population	Deaths per 1,000 Population	Rate of Natural Increase (%)	Net Migration Rate per 1,000 Population	Projected Population (millions) mid–2025	Projected Population (millions) mid–2050	Projected Population Change 2009–2050 (%)	Infant Mortality Rate[a]	Total Fertility Rate[b]	Percent of Population Ages <15	Percent of Population Ages 65+
WORLD	6,810	20	8	1.2	—	8,087	9,421	38	46	2.6	27	8
MORE DEVELOPED	1,232	12	10	0.2	3	1,282	1,318	7	6	1.7	17	16
LESS DEVELOPED	5,578	22	8	1.4	-1	6,805	8,103	45	50	2.7	30	6
LESS DEVELOPED (Excl. China)	4,246	26	8	1.7	-1	5,329	6,666	57	55	3.1	33	5
LEAST DEVELOPED	828	35	11	2.4	-1	1,151	1,657	100	80	4.6	40	3

To all my many Canadian colleagues, friends and relatives, the Canadian situation is particularly problematical. Its small population and large uninhabited areas (overall density of 3 people per square kilometer versus 32 in the US) may relegate this northern neighbour to a supplier of commodities for the rest of the world as a result of low population density. Who really cares about development of the iron ore and nickel mines of northern Quebec and Ontario or for that matter the oil sands of northern Alberta? When push comes to shove, as it must, everyone.

Canada's population, currently 33.7 million, will rise only to 41.9 million (growth rate 24%) by 2050. That of the US will rise from its current 306.8 million to 439 million (43.3%).

AMERICAS	920	17	7	1.1	0	1,063	1,205	31	18	2.2	26	9
NORTHERN AMERICA	341	14	8	0.6	3	395	481	41	6	2.0	20	13
Canada	33.7	11	7	0.4	8	37.6	41.9	24	5.0	1.6	17	14
United States	306.8	14	8	0.6	3	357.5	439.0	43	6.6	2.1	20	13

Deficits in the US and the UK will exceed 12 to 15 % of GDP and taxation must increase significantly. But on whom will the tax be levied? As the Boomers in both Canada and the US retire they will expect pension cash flows and they will not be paying many taxes.

The opposite will be true for the developing world. An increasing youthful population, hopefully enough education and global productivity and with it growth, should begin to improve. If this happens, the demand for "things," as well as the premium on discovery, will soar.

The per capita gross national income (at purchasing power parity) in the developed world (according to UN research) was $32,320 at the end of 2008. That of the developing countries (including China) was $5,100. In the developing world with its 5 billion people, 51% of humans live on less than $2 per day.

Canadian per capita income is US$36,220 (at PPP) while Americans live on $46,970 each year. Mexican citizens lag significantly, earning US$14,000 per year. Chinese citizens manage on per capita income of $6,060. Citizens of Hong Kong earn $43,960 per year. You might ask yourself why this disparity exists.

If the demographic changes discussed in the ***Foreign Affairs*** article come to fruition and as economic power begins to move to developing countries these per capita income disparities will narrow, substantially. Geography Professor Jared Diamond has noted the true multiplicative factor is enabled by the rising lifestyle stimulated by education and rising income.

Diamond, the author of ***Guns, Germs and Steel***, suggests,
"If India as well as China were to catch up, world consumption rates would triple. If the whole developing world were suddenly to catch up, world consumption rates would increase 11-fold. It would be as if the world population ballooned to 72 billion. Some optimists claim that we could support a world with 9 billion people. But I haven't met anyone crazy enough to claim that we could support 72 billion."

Finally, not to be outdone, Professor Niall Ferguson, in his path breaking tome, ***The Ascent of Money*** says,

"***They envisaged that China could overtake the United States (editor: GDP) around 2040. Their most recent estimates however have brought that date forward to 2027. The Goldman Sachs economists do not ignore the challenges that China undoubtedly faces, not the least the demographic time bomb planted by the Communist regime's draconian one child policy … Yet overall the assessment is still strikingly positive. And it implies quite simply, that history has changed direction in our lifetimes."***

Ina defense of the past decade's commodity cycle, The FT notes this AM,

"***The geopolitical impact of the huge price rises seen in commodities has been twofold.***

In producing countries, resource nationalism has re-emerged on a scale not seen since the 1970s. Countries from Libya to Russia have tried to squeeze better terms from natural resources companies. Producing countries such as Venezuela and Iran have found that record revenues from commodities have allowed them to play a bigger role in global politics.

Consuming countries, on the other hand, have for the first time in more than 30 years found themselves fretting about the security of their supplies. The sense of vulnerability was perhaps best reflected in the 2007-08 food riots that came in response to shortages. China, the world's engine of commodities demand since 2000, launched an aggressive campaign to secure resources, exacerbating the fears of other importers.

The question for the next 10 years is whether this decade's spike in prices was just part of a cycle, which will soon see a downward drift, or the start of a sustained upward trend led by China and other emerging countries' rapid economic expansion.

Most analysts, traders and executives from natural resources companies say the latter is more likely and commodities will exert an ever-greater influence on global economics and geopolitics."

The next four decades will either bring increasingly fractious relationships and ongoing wars or terror or worse, or they will bring on the evolution of new leadership in the world. If the latter case obtains commodities will be the place to be in your investing portfolio and Discovery Investing can help you in this regard.

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