

Today's Notes:

- 1. Market Reversal: Three Wise Men**
- 2. Discovery Advice form the Past**

1. MARKET REVERSAL: THREE WISE MEN

Yesterday I watched Dr. Bernanke's presentation from the FDIC building in Arlington, Virginia. This is the same venue from which I present twice a year to 100 or more senior members of the FFIEC.¹ The presentations yesterday were a tour de force. They included, in addition to Dr. Bernanke, Jaime Dimon, the CEO of J.P. Morgan and Henry Paulson, President Bush's Secretary of the Treasury. It was just what the market ordered. After Monday's brush with disaster over the potential for a \$75 billion re-capitalization of Fannie and Freddie, James Lockhart, director of the Office of Federal Housing and Enterprise Oversight, said with respect to Fannie and Freddie's plight: ***"I have to tell you that an accounting change should not drive a capital change."***

The markets swooned to the Bernanke and Dimon rhetoric. Meanwhile despite the euphoric bank stocks, May's pending home sales fell a steep 4.7% yesterday. This AM, Bloomberg reports that J. P. Morgan may merge with Wachovia.

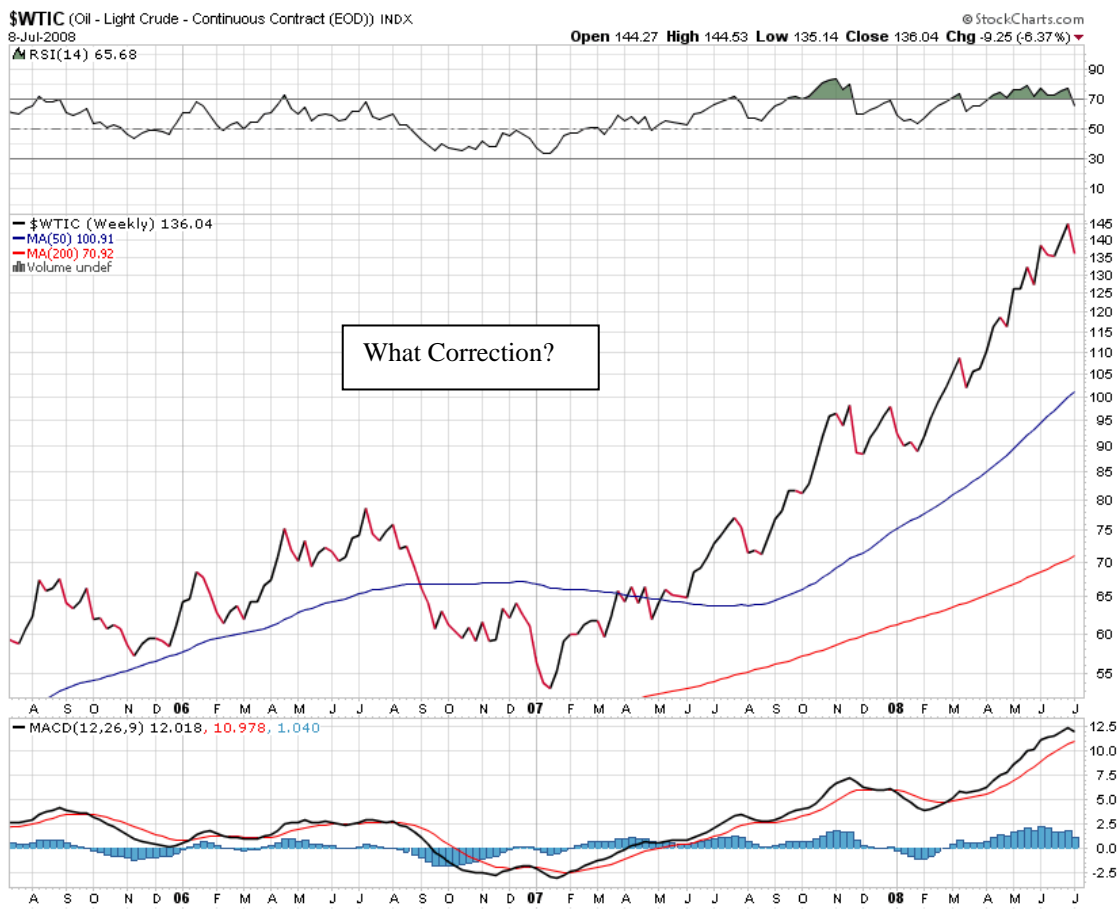
Mr. Dimon noted that the credit crisis will continue but that things should begin to improve. But he cautioned that the economy was burdened by an ***"institutional sclerosis"*** and that policy makers were not able to deal with ***"very serious problems."*** He also suggested that solutions that were not "politically feasible" must not be discarded out of hand. In defense of the purchase of Bear Stearns, he said, ***"A Bear Stearns bankruptcy could've been ... a catastrophe to the United States."*** To which we add, what about Lehman, Merrill, Citi, UBS, GE and Fannie?

None of these entities seem to be "over the debt hump" to me. Evidently no business is too central or too large to fail anymore. Mr. Dimon also supported the creation of a derivatives Clearinghouse – a problem that has not yet reared its \$300 trillion dollar, notional head.

¹ The Federal Financial Institutional Examination Council (FFIEC) is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions by the Board of Governors of the Federal Reserve System ([FRB](#)), the Federal Deposit Insurance Corporation ([FDIC](#)), the National Credit Union Administration ([NCUA](#)), the Office of the Comptroller of the Currency ([OCC](#)), and the Office of Thrift Supervision ([OTS](#)), and to make recommendations to promote uniformity in the supervision of financial institutions. In 2006, the State Liaison Committee (SLC) was added to the Council as a voting member. The SLC includes representatives from the Conference of State Bank Supervisors ([CSBS](#)), the American Council of State Savings Supervisors ([ACSSS](#)), and the National Association of State Credit Union Supervisors ([NASCUS](#)).

Dr. Bernanke allowed for the extension the investment bank borrowing facilities (PDCF) into 2009, “*should the current unusual and exigent circumstances continue to prevail.*” The markets breathed a sigh of relief at this and bid stocks (DOW) 152 points higher and bank stocks many points higher. Somewhat inexplicably, oil prices dropped another \$5 per barrel. The banking sector reversed higher as shorts covered. We are therefore left with an enigma. On Monday we were perilously close to a “Minsky Moment²” with the disconcerting news and rumors from UBS, Fannie, Freddie and IndyMac.

Yesterday was a welcome reversal even though nothing that any of the three wise men (Bernanke, Dimon and Paulson) said gave much reassurance of the demise of the credit problem. Nevertheless after yesterday’s FDIC-hosted presentation, bank stocks soared, oil and commodity stocks fell and oil prices fell back to \$136.00. It was the letting off of high pressure energy steam and to be welcomed. The question today is what to do?

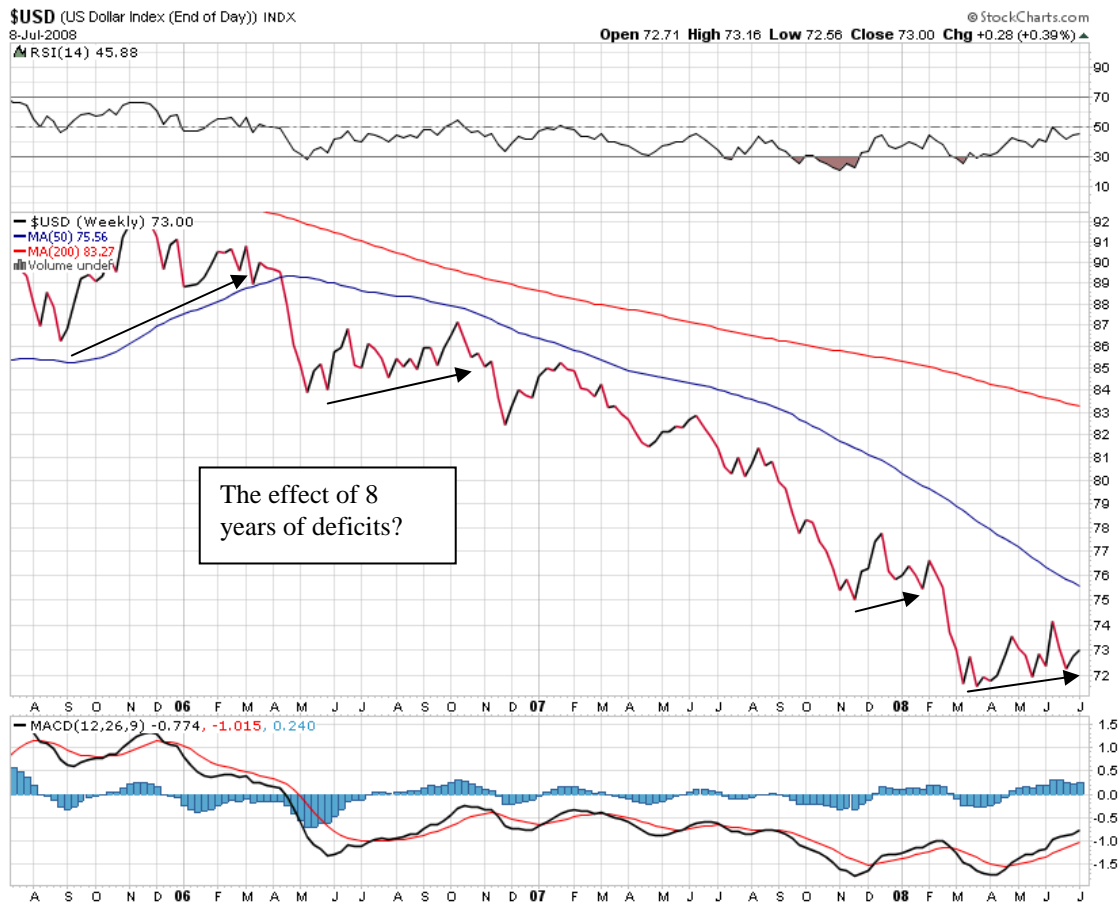


We think the commodity selloff is a correction in a long term bull market for commodities. We also believe that pressure will continue to increase on domestic energy production and the Dems in Congress will have to march in line. That means choosing exploration and discovery projects in the US and North America. We believe that global resource nationalism will increase with respect to commodities as a natural consequence

² A Minsky Moment is the single point in the credit cycle when investors have cash flow problems due to spiraling debt they have incurred in speculative investments. A major selloff begins when no counterparties can be found to bid at the asking price leading to a sudden collapse in the market and a drop in liquidity.

of the QOL cycle³. We are also well aware that China's vaunted growth may be approaching a tipping point. At the same time we are not yet convinced that the US banking sector has turned definitively upward. Gold also fell yesterday as the US \$ strengthened. But to quote Mr. Dimon,

“You can't run a trade deficit for eight years and think you're not going to have a weak dollar.”



If we do not develop a national, grass roots, energy program to lessen our energy dependence we will continue to run these staggering deficits. However the reversal yesterday whatever its cause was impressive. I am relieved that energy prices fell as they did yesterday and hope for more weakness to the century level in the coming days and weeks.

This would be a very positive “wild card” for the global economy.

However, I pose one further critical question. ***“Have we seen the housing market stabilize?”*** The answer to this critical question is – **NO, not yet.** Be patient D.I.

³ The Quality of Life Cycle (QOL) hypothesis asserts that as people are interconnected in the world through discoveries in communications technology and learning modalities, they demand an increase in their lifestyles. This includes nutrition, transportation, adequate medical care, access to cheap energy and other modern conveniences. UCLA Professor Jared Diamond claims such as cycle will be the equivalent of 90 billion of new population stressing supplies of global natural resources and increasing resource nationalism.

2. DISCOVERY ADVICE ...

THE FOLLOWING MORNING NOTE WAS PUBLISHED TWO YEARS AGO, JUNE 28, 2006. I HAVE CHOSEN TO RE-PUBLISH IT TO REITERATE THESE FEW DISCOVERY INVESTING SUGGESTIONS IN LIGHT OF THE CHANGING CURRENT MARKET SITUATION. I AM NOT CONVINCED THIS IS THE EQUITY MARKET BOTTOM OR COMMODITY MARKET TOP. MANY OF THESE SUGGESTIONS REMAIN IN FORCE.

June 26 2006:

"I have been accused, frequently, of being too bullish. But that is not true. I have maintained a 30% cash position while searching for Discovery opportunities over the past two years. This AM, I am not convinced that we are bearish enough to mandate a bottom in the markets. Given the potential externalities we see today; North Korea bent on destruction, Fed rate uncertainty (an increase at the time), Iranian intransigence, Japan's unwinding of the "carry trade," the twin deficits, **the mending of Fannie**, and now Congressional oversight on hedge funds, could derail this market – globally.

NOTHING MUCH CHANGES DOES IT? STILL THE BLAME GAME

It may be time to raise some cash if you have not already done that. In any event, I suggest that you liquidate margin accounts you may have and pay down your debt. If this market declines further and you have established your cash position, you will have plenty of value opportunities when the rebound occurs.

Why, you ask, will the equity market fall? It is called fear. **Some event, now unexpected, could trigger a massive liquidation.** Illiquidity begets illiquidity. They "throw out the baby with the bathwater."

At this point the market is not yet bearish enough, for me. I do not think we are finished. Gold and silver, as well as stocks, will be liquidated in an attempt to cover margin, debt, and other liabilities. \$480 gold should be the end, but \$540 might also do it.

(BOTTOM FOR GOLD WAS \$625)

This Fed is going to have to get tough one or two more times. There is not enough bearishness in the market yet, in my opinion to account for a Fed increase of 50 basis points. If I am wrong, than I still have cash and can catch the next leg up.

Here are a few thoughts on a personal financial management from a non-financial manager, so beware:

Always think asset allocation, currency selection and diversification, first. Maintain a minimum / comfortable level of liquidity. Consider a one time \$2 million gift to your legacy recipients. This will become an eat-well sleep-well philosophy. It will make Discovery Investing fun, to boot.

1. Asset allocation to Discovery should be -- 5% to 20% in discovery -- the thing we know and love. Develop a personal and deep knowledge and establish large positions.
2. 5% to 10% in Legacy investments; Phelps Dodge, Cleveland Cliffs, Goldcorp, Teck, Suncor, Genentech, etc., Fire and forget philosophy.

FOCUS ON PROJECTS IN THE AMERICAS.

3. Diversify 70% to 90% into small, mid, large cap value.
4. Accumulate US currency (6 months living), physical gold and silver -- the amount is your choice.
5. Minimize debt / margin -- no matter how low interest rates are. They are going up and defaults are increasing.
6. Retain discretion on your **discovery investments**, your financial manager won't have a clue on what you are talking about and will be reluctant to buy Incubator stocks -- till he sees the rewards. Be sure to own Incubator, Mature and Legacy discovery names in your preferred amounts based on your own level of risk aversion.
7. Avoid, where possible, USD (\$) exposure in the market. **AVOID THE BANKS FOR NOW.** Canaccord has an account for US investors in Loonies. I have no economic relationship with Heartland Advisors or Canaccord.
8. What do you think I have missed?

JULY 2006 WAS THE TOP OF THE HOUSING MARKET AND MARKED THE BEGINNING OF OUR STRUGGLES WHICH STILL PERSIST IN THE DYSFUNCTIONAL CREDIT MARKETS TODAY.

This Morning Note was written two years ago. If you had followed it you would have created significant value in legacy and mature discovery sectors. Many of the 9 points listed above are still worthy of your consideration if you plan to implement a Discovery Investing portfolio.

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 Dr. Berry may review investments that are not registered in the U.S. Dr. Berry has been awarded 10,000 stock options exercisable at \$7.50 from Senesco Technologies, 200,000 options from Aura Silver (strike C\$.30) and a monthly retainer(\$3,000), 150,000 options which strike at \$2.80 from Birch Mountain and 300,000 options from Ivory Energy for Corporate Finance consulting services. He has been awarded 100,000 options of Derek Oil and Gas exercisable at C\$.47. He is a consultant to Freegold Ventures, for which he received 100,000 stock options exercisable at \$.40, Piedmont Mining (250,000 options), Valcent Products (300,000 options), Global Green Solutions (400,000 options) and War Eagle Mining. He owns shares and/or options in Goldcorp, Golden Predator, Senesco Technologies, Birch Mountain Resources, DataMeg, Immtech International, Horseshoe Gold, Midway Gold, Derek Oil and Gas, Terraco Gold, Stealth Ventures, Kenrich-Eskay Gold, US Silver, Galway Resources, Neuralstem, Oil Sands Quest, Enhanced Oil Resources, Piedmont Mining, MegaWest Energy, Valcent Products, CGX Energy, MacMillan Gold and Quaterra Resources. He has been awarded 250,000 options on Terraco Gold exercisable at C\$.50 for 5 years, for services as a financial advisor. He has also been retained as an advisor by Dejour Enterprises (200,000 options plus retainer of \$2,500 per month), Grande Portage (210,000 options and \$5,000 per month retainer and Galway Resources (200,000 options and \$5,000 per month). In his role as advisor he has been awarded 75,000 options from Polymet which strike at C\$2.76. 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.