

# **A More Powerful Tool For Discovery Wealth Creation**

## **Austerity and Discovery Investing in the 21<sup>st</sup> Century**

**Cambridge House International  
Montreal, Canada  
November 19, 2011**

# Discovery and The Big Reset

"When the U.S. and global economy reset after the crisis, the global economy will look different. This has implications for **investment strategies**, how you run a business and what you offer your clients."

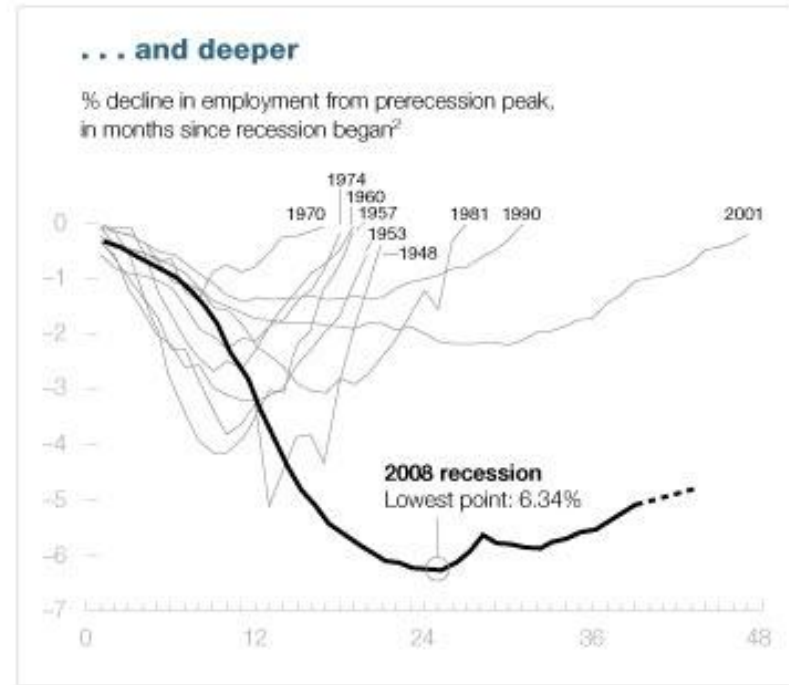
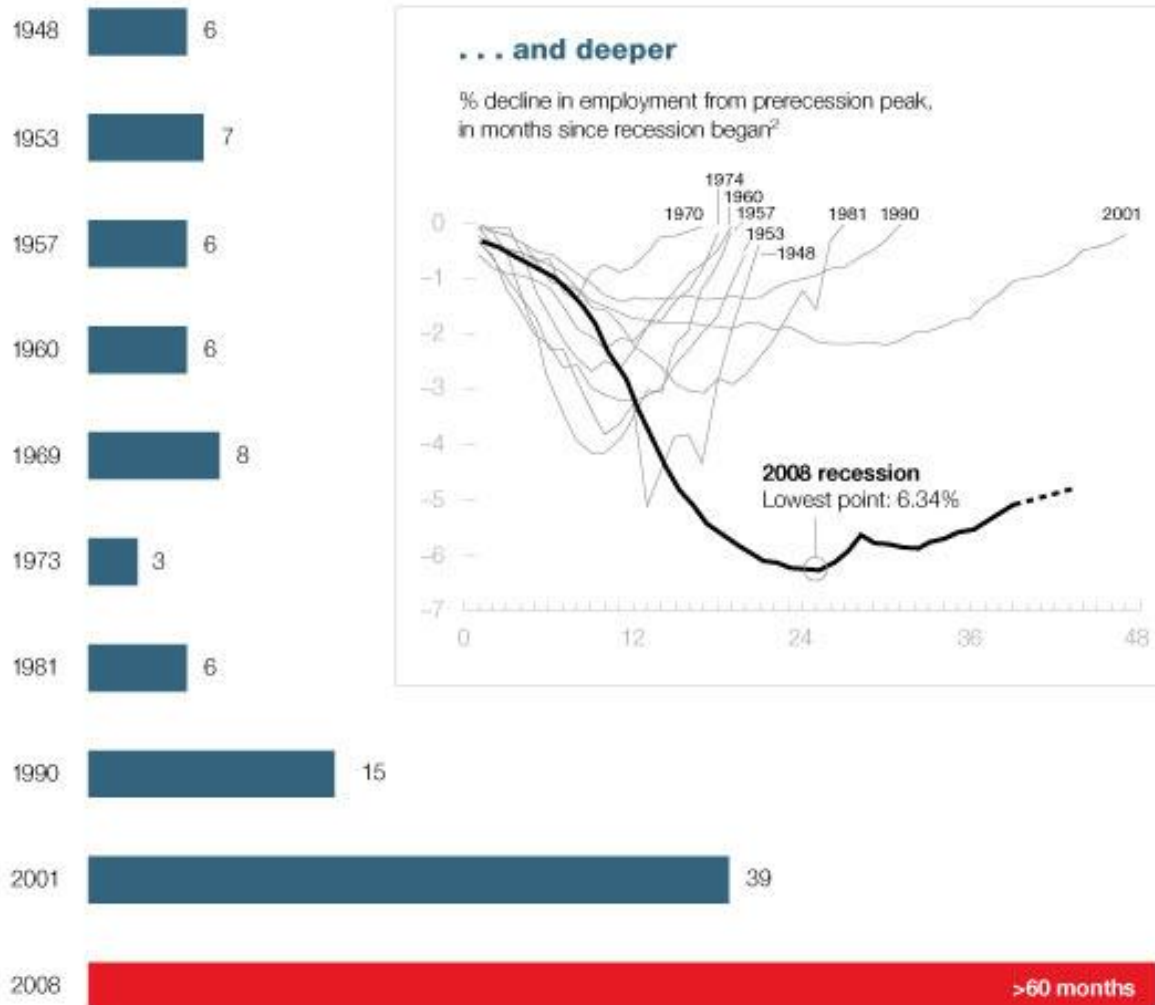
Mohamed El-Erian PIMCO

Forbes February 8, 2010

# Reset Not Recovery: This Reset Will Indeed Be Different

## Longer . . .

Months elapsed between return of real GDP to prerecession peak and return of employment to prerecession peak<sup>1</sup>



*Projection, based on recent rates of job creation*

<sup>1</sup>Returns to prerecession peaks are established by start of more than 1 quarter above prerecession levels; US recessions are labeled by beginning year, with the exception of the most recent. The National Bureau of Economic Research estimates that the current recession began in Dec 2007. GDP returned to its prerecession peak in Dec 2010.

<sup>2</sup>Based on unemployment data as of Q1 2011; future revisions may change numbers slightly.

Source: US Bureau of Economic Analysis; US Bureau of Labor Statistics; McKinsey Global Institute analysis

# Watch The Bond Vigilantes: They Speak The Truth

- Italian and Greek bond yields are upwards of 7%, generally considered unsustainable.
- French bond yields have moved 200 basis points higher than German rates.
- US Rates are still in the tank – but how long can the Federal Reserve hold rates this low???

# Central Banks on a Gold Rush

‘Unprecedented’ moves by countries to stockpile bullion signal concerns about the U.S. and European currencies as long-term stores of value amid economic turmoil

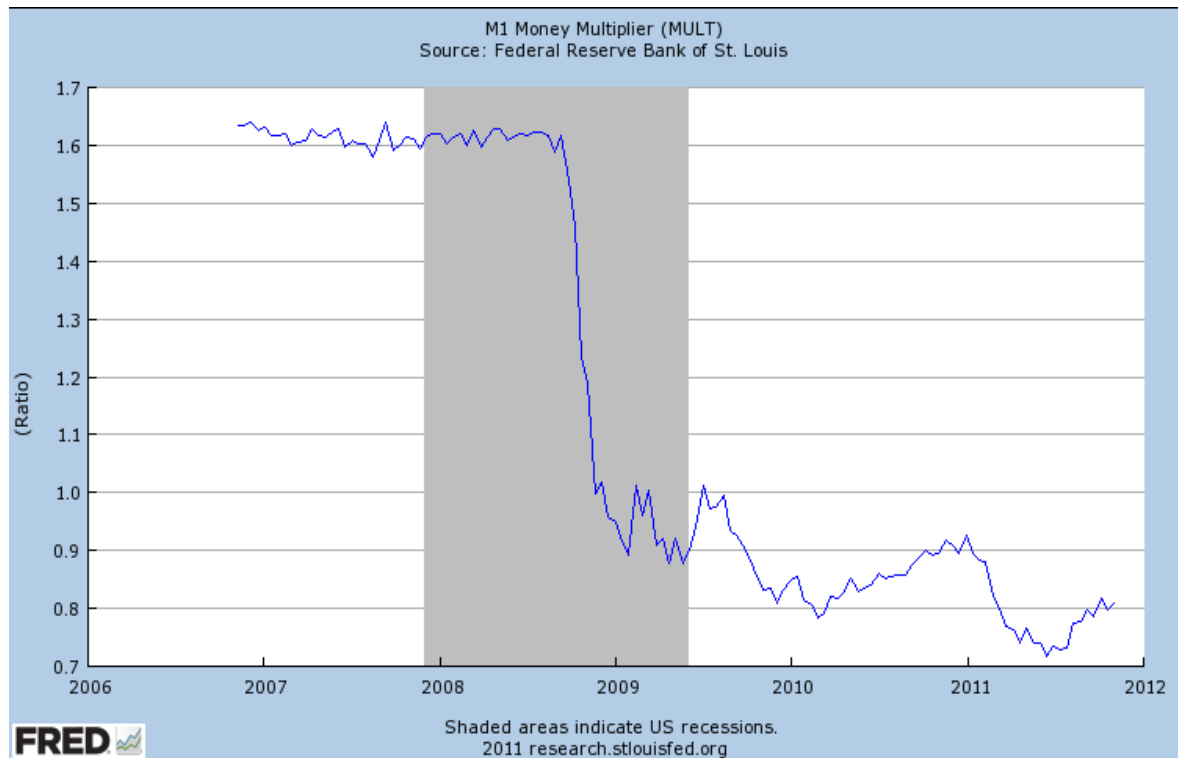
The Globe and Mail

November 18, 2011

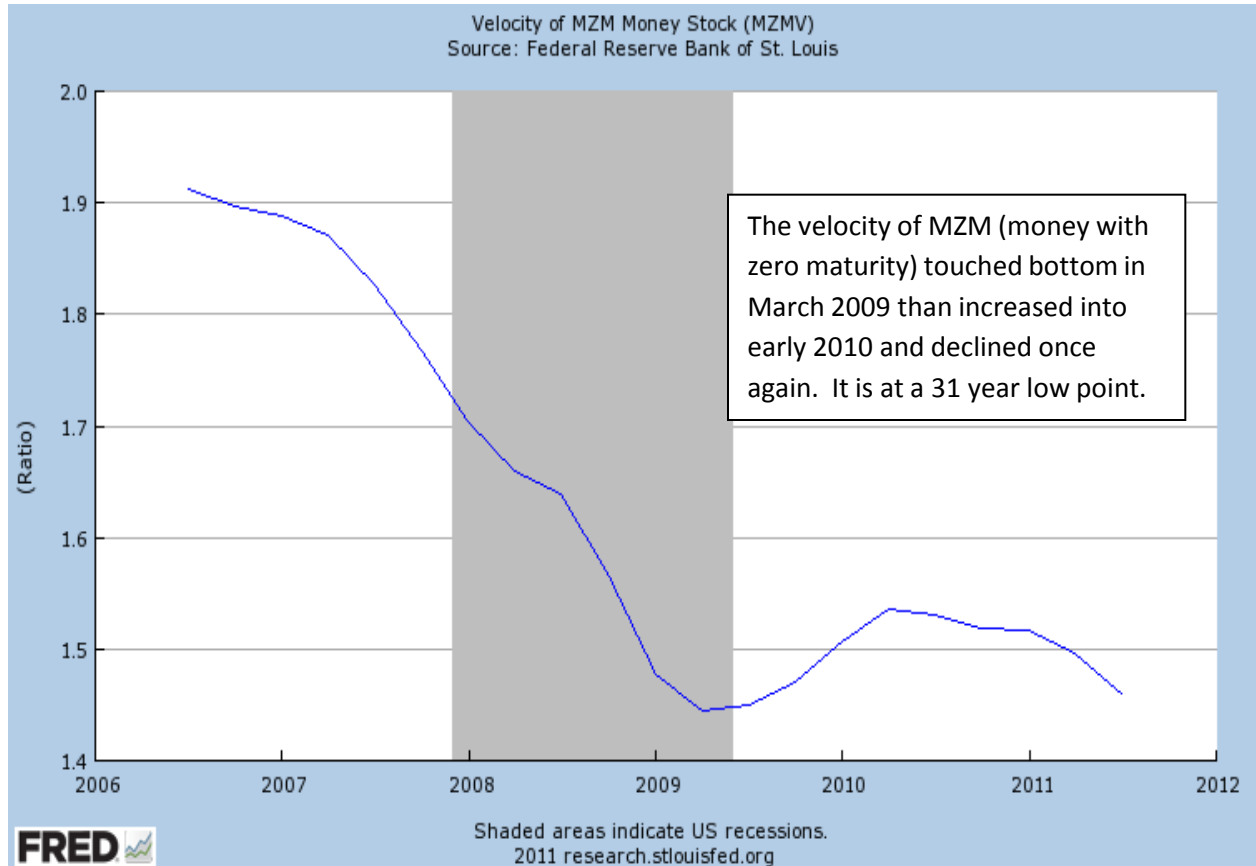
# What The Bank of Canada and the US Federal Reserve Worry About

- Contagion
- The Minsky Moment
- Central Banks bought 148.4 tons of gold last quarter.

# The US Money Multiplier is Dividing When The Fractional Banking System Stops



# Velocity of Money is Decelerating



# The New Normal

***“The basic premise is that we are in the midst of a major national and global realignment. The main catalyst was the financial crisis of 2008, but the underlying factors have been there for a while.***

***The question is: What does the world look like post-realignment? The world is on a bumpy journey to a new destination and the New Normal”***

Mohamed El Erian

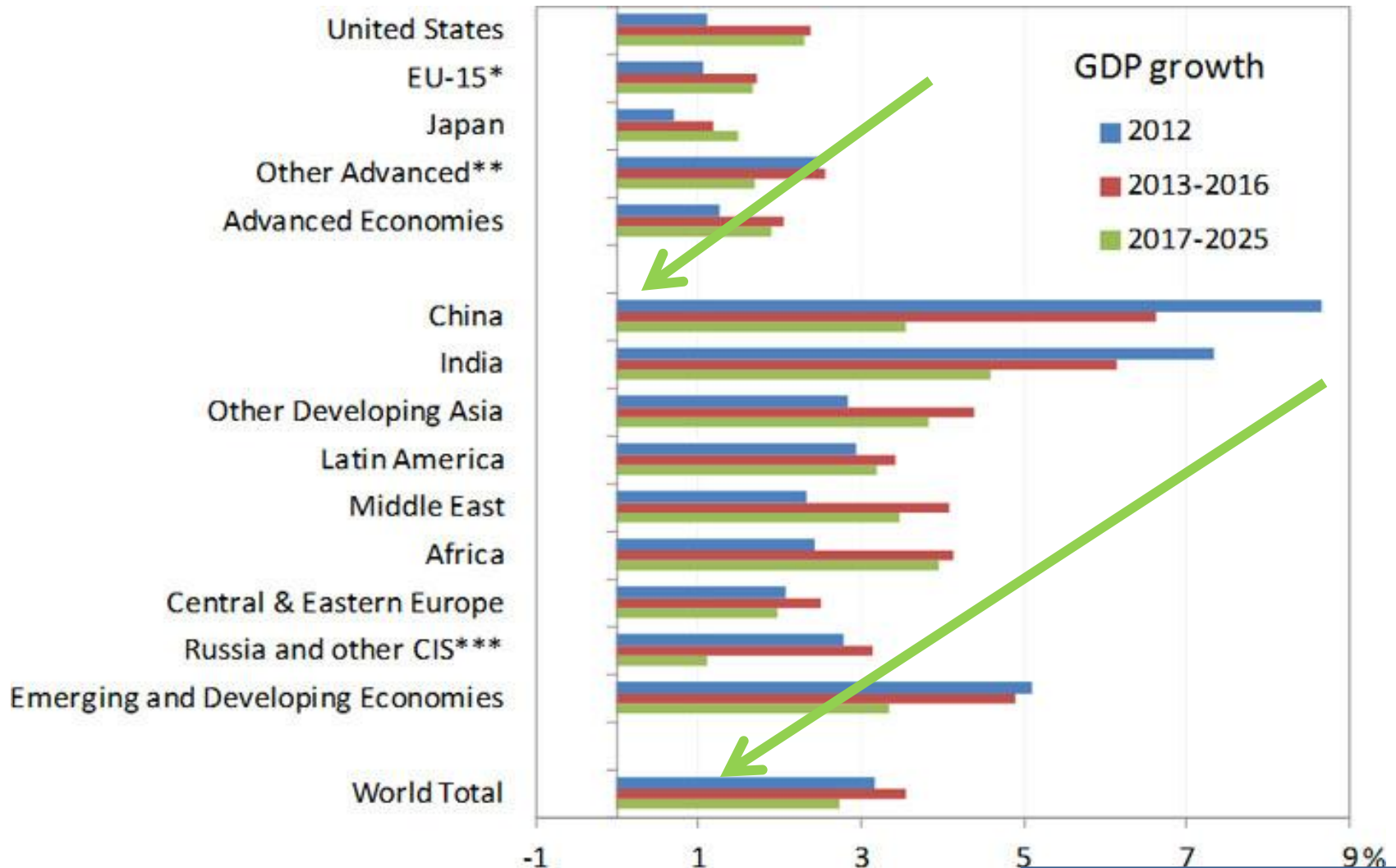
# Canada's Eric Sprott

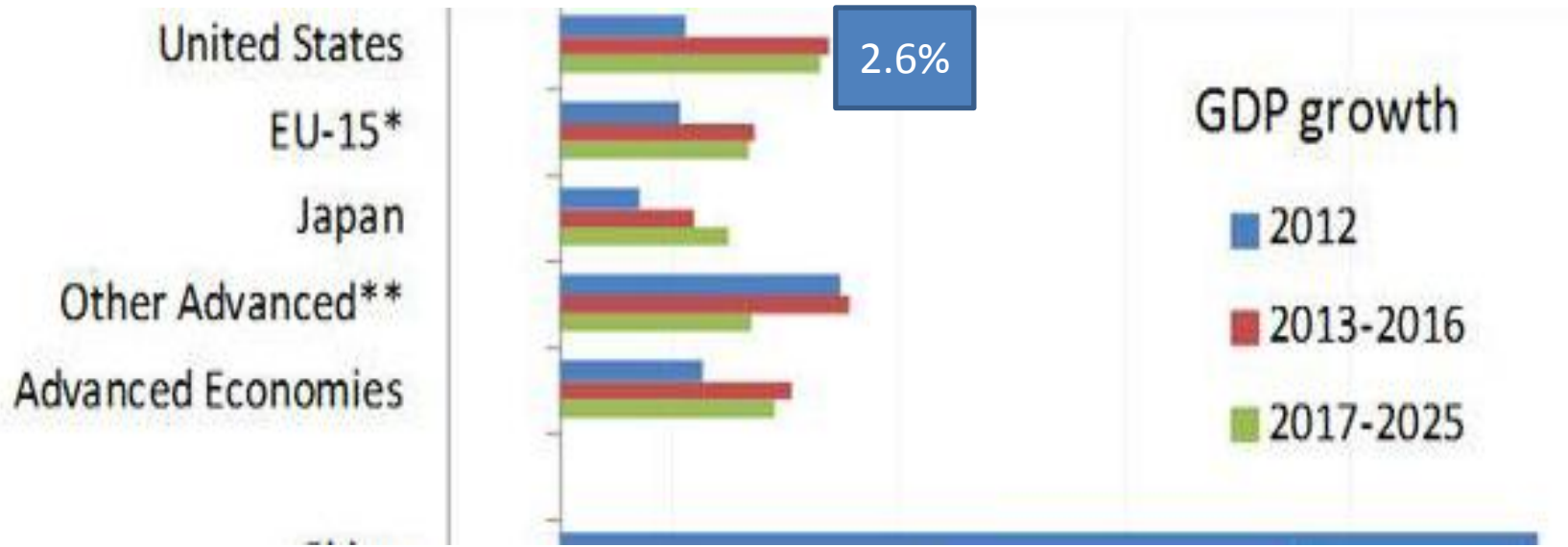
- ***“A lot of promises are going to be broken by governments and by pension funds around the world.”***

James Turk Interview with Eric Sprott  
at the Munich Gold Show

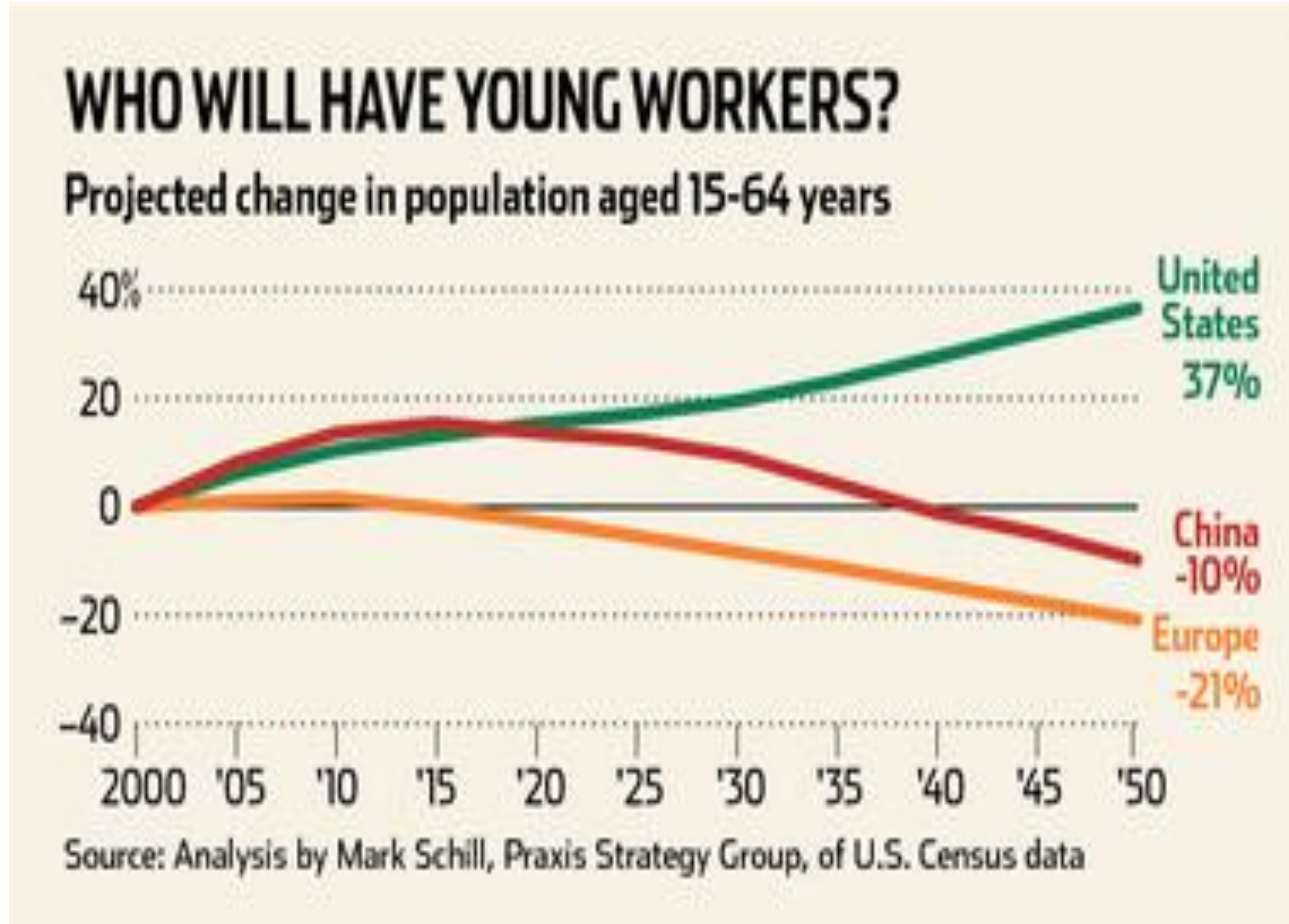
November 4, 2011.

# Austere Growth: Declining Growth To 2025





# Austerity? Yes, But Not All Is Lost in the West



# A Glimpse of the New Austerity

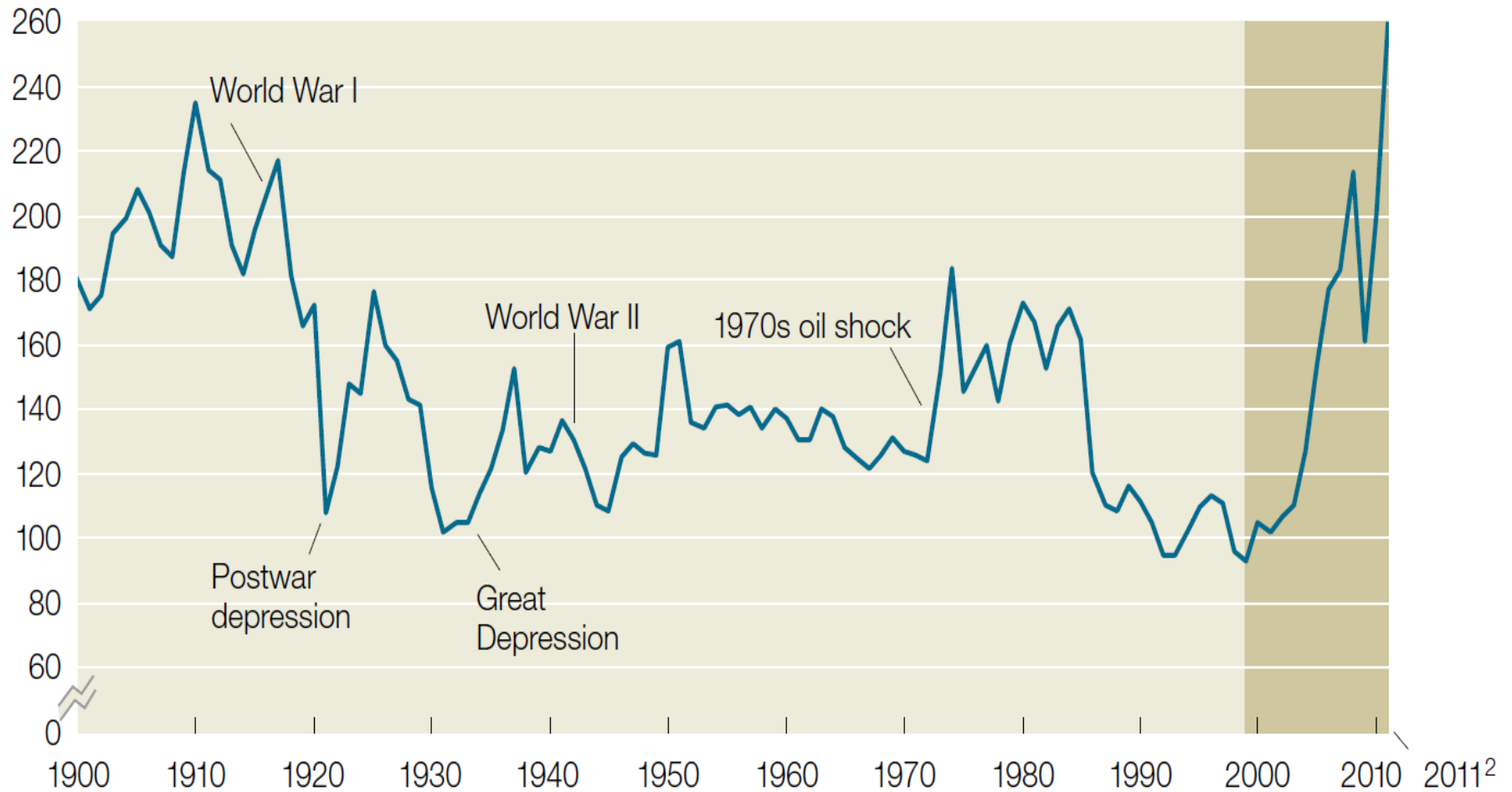
Austerity means lower nominal and real incomes, less credit availability and higher taxes (known and unknown).

Therefore Discovery Wealth Creation, the front end and largest component of the wealth creation process, is much more important for the investor.

Commodities will continue to increase in value.

# McKinsey: A New Discovery Era for Commodities

McKinsey Global Institute commodity price index (average of 1999–2001 = 100)<sup>1</sup>



# McKinsey November 2011

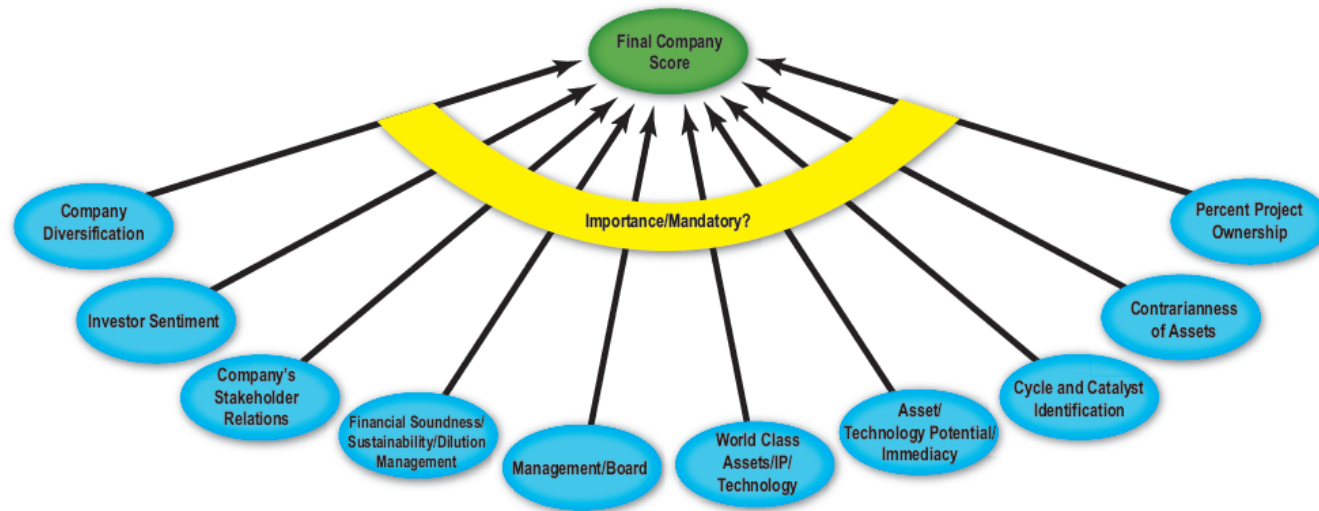
- “In addition, volatility is now greater than at any time since the oils-shocked 1970s because commodity prices increasingly move in lockstep.”
- “Our analysis suggests that they will remain high and volatile for at least the next 20 years if current trends hold—barring a major macroeconomic shock—as global resource markets oscillate in response to surging global demand and inelastic supplies.”

# Global Commodity Demand in the 21<sup>st</sup> Century

- The Reset will rely more on Discoveries, especially in the domestic **Supply Chain Space**.
- Will be driven by **Convergence of Lifestyles** in the world.
- Will impose Natural **Resource Nationalism**
- Will Embrace a new **Monetary Regime**.

# Discovery Investing

## THE 10-POINT DISCOVERY GRID



### Company Diversification

- Size of asset portfolio
- Potential for monetization
- Quality of strategic focus across assets

### Investor Sentiment

- Patience of investors
- Belief in company prospects

### Company's Stakeholder Relations

- Accessibility of management
- Prompt & reliable communications
- Relations with critical outside

### Financial Soundness/ Sustainability/Dilution Management

- Cash on hand
- Absence of toxic financing
- Capital required to reach major milestones
- Production potential, offtake agreements

### Management/Board

- Insider buying
- Significant ownership
- Demonstrated track record of success

### World Class Assets/IP/ Technology

- Asset/IP/Technology production economics
- Global supply vs. demand
- Required infrastructure availability
- Expansion potential
- Simplicity/complexity of production processes

### Asset Technology Potential/ Immediacy

- Immediacy of product availability
- Importance of product to future needs/desires

### Cycle and Catalyst Identification

- Identification with super-cycle trends
- Identification with Quality of Life cycle trends
- Milestone catalyst anticipation
- Position relative to mystery/history cycle

### Contrarianness of Assets

- Acquisition costs relative to value

### Percent Project Ownership

- Control of project destiny

# McKinsey November 2011 -2

Demand for energy, food, metals, and water should rise inexorably as three billion new middle-class consumers emerge in the next two decades.<sup>1</sup> The global car fleet, for example, is expected almost to double, to 1.7 billion, by 2030.

In India, we expect calorie intake per person to rise by 20 percent during that period, while per capita meat consumption in China could increase by 60 percent ...

# The New World of Discovery Investing

- Materials Science and Supply Chain Research
- Bio Fuels And Alternative Energy Research.
- Water
- Metals With Specialty Applications (Graphite, Thorium, Vanadium, Cobalt, Indium).
- Cell Research And Gene Modification.

# Discovery Ideas

# Incubators and Mature Discovery Names

## We are Following

- **Gold:** Carlisle Goldfields, Terraco Gold, Grande Portage, Midway Gold, Premium Gold
- **Copper:** Quaterra, Nevada Copper, Entre Gold
- **Graphite:** Northern Graphite, Focus
- **Cobalt:** Formation Metals

- **Thorium:** GWG
- **Bio Fuels and Cancer Research:** Senesco Technologies
- **Rare Earths:** Ucore, Avalon, Quest
- **Austerity Related Metals:** American Manganese, American Vanadium, Talison Lithium