Cambridge House - Silver Summit

Phoenix Arizona

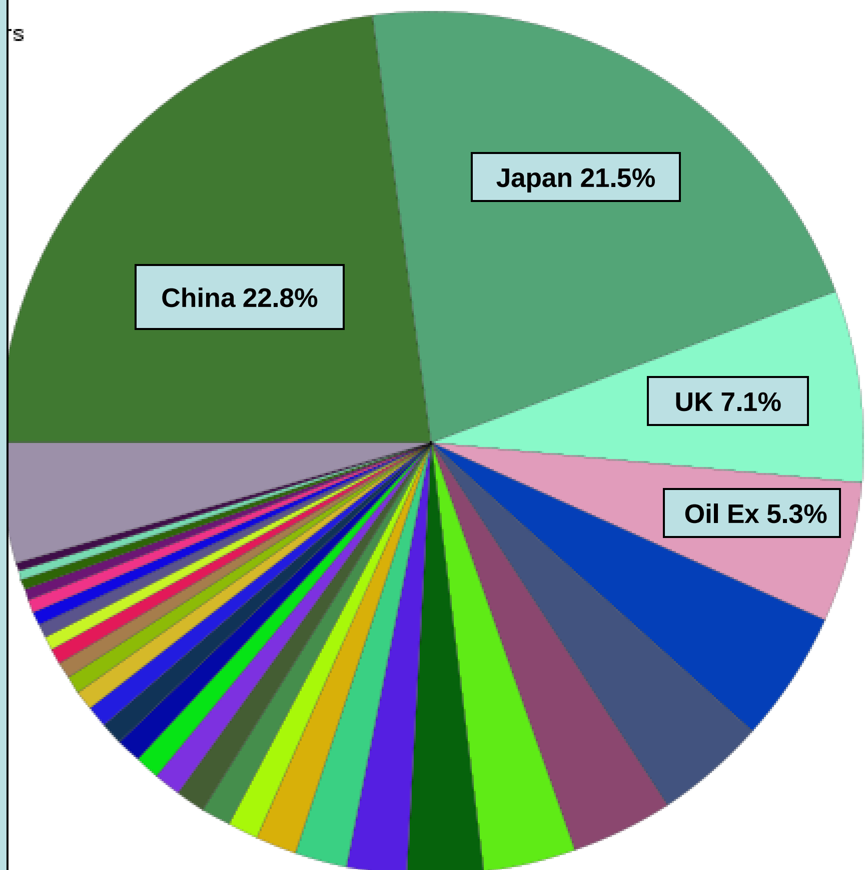
February 5, 2010

What The Future Holds

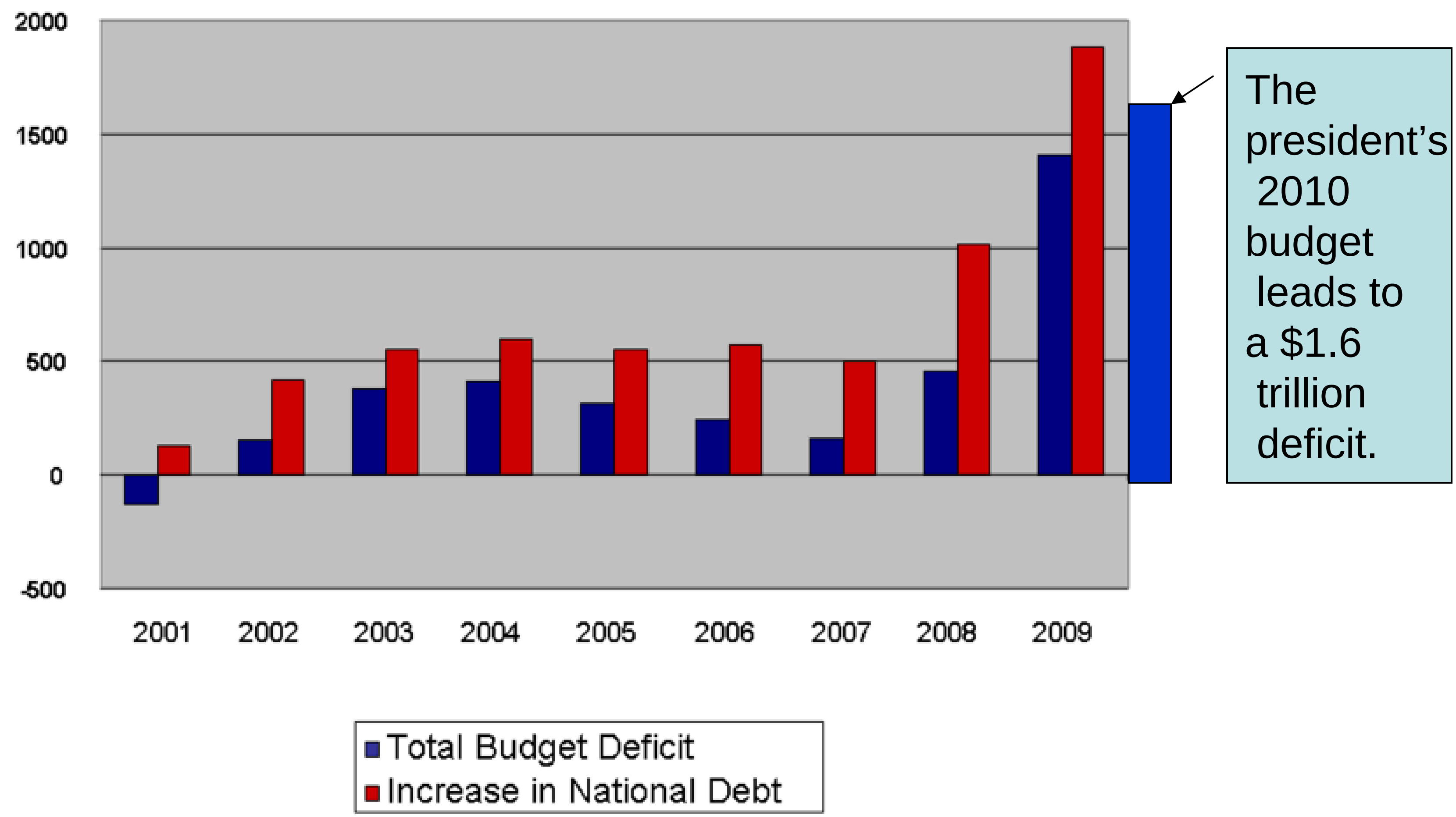
Holders of $3.5 Trillion in US Treasury Bonds
Sept. 2009

Billions of Dollars	
China	798.8
Japan	751.5
UK	249.3
Oil Exporters	185.3
Carib Banks	171.7
Brazil	144.9
Hong Kong	132.2
Russia	121.8
Luxembourg	98.7
Taiwan	78.1
Switzerland	68.9
Germany	53.7
Korea	38.8
Singapore	38.3
Canada	38.3
India	35.9
Ireland	32.7
France	32.1
Thailand	30.1

Top 2	44%
Top 5	62%
Top 10	78%



Total Deficits vs. National Debt Increases ($ Billions)



- The President’s budget for the coming fiscal year is $3.8 trillion.
- $1.4 trillion is domestic and military spending that he and Congress directly control.
- The rest is automatic spending for Medicare, Medicaid and Social Security the largest part of the budget
- and, interest on debt of $12.4 trillion.

- Expected Deficit 2010: $1.6 trillion

Lender of Last Resort?

President Obama's budget deficits for 2010 and 2011, according to the latest report, will total $2.9 trillion, and this estimate is based on the assumption that the Great Recession is over. Where is the U.S. Treasury to borrow $4.3 trillion in three years?

This sum greatly exceeds the combined trade surpluses of America's trading partners, the recycling of which has financed past U.S. budget deficits, and perhaps exceeds total world savings.

"The Crisis in Not Over: The Second Wave"

Paul Craig Roberts, Feb. 3, 2010

The Relationship Between Debt and US GDP:

What Amount of debt is necessary to generate an additional $1 of GDP?

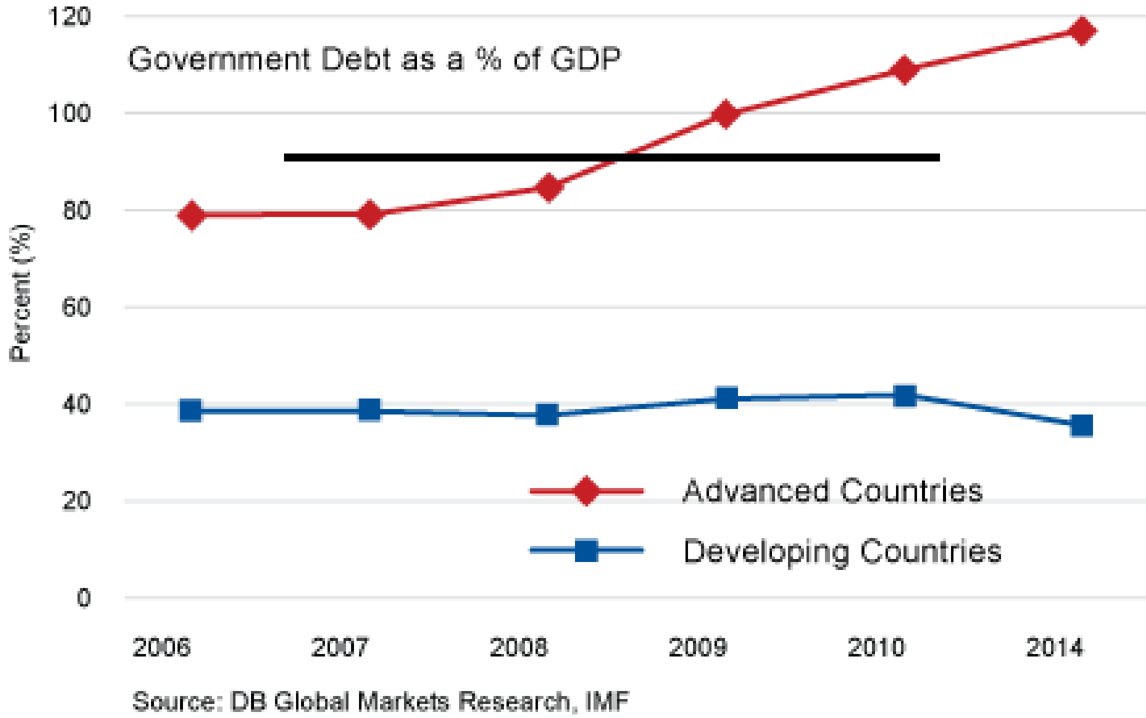
Debt Required for each Additional Dollar of GDP

- The 1960s: **$1.53** for Each $1 GDP
- The 1970s: **$1.68**
- The 1980s: **$2.93**
- The 1990s: **$3.12**
- The Naughts (2000 – 2010): **$6**

What Total Debt Load is Sustainable?

When Does The US Experience a "Minsky Moment"?

Generally Debt to GDP ratio of 80% to 90% is considered the point of NO return: This is the point where debt coverage becomes unsustainable



There are only few degrees of freedom in any system. What elements move when the Debt / GDP Ratio goes Too High?

Interest Rates must Increase Significantly

and

GDP and the **Dollar** Must Decrease!

- *"WE WILL HIT A POINT WHERE IT COMES ON US VERY QUICKLY, AND YOU DON'T WANT TO EDGE UP TO THAT POINT … GOING BEYOND 80%, YOU'RE TAKING A REAL CHANCE."*

Dr Kenneth Rogoff
New York Times
February 1 2010

Debt And Deleveraging:
The Global Credit Bubble And Its Economic Consequences

The McKinsey Global Institute January 2010

- “Leverage levels are still very high in some sectors of several countries—and this is a global problem, not just a U.S. one.”

- “The analysis has identified ten sectors within five economies that have a high likelihood of deleveraging.”

- “A long period of deleveraging nearly always follows a major financial crisis.”

- “Deleveraging episodes are painful, lasting 6 to 7 years … reducing the ratio of debt to GDP by 25 %. GDP contracts during the first several years and then recovers.”

- “If history is a guide, many years of debt reduction are expected in specific sectors of some of the world’s largest economies, … a significant drag on GDP growth.”

This Time is Different

Rogoff and Reinhart

- The true legacy of banking crises is greater public indebtedness, far beyond the direct headline costs of bailout packages.
- On average a country's outstanding debt nearly doubles within three years following the crisis.
- The aftermath of banking crises is associated with an average increase of 7% in the unemployment rate, which remains elevated for 5 years.
- Once a country's public debt exceeds 90% of GDP, its economic growth rate slows by 1%.

Pimco's "New Normal"
January 2010

- "Their conclusions are eerily parallel to events of the past 12 months and suggest that PIMCO's New Normal may as well be described as the "time-tested historical reliable.""

Initial Leverage Conditions

January 2010

Country	2009 Total Debt (% of GDP)
India	129
Brazil	142
China	159
Canada	259
Germany	285
United States	300
United Kingdom	466
Japan	471

The Historical DeLeveraging Experience

- Typically deleveraging begins 2 years after the <u>beginning</u> of the crisis (2007 in this case) and lasts for 6 to 7 years.

- In about 50% of the cases the deleveraging results in a prolonged period of belt-tightening exerting a significant drag on GDP growth.

- In the remainder, deleveraging results in a base case of outright corporate and sovereign defaults <u>or</u> accelerating inflation, all of which are anathema to an investor.

Actually, It Is Never Different,

Here’s Why

“Reinhart and Rogoff … point to the inescapable conclusion that human nature is the one defining constant in history and that the cycles of greed, fear and their economic consequences paint an indelible landscape for investors to observe.”

Bill Gross, Pimco

- “The American panic of 1907 … gave the lie directly to those who in recent years have contended that we should never again witness experiences like those of the memorable years 1837, 1857, 1873, and 1893.” Andrew (1908a, p. 290).

Discovery Investing Strategies 2010-2015

Seek Discovery –
Overweight Legacy and Mature Companies

Seek Investing Opportunities Related to:

Less leverage, higher currency reserves and +ve trade surpluses.

Growth machines (areas developing increased lifestyle.)

Developing Consumer Markets.

Inflation resistant “hard” assets.

Secular Global Commodity Cycle.

Seek Investing Opportunities

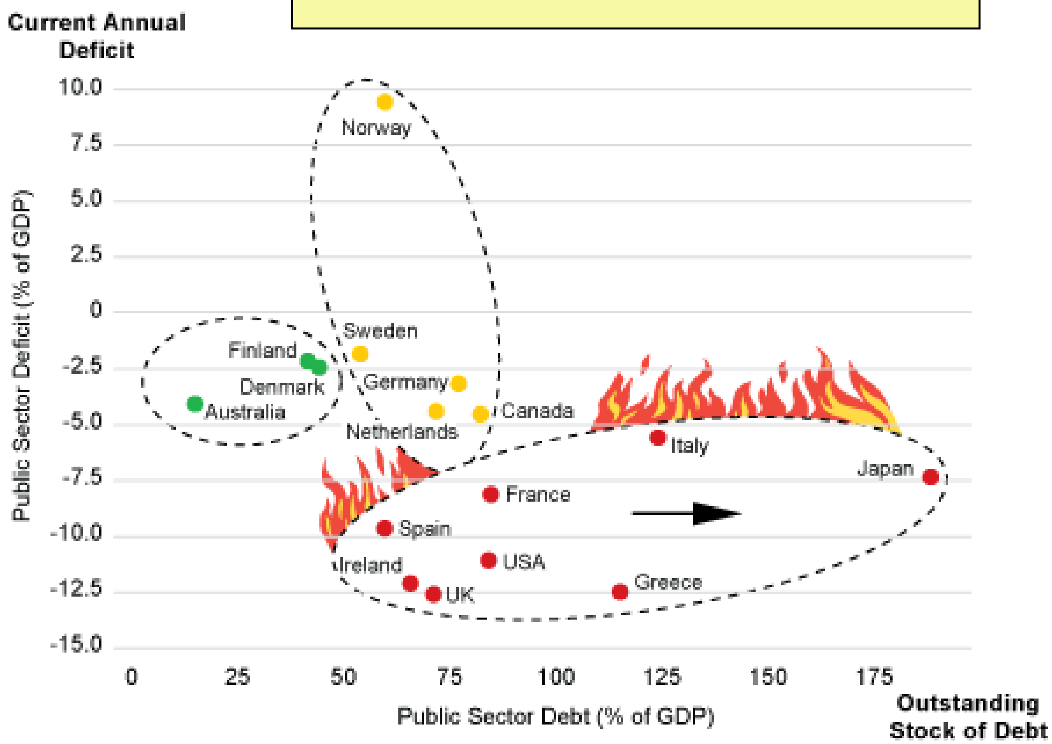
Countries where QOL cycle is nascent, populace is savings-oriented and consumer cycles are formative.

Currency Surrogates - gold, silver and precious metals.

Opportunities Contra the Reserve Currency Status of the US Dollar.

North American Commodities - contrarian plays.

PIMCO's Ring of Fire



Source: Reuters EcoWin

KEY Point
In this respect, it is Different this Time

As they endure forced <u>delevering, t</u>he old G-7 … have lost their position as drivers of the global economy.

Investing Strategies During the 2015-2020 Revival

- Domestic Commodities
- Infrastructure Rebuild
- Biotech Discovery
- High Tech Discovery
- Health Care Innovation – treatment and administration
- Communications
- Energy- traditional and alternative,

  when “Green” becomes more realistic.

Gold

- **"You have to choose between trusting to the natural stability of gold and the natural stability and intelligence of the members of the government. And with due respect to these gentlemen, I advise you, as long as the capitalist system lasts, to vote for gold."**

- **George Bernard Shaw**

Gold oz	Silver oz	Silver Dollar Ounces	Other Silver Bullion Ounces	Total Silver Ounces	Year	Gold Decrease	Silver Decrease
629,412,229	1,655,739,355	215,318,437	50,388,246.00	1,911,546,021	1953		
620,351,612	1,679,239,335	207,064,301	67,891,321.00	1,930,694,977	1954	**-1.44%**	**1.00%**
619,720,719	1,697,239,335	196,425,761	75,338,159.00	1,951,003,255	1955	**-0.10%**	**1.05%**
627,117,600	1,708,439,335	182,757,170	87,417,500.20	1,967,414,005	1956	**1.19%**	**0.84%**
650,876,438	1,711,539,335	169,415,829	127,390,750.60	2,005,245,915	1957	**3.79%**	**1.92%**
586,688,712	1,736,339,336	156,764,400	202,198,688.30	2,070,502,423	1958	**-9.86%**	**3.25%**
555,889,594	1,741,339,336	141,073,654	175,098,379.00	2,052,511,368	1959	**-5.25%**	**-0.87%**
507,622,792	1,741,839,336	124,862,184	123,528,745.30	1,989,730,265	1960	**-8.68%**	**-3.06%**
482,540,167	1,730,539,335	101,039,730	28,457,383.60	1,871,336,449	1961	**-4.94%**	**-5.95%**
456,519,728	1,654,494,335	73,642,576	36,987,896.90	1,841,169,809	1962	**-5.39%**	**-1.61%**
443,229,156	1,532,538,549	22,097,981	25,223,063.00	1,701,815,380	1963	**-2.91%**	**-7.57%**
439,654,456	1,190,266,481	2,288,157	17,857,032.90	1,552,683,738	1964	**-0.81%**	**-8.76%**
392,380,431	801,319,743	2,298,660	-	1,192,565,141	1965	**-10.75%**	**-23.19%**
375,974,391	591,940,684	2,305,132	-	803,624,875	1966	**-4.18%**	**-32.61%**
342,331,279	384,284,919	2,331,820	-	594,272,504	1967	**-8.95%**	**-26.05%**
296,199,012	58,323,562	-	-	384,284,919	1968	**-13.48%**	**-35.34%**
296,202,494	61,454,335	-	-	58,323,562	1969	**0.00%**	**-84.82%**
306,630,400	-	-	-	61,454,335	1970	**3.52%**	**5.37%**
289,490,759	-	-	-	-	1971	**-5.59%**	0.00%
273,950,419	-	-		0	1972	**-5.37%**	0.00%
273,954,661	-			0	1973		0.00%
241,000,000					2010		

China’s Jilin Jien and GoldBrook: The Way of the Future

- The Raglan of Quebec
- CZZ and Nunavut Resources
- 75 / 25 financing carry to profitability.
- Nickle Cobalt PGM’s etc.

Harp Capital's recent Ten year $50 Million Iron Ore deal between Korea’s SKN and Labrador’s CLM iron ore assets:

Offtake Agreement and a Credit Agreement with SK Networks Co. Ltd.(SKN), a subsidiary of the third largest Korean conglomerate, SK Group.
SKN has committed to purchase annually, ten years, at fair market value and on commercially reasonable terms, one million tonnes of iron ore concentrate from CLM‟s Bloom Lake mine.
The Credit Agreement provides for a US$50 million unsecured five-year term credit facility which is expected to be available for drawdown prior

to January 31, 2010.

- Reported budget deficit data is from: http://www.cbo.gov/budget/data/historical.pdf and http://www.fms.treas.gov/mts/mts0908.pdf
- Reported debt change data is calculated from: http://www.treasurydirect.gov/govt/reports/pd/histdebt/histdebt_histo5.htm
- On-budget vs. off-budget data is from: http://www.whitehouse.gov/omb/budget/fy2009/pdf/spec.pdf ; see page 370 (Table 23-1).
- 2009 deficit is in the CBO Monthly Budget Review for October 2009: http://www.cbo.gov/ftpdocs/106xx/doc10640/10-2009-MBR.pdf
- This chart shows how the reported budget deficit often quoted in the press is increasingly not reflective of government spending in excess of tax receipts, which is indicated by debt increases. There are two primary categories of differences: thumb|Comparison of Deficits to Change in Debt 2008
- "Off-budget" amounts: There are certain categories of receipts and disbursements which are included in the budget process, but are (counter-intuitively) called "off-budget." The primary item is Social Security. During 2007, the "Off-budget" surplus was $183 billion, which lowered the "On-budget" deficit of $638 billion to the "Total Deficit" of $455 billion. This total deficit figure is the amount often reported in the press; such amounts are illustrated by the blue bars in the chart.
- Supplemental appropriations: These amounts are authorized for payment via legislation outside the annual budget process. Examples are the costs of the Iraq & Afghanistan Wars (about $750 billion total since 2001), the Economic Stimulus Act of 2008 (about $170 billion), and earmarks (about $20-$50 billion per year).
- Since the debt went up about $1017 billion during 2008, that means $379 billion (1017-638=379) were non-budgeted expenses or outside the annual budget process.