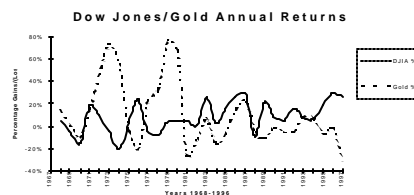




Gold

Energy & Tech Stocks

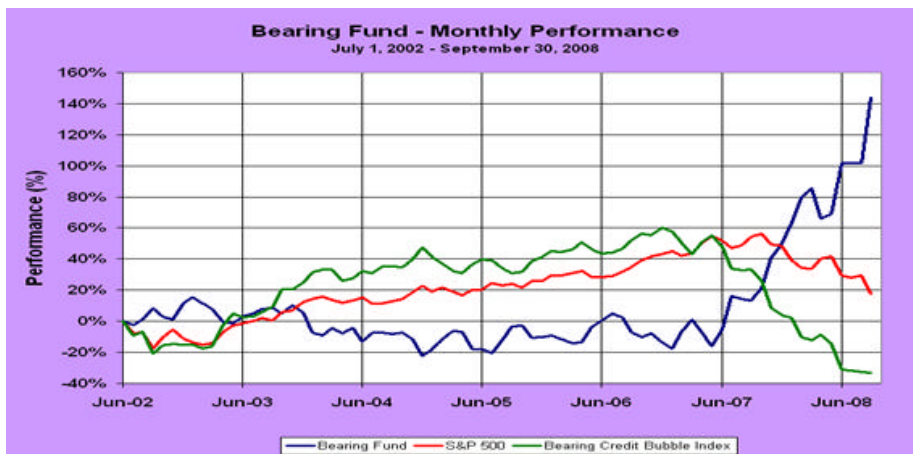


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Bearing Fund Profits Big in this Big Bear Market



While a large number of hedge funds are going out of business as redemptions demand are hitting them fast and furiously, one fund we know of has not only managed to keep its head above water but has actually reaped huge profits in the midst all this Wall Street mayhem. We are talking about the Bearing Fund, managed by Bearing Asset Management. On your left is a chart that displays a gain of over 143% since the inception of the fund on July 1, 2002. More importantly, most of that gain has come exactly when most hedge funds have been watching their valuations head toward zero at an accelerating rate of speed.



Kevin Duffy

Bill Laggner

How has the Bearing Fund, LP managed to do so well when other funds are almost literally going to hell? Hint: this month we interviewed the brains behind the Bearing Fund, namely Kevin Duffy (left) and Bill Laggner (right) to learn more about how they have managed so much success and to try to apply their vision to our own investment success. I think you will find the following discussion most beneficial.

TAYLOR: I would like to begin by asking you to tell our subscribers a little about your respective backgrounds, what you have done in the past and then, how and why you came about to form the Bearing Fund. We could start with you, Kevin and then you, Bill.

KEVIN: I got into this business in 1985 as an analyst and also as a strategist. I started and co-founded a money management firm in 1988 after the '87 crash.

BILL: Jay, I got into the industry in the late 80's, initially as a stockbroker and then moved to the buy side at Fidelity Investments. We set up an office here in Houston. We set up two things, a trust company and a discretionary money management service and then I left Fidelity in the late 90's. Kevin and I had met in the 90's and then in the late 90's, began discussing the entire tech bubble. We actually cut our teeth on the short side during the tech bubble and after it had

burst, we formed Bearing (Bearing Asset Management) in the early part of this decade.

TAYLOR: I know both of you consider yourselves to be Austrian thinkers. You think from an Austrian economist's point of view. Could you tell our subscribers briefly what that means?

KEVIN: I was very fortunate because I discovered Austrian economics in 1989. At the time, the Japanese stock and real estate markets were raging. As a contrarian, I thought I recognized the signs of a bubble, but economically, I didn't really understand the root cause and that was where the Austrian piece came in. It was really the idea of the boom

being fueled by artificially cheap credit which people mistook for an economic miracle. The other lesson that was learned at the time was in studying the Depression and how the government was the main culprit. Not only did we have this classic bubble in the late 1920's caused by the central bank artificially lowering interest rates, but also the downturn, the healthy cleansing, made worse by all of the interventions, whether they be protective tariffs or higher taxes or public make-work projects or low interest rates. It was really fascinating, being in the business and studying the Japanese situation, the bubble, watching the movie play out in the 1990's almost exactly like the Austrians had warned and described the 1930s and how the 1930s played out. Of course, later on, history repeated to a certain extent after the tech bubble burst post-2000.

TAYLOR: The mainstream media doesn't see this obviously. They are not educated in Austrian economics. The view is so different from what we hear every day on CNBC and Bloomberg. Why doesn't the mainstream media see the same visions as the Austrians see?

KEVIN: It's a great question, and I am not sure I have all of the answers. We've got some experience talking with reporters and I have a couple of thoughts. One is that most billionaires are statist. And major media channels tend to be owned by billionaires who in turn hire statist. They also tend to hire people out of elite colleges who tend to be statist as well. Also, they ultimately serve the consumer – the investor class – who constantly clamors for government to save them. For a number of reasons, there is this mind set within the mainstream financial media that is statist and interventionist.

TAYLOR: Could you describe for our subscribers what you mean by statist?

KEVIN: Statist, pro-state or pro-government intervention.

(Additional editor's note: the Webster's definition of statism is, "concentration of economic controls and centralized planning in the hands of a highly centralized government.")

TAYLOR: The opposite then of free market economics.

KEVIN: Free market, laissez faire, absolutely.

TAYLOR: The opposite. So, no wonder we are seeing what we are seeing these days with all of the intervention. The worse things get, the more intervention we get. You would say that then what, the more intervention we get, the worse things are going to get still?

KEVIN: Absolutely. What is really incredible is that within the media, you still have this interventionist mind set that is so powerful, that the people who have gotten it right are dismissed and the people who have gotten it wrong continue to come back and offer the same diagnoses. Last night, Cramer was on CNBC blaming laissez faire capitalism.

TAYLOR: As if we had laissez faire capitalism.

KEVIN: Yes, as if we had laissez faire capitalism. So everything is being blamed on a lack of government intervention and the prescriptions are more government interventions. It is just incredible how the people who have gotten it right are dismissed right now. And I think it is largely due to this bias within the media.

TAYLOR: Certainly those people who already have their billions might want the state to protect those interests. Do you think that is maybe what is going on?

KEVIN: Certainly. An example would be Wall Street. Wall Street is statist, they are interventionists. They essentially made a huge bet. The bet was wrong and now they expect their friends in high places to bail them out and to protect their interests.

TAYLOR: And of course, if the intelligentsia thinks the same way, then the common folks are given the same pabulum.

KEVIN: Yes, it was interesting that with the bailout, the common people got it right. They understood that the \$700 billion blank check was coming out of their pockets. They understood that it was going into the pockets of Wall Street and the billionaires who had made these bad bets. What was fascinating, was to see the financial media with their mindset and their bias say, "Look, we are just not selling this properly to the American people." They couldn't understand how the American people could not realize how this was good for them. It came down to just pure propaganda.

TAYLOR: And of course, some payoffs to Congressmen to make sure that they got it right the second time around.

KEVIN: Sure, just add a little pork to the bill. The price of corruption is very low. It is low because most politicians, with the exception of perhaps Ron Paul, are statist.

TAYLOR: Most of them are for sure. So, you set up this fund because you saw this intervention was going to lead to problems and therefore, you decided that you could capitalize on those problems or at least protect your own wealth by understanding those problems and investing in those markets accordingly. Could you tell our subscribers what your strategy was, how you have been able to do so well. You have done remarkably well. You are up, I don't remember how many percent, but you have done extremely well the last couple of years when almost everybody else has lost their shirts. Could you tell our subscribers what you saw, first of all, and what you have invested in that has allowed you to do so well?

BILL: I think, Jay, what we noticed in the early part of this decade was essentially unfinished business. We had a recession that was beginning to play out and we had a Fed and a government that was avoiding it at all costs. In a global coordinated fashion, central banks started lowering rates and printing money. This time around, the money started to flow into real estate and then beyond 2004, it took on essentially, a life of its own. It is one thing to speculate in the tech bubble and lose 50% of your net worth. It is another thing to leverage up considerably, own multiple homes or apartment buildings

or commercial buildings and do it with essentially little or no equity. When we started to focus in on the structured finance bubble, (on) how these mortgages were being packaged and sold on Wall Street; (on) the fact that, of course, you had 50 year low interest rates; (and on) the fact that the rating agencies got involved and put triple AAA stamps across the board on many of these packages, we looked at the insanity from 10,000 feet up and said, "this is the mother of all bubbles and when it breaks, the opportunity on the short side will be unbelievable."

KEVIN: I will just add that we also saw that the intervention would have unintended consequences. We figured it would be futile. We figured it would push off the day of reckoning. We underestimated how long it would put off the day of reckoning. We underestimated how great the bubble would be. We thought a lot of this new money that was being created, would, like in past bubbles, fail to reflate the old balloon, which was correct. We thought a lot of this money would help gold. It would start to drive up consumer prices and so, from the early days, we were very bullish on gold. When we started this fund, being as heavily short as we were, we were fortunate to just tread water for the first several years.

TAYLOR: What date did you start the fund?

KEVIN: July 1 of 2002. From that point, to the top of the credit bubble which we mark according to our Bearing Credit Bubble Index, December 31, 2006 - about 3 ½ years - we basically treaded water, which we considered a moral victory. We were actually fairly proud, considering as short as we were. We were net short well over 100% of the fund the entire time.

TAYLOR: Wow, that's remarkable. Now, did you start with a long gold position in gold from day one?

KEVIN: Yes.

TAYLOR: And your timing there was pretty remarkable, because I think that was pretty close to the bottom in the bear market in gold.

KEVIN: Right, and fortunately, we did have some investments in commodities, small investments, a fairly large position in gold and gold mining stocks, but it was a very difficult environment being short. We basically had headwinds for four years. They really didn't turn until the beginning of 2007.

TAYLOR: Could you give us a typical short that you might have used successfully over the last couple of years? What kind of instruments have you shorted?

BILL: Kevin referenced the Bearing Credit Bubble Index, which is comprised of a number of enablers in this whole credit fiasco: mortgage insurers, sub-prime lenders, and homebuilders. Remember, we said that the credit bubble was real estate centric. That was the collateral du jour. Banks, brokers, government sponsored entities and the bond insurers - across the board, we had exposure to every one of these sub-

sectors and we would use both put options and/or short individual shares in these various names. Kevin mentioned that we were early in a variety of cases and one would be New Century Financial. That was one where the stock went up 150%, almost 200% from the time we started shorting it. We had shorted it early and it went up considerably. Of course we were undergoing some pain, but we knew it was a complete fraud. We knew that once the bubble burst, not only would the stock go down, it would essentially get completely wiped out. There was no equity there. Fannie Mae, Freddie Mac, we spoke about the two companies at the spring CMRE meeting. We said there was no equity there and now the stocks are down to just about nothing. We can go on and on with big money center banks, the brokers... We were basically short the entire credit complex.

TAYLOR: Ok, but you were long on gold from day one and you have maintained a long position in gold, more or less the same percentage or have you varied it from time to time? That is my first question. The next one is have you been in and do you continue to own gold stocks? Or, do you prefer gold bullion or both? How do you manage your gold exposure?

KEVIN: We've been invested in both areas and we have always had a position. It has fluctuated. We were very heavily into gold and gold mining stocks in the first several years of the fund. The combined weighting was as high as 40-50%. Coming into this year, we had about 25% in gold and gold equities. By June 30, we were starting to get concerned about a commodity bubble. We really thought, as this credit bubble unwound, that the first crack in the credit bubble was sub-prime. As it started to play out, what happened was that the speculator, the compulsive gambler sort of left the financial craps table and he moved over to the commodity roulette wheel, even the emerging markets poker table. And so by the end of last year, we were starting to diversify our shorts. We were shorting China, Russia, Hong Kong and India. This year, those bubbles started to roll over. The commodity bubble really peaked about the middle of the year, June 30. So, by June 30, we were down to 18.5% in our gold and gold equities. At the end of October, we became a lot more bullish on gold and gold stocks and we are back up to 24%.

TAYLOR: I hear you talk about gold and commodities with the same breath. Obviously, I don't believe you mean that. At this point in time, you haven't gone long commodities, have you?

KEVIN: I'm talking strictly gold and gold stocks. Commodities are a little bit different story. At the beginning of the year, we were net short commodities. We have the ability to essentially own or short commodities through a futures account - orange juice, pork bellies, that sort of thing. We were net short commodities to start the year by 3.1%. That included not only the commodities themselves, but also the equities. By the middle of the year, June 30, we were net short a little over 14%. We did not short the equities, if we

shorted anything in commodities, it would actually be the commodity itself. We had built up a short position of about 10% in crude oil. We also had a fairly significant short position in the grains - in wheat, soybeans and corn. A lot of that was driven by the push to alternative energy, but recently with the collapse in the commodity bubble, we have been buyers of commodity based stocks. At the end of October, our position was nearly 8% net long in commodities.

TAYLOR: 8% net long in companies that produce commodities?

KEVIN: Right, so you can see there's been a lot more fluctuation in terms of the commodity space as opposed to gold and gold equities. We have maintained a fairly high position in gold and gold shares throughout the life of the fund.

TAYLOR: With a low of around 17% or so?

KEVIN: The low was about 18 ½ % in the middle of the year.

TAYLOR: When we are talking about commodities, it might be a good time to ask you about this whole inflation/deflation debate that is raging among hard money oriented people. I think the Austrian thinkers come down on both sides of that argument. I am assuming you guys are more deflationists at this point in time. Do you see this whole bubble playing out in one major deflationary implosion akin to what we had in the 1930's, or do you think the policy makers could reflate and start another bubble? Also, it seems to me that there might still be one more bubble that needs to be broken and that in my view might be the bond market. What are your thoughts on that? There are quite a few different topics there, but if you could address those issues.

BILL: Jay, I think that one of the things that we focused on when we looked at the creation of the credit bubble was the magnitude of this whole shadow bank system. The amount of off-balance sheet activities that were going on globally, I might add, with the money center banks around the world, and creating these off-balance sheet entities, and essentially borrowing short and lending long and of course, misallocating capital to the nth degree. Speaking with Marc Faber about this years ago, realizing this was a much bigger number than what commercial banks had in assets and were actually showing people in their annual report. So if you looked at the U. S. commercial bank assets a year ago of roughly \$1.2 trillion and then you looked at, "guesstimating" of course, difficult to get this data, "guesstimating" it at 4, 4 ½, 5 trillion US in off-balance sheet activities, you knew that once this ponzi started to go into reverse, the impact, the way it would paralyze the banking system, would be unlike anything we have ever witnessed.

TAYLOR: Because of the huge amount of leverage?

BILL: Oh, huge leverage, mainly through the broker dealers. The broker dealers, (who prior to 2004, were capped at 12 to 1 leverage), were up in the 40-45 to 1 range. If you included

some of these other off balance sheet activities, maybe 50-60 to 1. This process of going in reverse, this deleveraging process, is incredibly powerful. It is not only impacting the banks/brokers but speculators, both large and small. The hedge funds would fall into that category, individual traders and the whole carry trade in general. Here we are, we've watched the deleveraging process begin and just when people think it is safe to go back outside, there's another piano falling from the sky. We would say that this process continues. It is going to be a lengthy process due to the levels of intervention that we have seen, and so that is very deflationary in nature. Clearly, the powers that be are trying to do what they can to prevent this or slow it down. They are printing money and creating these credit backstops and expanding the Fed's balance sheet to the nth degree. We talked about this in New York some weeks ago; the Fed's balance sheet was, from what we could ascertain, maybe \$1.7 trillion. It is probably even higher today. Fed governor Richard Fisher came out a few weeks ago and said they would take it to \$3 trillion if they had to. The problem is that the money is being hoarded by the banks. The money is being hoarded by the banks because they know that they have committed so many sins that they are going to have to set aside huge amounts of money for loan loss reserves.

TAYLOR: So they see continued loan loss reserves for as far as they can see, apparently. As soon as equity is added to the banks, they have more losses and the equity just goes down a black hole.

BILL: Let's use an example, Citigroup. A year and a half ago and right before he was shown the door, Chuck Prince (former CEO of Citigroup) was telling one of the Wall Street Journal reporters that I know that, worse case scenario, they (Citi) had \$80 billion in off balance sheet exposure. They had about \$62 billion in tangible equity. Well, Prince is gone. Pandit (V.S. Pandit, current CEO of Citigroup) comes in and he reveals at a quarterly meeting that they actually have \$420 billion in off-balance sheet exposure. I was just in New York a few weeks ago, now we are hearing that the number may actually be closer to a trillion. That is just one example. It's not like Citigroup is the bad seed and everyone else is innocent. They are all guilty of the same activity. When you think about the numbers, now you realize why all of these bailouts are essentially doing nothing. None of this is making it to the private sector.

KEVIN: No, it's coming from the private sector.

BILL: Yes, it's coming from the private sector and none of it is being returned to the private sector.

TAYLOR: It is not being lent out in any way that would help the economy expand or grow.

BILL: That is correct. We have this major credit crunch. Yesterday for example, was the first time in 15 years, that credit card asset backed bonds could not get issued, could not get sold; no buyers. We are clearly in the deflationary wave. How long it lasts, that's something I will let Kevin touch on,

but that is kind of how we got to where we are and this is why the infusions are not amounting to anything.

KEVIN: Really what we are looking at is the destruction of credit, off-setting the creation of money. At the end of the day, there has been this debate, we tend to fall in to the camp that the creation of money will end up winning out at the end of the day. The question is how long will it take to get there and what kind of destruction in asset values will take place over that time. Getting back to the bubble in bonds, we agree with you, we think that is one of the great bubbles out there. You've got the bubble in Japanese government bonds with 1% yields. You've got US government bonds with yields at less than 4%. We've seen recently inflation hedges going on sale. The ten year TIPS spread traded in a range of about 1½%, back in 2002, when all of the talk was about deflation. In the middle of this year, when all of the talk was about inflation, the TIPS spread was a little over 2 ½ %. Recently, it got as low as ¾%. So inflationary expectations dropped off the table. We actually took a fairly significant position in TIPS recently - about 7% of the fund. We certainly are not full-blown deflationists. We just see this epic battle going on where you have this destruction of credit up against the inflation of money, the creation of money.

BILL: I think one more very interesting piece of this puzzle is the fact that the big banks across the globe were hesitant to lend to one another and this apprehension was clearly a function of all of them knowing that they are running two sets of books. All are running these operations where they have a separate set of off-balance sheet liabilities. Most of them, if not all, have not reserved properly for the potential liabilities that come back onto their balance sheet. So there is this incredible level of distrust in the system. They are under-reserved. There is incredible distrust. You have asset prices dropping at a record pace over the last year. The wealth destruction just in the U.S. is something like \$12 trillion in real estate and equities, probably more when you throw in small businesses. The wealth destruction is incredible, up against the amount of debt that we have built up in the U.S. Private debt to GDP, non-financial, got to 175% of GDP. Instead of letting that debt default, the government is stepping in and converting private debt into public debt; once again, intervening in the cleansing process, the "mother nature" process. Of course, the government is trying to fight this by pumping money and of course, in the last two weeks, rolling back mark to market accounting. The mark to market accounting is one of the things you do need to find true price discovery. Without price discovery, it doesn't matter what the Fed does in terms of printing money. It is almost like the Japanese situation, where they had non-performing loans that they carried for years and years in the 90's.

TAYLOR: What about the argument that in fact, a lot of these mortgages are paying, that they are worth something and that there is a present value for those mortgages that are paying? That's the argument on the other side of it, right?

BILL: There's no question that there are mortgages that are performing. At the same time, those mortgages valuations are low because they are discounting additional declines in the housing market. If you look at the Case-Shiller Home Price Index, which in my opinion is the most accurate housing data, we see the Case-Shiller Real Estate Futures indicating another 15% decline in US residential real estate prices. So, if you think about the market as a discounting mechanism, the reason why some of these securities prices are so low - even the ones that are paying, is because they are discounting much, much lower collateral values. That's the market at work. Again, why would we want to intervene and start mispricing certain assets in the market?

KEVIN: And, you've already got over 20% of the mortgage market under water (the money owed on a mortgage is greater than the value of the home). Bill, where does that go if you do see prices go down another 15%?

BILL: You can have 35% of the mortgages upside down and that may be coming as soon as the end of next year.

TAYLOR: So, we have this deflationary process. Is this what's causing the dollar to be relatively strong compared to other currencies? You have an unwinding of all of this leverage, so in a sense, it is a short covering, if you will. If you think about it, when you take out a loan and buy something with it, that's like taking a short position against the currency, isn't it? So is this a reversal of that causing the dollar's relative strength?

BILL: Sure, I think that is exactly what we are witnessing, Jay. The world was short dollars. They were long New Zealand dollars, Euros or an emerging market bond...you fill in the blank. When you saw the hedge fund industry basically play the carry trade and use the leverage that they used over a long period of time. Here we are, maybe a year into this unwinding process. We have more to go. You can't take years and years of this trade and expect it to cleanse within several quarters. I think there are still a lot of people in denial. There are people that own commercial real estate for example here in this country. They are seeing it get reappraised at lower levels. They may sell their stocks or do something to keep their loans in force. The bottom line is that the unwinding has further to go and that is dollar bullish. Of course, off-setting this is the insanity of central bankers

TAYLOR: How will we know when this deflation play is over? Will we then see a turn in the in the long bond, for example?

KEVIN: I am not sure that they will advertise exactly when this will be over. The talk will be all about deflation. I am pretty sure that Jim Cramer will no longer be on CNBC. We can look for the signs, but we won't really know. In terms of what we do, we are always doing things gradually. We think in terms of probabilities and opportunities. If we feel that inflation is coming, we look for opportunities to hedge ourselves. If we see the bond market rally, we short into it. If we see fertilizer stocks do down 75% and they have 35% of

the stock price in cash, we buy a little bit. We just keep on positioning ourselves with that in mind. I don't know if anybody is going to really know when the bottom is in.

BILL: During the reflation process, when people began buying real estate, a.) all you had to do was blink your eyes twice and you could get a mortgage and it sucked in a lot more people than the tech bubble. Of course, the numbers are much greater when you look at the total amount of credit that was created over the 2002-2007 time span. I think one thing to focus on is the psychology of the real estate buyer during that period. Every piece of property, they liked. They could never own enough real estate. They were flipping real estate. When we look at the leverage employed, it was very, very intoxicating, much more so than the tech bubble and so now, all of a sudden, you have this unwind happening. At the same time this unwinding is happening and collateral values are decreasing - in fact, Case Schiller just had the data for August, it was the fastest drop ever in housing - you have sentiment changing, so you are looking at a situation where, yes, the central banks are pumping money and they are trying to bail out their chosen ones. But, who is really going to want to borrow money going forward, for what? If asset values are declining at the fastest pace in history, how are you going to get borrowers to borrow or lenders to lend? I think right now, the focal point for the interventionists is, "Let's try to keep some of this debt from defaulting. Let's lower rates try and get people to refinance." The problem is that spreads remain large. Corporate spreads hit a record high last week. No one is benefiting from the lowering of interest rates. Once again, interventionist activities are not creating what their intentions were to begin with and you have asset values continuing to plunge, so this is doing nothing for the asset inflation side of the argument. I think we have much further to go on the deflation side.
39:00

TAYLOR: Well, we just elected a new president, a democrat, and probably a very strong Keynesian proponent. What do you think of the idea that the new Obama presidency won't try to stimulate demand by reallocating wealth to the lower income groups, so that they will go out and spend 110% of it. Just create money out of thin air, hand it out the masses. And just let them, let it rip. Do you think that might turn things around?

KEVIN: It will definitely not turn things around. This is what was tried in Japan in the 1990's and this is what was tried in the United States in the 1930's. I think you are right Jay. They will try to stimulate the economy. They will try to create jobs, make-work projects. All of this will be a disaster. In terms of the monetary policies that got us into this mess, the same people will be making the same decisions. There is really no difference between the Democratic Party and the Republican Party in that regard. What is really at the heart of this credit bubble, nothing is really going to change in terms of the political class.

TAYLOR: But, it seems as if you could hand out trillions of dollars to the lower income folks and just let them spend. They could go out and just start buying stuff and bidding the prices up. I am not saying that in real terms, anybody would have any more, but it seems to me that they might be able to generate inflation that way.

KEVIN: I think the way to think about that is, go to a trailer park and drop an envelope on somebody's door in the amount of let's say \$200,000. Go back to that trailer in a month or two months. You will see a new boat parked out there. You will see maybe some home improvements. You will see some nice things, but go back to that same trailer in five years or ten years. You'll see that they have probably just reverted right back to where they were in their station in life. Nothing has really changed. Of course, what has been lost is the \$200,000 that you dropped off. And of course, that money came from the people who are taking risks, the people who are creating real jobs, who are the entrepreneurs and who are the producers in society.

TAYLOR: And so the prices of those items would have gone up and the real producers would have lost out relative to the people that are the deadbeats.

KEVIN: Right. You may be able to increase consumption for a little while. You may have some short-term beneficiaries, but in the long run, it is just more of the same, of putting off the day of reckoning, of applying band-aids. In fact, you are not even putting band-aids on the problem, you are just making the problem worse.

TAYLOR: So how long can this go on, this deflationary unwinding? The way you are presenting it, it seems to me, it could go on for years. We hear on media, on Bloomberg and CNBC folks talking about through 2009, but by 2010, we will certainly be on to better times. What are your thoughts? Government continues to intervene and they don't allow the markets to work. This could go on how long, like the 1930s?

KEVIN: We tend to look at things through three lenses. One is the economics lens, but also sentiment and valuation. I will just throw a couple of thoughts out there in terms of sentiment. If you go back to the beginning of this, from let's say 1988 to 2007, you have had a 19 year credit expansion. You have had 19 years since the Plunge Protection Team (PPT) was set up with the idea of the government suppressing crises. They have kept on creating a bigger and bigger problem and now the crisis can no longer be suppressed.

TAYLOR: The President's Working Group, the Plunge Protection Team, when about were they established, in 1987?

KEVIN: After the '87 crash, under Reagan and Greenspan. We've had nineteen years of a weeding out process Nassim Taleb, in his book, Foiled by Randomness called it "survival of the least fit," where in this business, the people who have survived were the ones who were willing to take risks, who believed every government intervention would create a new bull market. Here we are eighteen months or so, not even two

years into reversing this process. We believe that you don't reverse 19 years of behavior in two years. You see it everywhere. You see Jeremy Siegel, who is the huge proponent of "buy and hold" investing on CNBC and he is still revered. That has to go away. For this to all play out, he has to be completely discredited. The interventionists, the "buy and holders," the "buy the dip" people, the idea of "don't fight the Fed." All of this has to be discredited and it hasn't been yet. That's what we are looking for. Also valuations - total market capitalization to GDP - from 1925 to 1995 was in a range of 25%, the lows being in the depression in 1941, the high being 83% in 1929 and I believe about 80% in the go-go 60's. We blew right through the top of that range in 1995 and in the 2000 tech bubble, we went to about 175%, market cap to GDP. At the bottom in 2003, we went to about 100% of GDP, still above the high end of the range from 1929 to 1995. The rally from 2003 to 2007, took us up to about 135%. As of a couple of days ago, we were at 75%. We are probably at about 70% right now. The question before the house should be, why can't we go to 25%? If we have created this epic mess, this mother of all economic catastrophes, why can't we trade at 25% of GDP? Just putting some numbers on this, let's use a best case scenario, GDP stays flat and we go to 55% market capitalization to GDP. This is where we were post '87 crash. To me, that's the best case scenario. In that case, the S&P500 drops to about 735. Worst case scenario is that GDP actually goes down. Let's say GDP goes down 20% in nominal terms over a couple of years and market cap-to-GDP drops to the low end of the range, 25%. We could go to below 300 on the S&P500. Now you probably have to look at real numbers since we are probably going to get a fair amount of inflation. There is still a significant amount of downside. What we think we have seen is the first part of this, the flushing out of the speculator. It is forced liquidation. At some point, we will probably get a fairly significant rally, but we still have the long term buy and hold investor, what we like to call, "the autopilot money." We think people in their 401ks are still fully invested. They're deer in the headlights. They are not panicking. They are not selling out. Mutual equity fund cash levels were at 4.7% at the end of September. The long term average is about 7%. At bottoms, it has gone over 10%. You can look at money market funds as a percentage of total mutual fund and exchange traded fund assets; right now they are around 30%. The bottom back in the late 70s early 80s was 70%. At the top of the market, the rally that we saw peaking in 2007, it got down to about 21%. In terms of all of this so-called cash that is sitting on the sidelines, we don't think there is a lot of cash. We think there is a lot of leverage, but there is really as not as much cash as everybody thinks.

TAYLOR: You mentioned a certain amount of inflation. Certainly we are seeing deflation in the financial markets. We have seen it in the commodity markets. Do you see deflation in the CPI or the PPI as we had in the 1930s or do you think it will be something more akin to the 1970s or much worse than the 70s?

BILL: First of all, the CPI has been changed four times since the early 1980s, with the real estate component being one of the keys there. Are they or are they not going to include home prices? They may actually include home prices as opposed to owner's equivalent rent. You may see the CPI drop considerably in the next year or two.

TAYLOR: They would have to pay out less to the old folks then.

BILL: Exactly. We are still early in the deleveraging and unwinding process. When you go from \$4 trillion (in 1994-1995) in mortgage debt to \$12 trillion (in 2008) and then of course, you look at the cross section of mortgages and the amount of interest-only, negative amortization, Alt-A and sub-prime (mortgages), one can make a pretty compelling case that \$3 trillion of that \$12 trillion just goes away. Then you take the roughly \$2.5 trillion of credit card debt. Is it fair to say that we can write down 1/3 or 1/2 of that over the next 3-4 years? Very possible. In the U.S., we have written down about \$575 billion. I still think we are a long ways off in terms of write-downs. They are lengthening the write down process due to all of the intervention, forbearance, etc. PPI is another issue because, as commodity prices come down, of course they are measured in dollars, at what point does the dollar roll over and start going back down again?.. We are watching that very closely due to the unprecedented activities of the wonderful central bankers

TAYLOR: If the dollar starts to tank, might that not be accompanied by a bond market that tanks as well?

BILL: It could be. A couple of things with regard to the bond market, are what do the creditors do going forward, how much of their money do they recycle back into the bond market? Of late, they have been recycling less through the U.S. bond market. Net foreign purchases of US securities just fell off a cliff here in the last year. If you start getting concerns about commodity prices and start to alienate foreign creditors, then clearly the long end of the bond market could have major problems. I am talking about the treasury market. We've already seen long end problems with regard to mortgages and corporate debt. The other thing to keep in mind here is that the amount of treasury issuance on the long end is very small, so it is much easier to keep that market propped up because it is a very, very small piece of the overall issuance of treasury debt.

TAYLOR: Bill, the bond markets tend to have long term trends. I can remember when interest rates were way up in the double digits in 1980, and then they came down and you could have made a huge amount of money by taking a long position in the US treasuries, the long end of the yield curve, for many, many years. In New York, when I spoke to you recently, you made the comment that a short position in the bond market will be the "gift that keeps on giving," once that market turns. I think we have a pretty good picture of where you guys think we are and are going in the future, but how can investors best protect themselves and possibly profit from these markets?

You have done extremely well. Of course, one way would be to invest in your fund. I presume they would have to be accredited investors. How can average folks, who may not be accredited investors, protect themselves and profit in this environment?

KEVIN: First of all, I think that what has helped us is that we have remained hedged. We are constantly looking for value. Certainly in October, we were very aggressively buying stocks. We have found a lot of high quality companies with great global consumer brands like Nike, Polo Ralph Lauren, Philip Morris Int'l, even Coca Cola, trading at very, very reasonable prices. We have been finding companies with great balance sheets, with 25-30-35% of their stock price in cash, still growing in a very difficult environment. We are seeing pharmaceutical stocks and biotechnology stocks. They won't be immune to the downturn, but they should hold up relatively well. And these stocks are trading at 10-15 times their annual R& D budgets, whereas back in the tech bubble in 2000, they were routinely trading at over 50 times (their annual R& D budget). We think you can construct a portfolio of high quality companies, especially on these dips in the market. But we have remained hedged and we have essentially shorted stock index futures against these long positions. At the beginning of the year, we didn't see a whole lot that interested us on the long side. We had about 12% of the fund in an equity long position. We were net short, well over 100%. In October, we took our long position up to 35%, exclusive of gold stocks. Going into October, we were net short 100% in the fund. At the bottom we took, that down, net short, to about 10%. On the rally here recently, we took it up to net short 25%. We are constantly looking for value. We see value. The market is starting to separate the wheat from the chaff. You have real companies, real stocks that are going to be around for the next 10, 20, 30 years - the Coca-Colas, the P&Gs, that sort of thing. They probably will not be destroyed by some CEO who decides to lever up and do some crazy acquisition. On the other hand, you have a lot of lottery tickets out there that were masquerading as equities. That is what is going on today. People are realizing that these are lottery tickets and they are just tearing them up.

BILL: Jay, I think the other thing to keep in mind here is if we do shift into a highly inflationary world and the currencies, not just this one, but paper monies around the globe, really start to drop significantly, you actually want to own certain businesses. Real businesses can hold up better than paper money.

TAYLOR: For example, what kind?

BILL: Like Kevin mentioned, some of the purchases we made in October, we have been focusing on the agricultural sector because it had become a bubble just like most parts of the commodities spectrum and we were able to buy some of these companies at 0.5-0.6 times tangible book value. Businesses which perform even in a recession as people still need to eat. We are focused on things that we need on the long side - energy, food, farm land. If we can buy these tangible

assets at significant discounts to book value, then one way of looking at this is that you are transitioning out of paper into something that at least has a use, especially during very, very difficult times. We are not buying retailers of 50" plasma televisions or Cadillac Escalades.

KEVIN: But we are buying discount retailers and we are buying value-oriented retailers.

TAYLOR: So it is company by company, value oriented approach. You short the fluff, get rid of the garbage and go to the value. That takes a lot of work. Obviously, people who qualify can invest in your fund. Do you have any advice for people who aren't as well off and don't have the ability to invest in a fund like yours? What can an average person do in this environment?

KEVIN: You are right, it does take a tremendous amount of work. It is very difficult to provide any type of blanket advice because what we say today can change tomorrow. I think in general, you want to be very conservative. You do not want to have a tremendous amount of exposure to financial assets, to real estate. If you want to, you should, in the back of your mind, be concerned about inflation. We think that gold is the ultimate store of value and that gold will maintain its value. That does not mean that, in dollar terms, gold can't go down to \$600 or \$650 an ounce, but in terms of protecting wealth, gold, especially physical gold stored outside of the country - if people have the means to do that - makes a lot of sense.

TAYLOR: Gold mining shares during the 1930's did very, very well because the cost of producing gold went down relative to the price of gold. It was actually re-priced to \$35 during the Roosevelt administration. Do you see a similar possibility in this environment?

KEVIN: Yes, absolutely. This is what we have found kind of fascinating about gold shares. If you look at a ratio of the XAU to gold it just dropped off the table. Gold shares went down from peak to trough in the past four or five months by nearly 70%, I think 68%.

TAYLOR: Our subscribers are painfully aware.

KEVIN: It has been an absolutely brutal environment. We were a little bit surprised. We thought there would be a correction. Jay, you are the expert, we are not. We agree with you. We have taken a conservative approach with the gold shares. We want to make sure that if we buy stock in a company that it will be around in ten years. For someone willing to do the homework, there has got to be a tremendous amount of opportunity in some of these smaller junior mining shares.

TAYLOR: We certainly think we see some in some of those companies that are emerging producers, but it is really tough to figure out which ones can get funded into production and which ones can't. That's the real challenge I am facing right there.

KEVIN: We have limited our exposure there. We are taking enough risks. If we are going to buy the junior companies, it is like buying a portfolio of smaller biotechnology stocks.

TAYLOR: Absolutely and it requires a lot of work. Through the 1930s, there was Homestake and there was Dome. If you held those stocks in your portfolio, you did extremely well. I crunched some numbers with Homestake and found that if you had 15% of your portfolio in Homestake and 85% in the DJIA, you would have eliminated most of your losses during the entire period in the 1930s and you would have done very well during other parts of that period.

KEVIN: Interesting. We agree with you. There has been the boom in oil. I have always wondered about the equipment and basically getting this stuff out of the ground. How much pressure has that put on prices for the gold mining firms, just the commodity boom that is out there?

TAYLOR: There certainly is a lot of competition for the resources in the natural resource, mining and exploitation business. I think we have covered most of the areas that I wanted to touch on. I would like to close by asking you if you would tell our subscribers, who qualifies to invest in your fund and what your requirements are.

KEVIN: Investors have to be accredited. The definition is \$1 ½ million in net worth, exclusive of residence. Our minimum investment in the fund is \$500,000

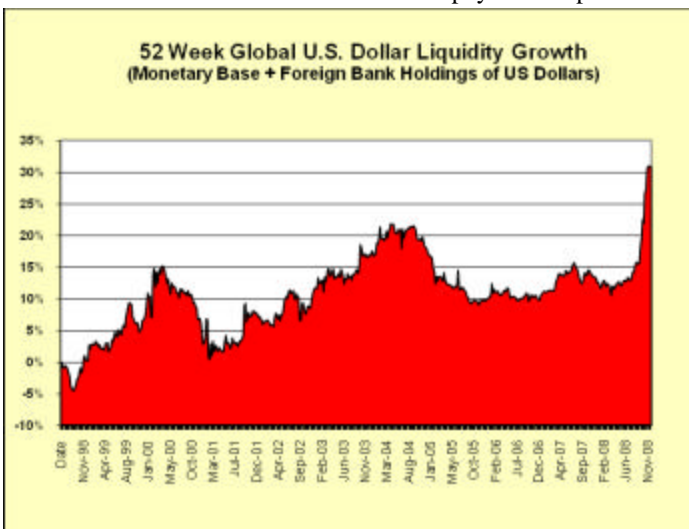
TAYLOR: Very good. We will provide contact points for you and for Bearing Asset Management. If we have any subscribers who would be able to invest, it certainly would make sense for them to do so. Thanks so much for your time and your wisdom. All the best to you both.

“Pushing on a String” Means More and More Deflationary Pressures

Just as was true during the 1930s, the Fed is pumping money into the banking system like there is no tomorrow. And as in the 1930s, at least so far it isn't doing anything to overcome the enormous deflationary pressures that are sucking financial assets down into a black hole. The gravitational pull has resulted from two factors. First is simply the sheer magnitude of debt that has accumulated mostly thanks to the United States. The U.S. has used its super power status to bastardize the world's monetary system so that it could print massive amounts of the globe's reserve currency, which it inherited as part of the spoils of World War II. This bastardization process was implemented by President Richard Nixon, which by the way was one of our worst Presidents, not because of Watergate but because he unilaterally defaulted in the U.S. obligation to back each \$35 dollar internationally with an ounce of gold. Once that was done, the stage was set for the U.S. to print, print, print and use that printed money to exploit the rest of the world, at least until now when the debt levels have apparently reached such a level that it can print no more.

The Second major reason debt cannot any longer be serviced is because of “mal investment,” an Austrian economic concept that is foreign to most modern day economists who have been propagandized on Keynesian and monetarist falsehoods. Most of our Ph.D economists, like babbling idiots, repeat what they have been taught in the university, namely that prosperity can come from simply printing more money and/or governments issuing more debt. What they don't understand is that the Austrians do understand is that if you print so much money, bad things happen. Specifically what you do is allocate capital most inefficiently so that there is precious little income that comes from which to repay debt or provide decent returns on investment.

Those two concepts—a threshold level of debt at which it can no longer be serviced and “mal investment,” which leads to hugely inefficient allocation of capital are the two reasons why the U.S. and the West to a great extent are all but bugged at this time.



Now take a look at the two charts on your left and directly above. First, with respect to the chart upper left, please note the birth of a third massive creation of Global U.S. Dollar Liquidity (GUSD) that has just gotten under way with the collapse of the Lehman Brothers massive default. The big question is whether this massive level of liquidity that is now being pumped into the system at the

rate of almost 31% annually, will create another bubble as the first two smaller inflationary episodes did. The first growth spurt of GUSDL was in response to the Asian crisis and that resulted in the stock market bubble in 2000. Trillions of dollars were lost when that mal investment induced bubble imploded. The second infusion of funny money out of Mr. Bernanke's Federal Reserve came in response to fears of a deflationary implosion as being experienced at the time by Japan as well as fears surrounding 9-11. While the annual growth rate of the first Greenspan explosion of GUSDL reached a 15% peak, GUSDL fuel that was used to ignite the disastrous housing bubble reached approximately 22%. What an orgy! But now take a look at what we have now! With the panic that is running rampant throughout Wall Street and world financial centers, GUSDL is now growing at just under 31% on a trailing 52-week basis.

While we have seen a bit of a bounce on our IDW (below right) it is way too early to tell if some kind of stabilization is at hand. Indeed as this was being written earlier today, there was every reason to suspect we are nowhere near the bottom in equity prices. Indeed, as we have pointed out many times, a real bottom for the Dow Jones for example is not likely to take place until we see a 1:1 Dow to gold ratio. Whether we see something like 2,000DJIA/\$2,000/oz. Au or 20,000 DJIA and \$20,000/oz Au or \$100,000 DJIA and \$100,000/oz. Au depends really on whether the existing virus continues to display deflationary symptoms or inflationary symptoms. But in the end, gold will win vis-à-vis fraudulent paper assets that are being used to rob from people who create wealth—the miners, manufacturers, farmers, inventors, etc.

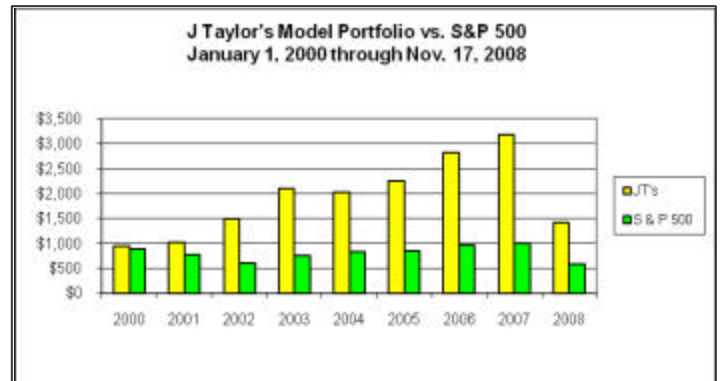
Which way will we tip? My good friend Ian Gordon continues to insist the debt level is too great to allow the Fed to create inflation. I'm not so sure however, that through massive totalitarian means of income distribution, the symptoms can't be switched to inflation. However, assuming policy makers are successful in re-inflating, I do not think they will be able to hold rates of inflation at some "desirable" level however that is defined. I say that because the remedy for solving an inflation problem will be most unpleasant and the further inflation rises thanks to rising debt levels, the more painful will be the fix. Indeed, that is the pickle we find ourselves in right now. Every crisis was "solved" during the Greenspan years by creating more debt money.

Will the massive exponential rise in GUSDL finally lead to a surge in the demand side of the economy as Keynesian-orientated policy makers anticipate? That could happen we think under an Obama Presidency. We expect he will lay out a massive fiscal program that will match the ridiculously overly expansionary monetary policies of Greenspan and Bernanke Fed. Hand low income groups trillions of dollars of new dollars created out of thin air and see what happens! They will spend all of them and perhaps some folks will use it to keep their homes, thus helping to put a *nominal* floor in the housing markets. But while nominal prices may rise, real prices—the price of your home or your investments after the cost of living is factored in, will drop. Never has increasing the money supply created any new wealth. But now that we are at the breaking point, it will no longer serve even to stimulate mal investment and grow the economy even incrementally. In other words, whether we continue on toward the current state of implosion into another Great Depression or whether we hyperinflate as John Williams now thinks may happen as early as 2009, the value of real money—gold will remain unchanged. Hence you need to think in terms of everything you buy whether stocks or bond or groceries or rent or homes in terms of an ounce of gold. Whether we get to 2,000 DJIA/\$2,000/oz.Au or 20,000 DJIA and \$20,000/oz Au or \$100,000 DJIA and \$100,000/oz. Au it really won't matter if you put your savings in gold. Assuming it is not confiscated from you in one way or another, gold will allow you to build up real capital, unlike the "capital" government is printing and shoveling into banks and other companies right now. Unlike fiat money (liability money) or paper money that is forced on us by law, gold holds real intrinsic value. It is asset money. Its' value does not depend on the ability of others to pay their debts as does the value of the money bankers with the help of their partners in crime—the politicians force us to use.

That is why we will continue to use gold as the basic foundation upon which our Model Portfolio is built. And while deflationary forces have not been kind to gold this year, we would like to make two points: Gold followed much the same path in the early part of the 1930s as it is now. Secondly, gold and gold shares were portfolio saviors during the 1930s for everyone wise enough to own shares of senior gold mining firms. We see no reason not to expect the same will be true if the existing system continues to deflate in the current Kondratieff winter.

OUR MODEL PORTFOLIO

J Taylor's Model Portfolio as of: 11/17/2008			
Category	Weight	YTD Gain	Tot Gain
Progress "A" Gold Producers	34.39%	-38.04%	16.79%
Speculative Mining Shares	27.03%	-61.93%	-42.09%
Uranium Stocks	6.68%	-57.95%	-80.39%
Oil & Gas Stocks	8.78%	-44.83%	-23.87%
Alternative/Renewal Energy	4.02%	-48.65%	-22.07%
Base Metal & Industrial Mining	8.33%	-50.84%	-42.55%
Gold & Silver Bullion (CEF)	10.77%	-33.65%	81.60%
Ultra Short S&P 500	0.00%	23.48%	23.48%
Model Portfolio	100%	-55.24%	71.77%
S&P 500		-42.06%	-41.48%



To say this has been an awful year for us is a monstrous understatement. Had we stayed with our earlier deflationary convictions, our performance would have looked more like that of the Bearing Fund. At least we would have not suffered such a devastating decline post Lehman Brothers debacle. However, neither would we have enjoyed the kind of gains we enjoyed in some of the earlier years of this decade. Before this disastrous year, our Model Portfolio was up more than threefold. Our major downfall was in not being ready for the sudden post Lehman Brothers plunge that served as a vortex to suck the financial markets straight into Ian Gordon's K-winter. However, with the 55.24% drubbing we have taken so far this year, our Model Portfolio is up only 41.9% since January 1, 2000.

While our performance over the years compares favorably with the S&P 500 that is actually down about 48% since January 2000, we take no pleasure in beating a loser. Plain and simple, what we want to do is help our subscribers make money. Until this year we have had quite a lot of success in doing that. As far as this year goes, it would take a miracle to establish a gain for the year. What may be realistic however is to reduce our losses and position ourselves for a much better 2009. And so we are herewith suggesting the following changes:

For Our Model Portfolio – We are recommending the allocation of 30% to the **Short S&P 500 Proshares. The U.S. Trading symbol is SH.** This investment seeks daily investment results, before fees and expenses, which correspond to the inverse of the daily performance of the S&P 500 index. The fund normally invests 80% of assets in financial instruments with economic characteristics that should be inverse to those of the index. It may employ leveraged investment techniques in seeking its investment objective.

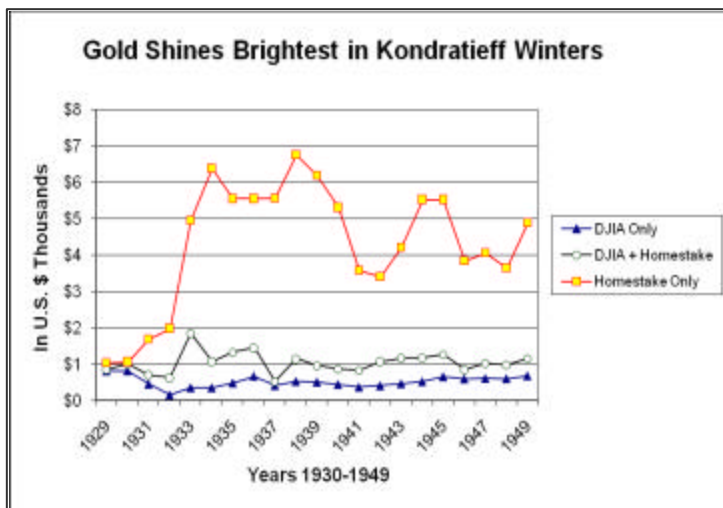
To raise 30% to put into SH, we are going to do the following: 1) Sell Zeox and apply the 8.33% from the Metals and Industrial Metals sector: 2) Apply 4.02% from the Alternative Renewable Energy (We no longer have any companies in this sector) and 3) Reduce the Speculative Mining Sector by 17.65% to 9.38%. Of course, we suggested many stocks for sale over the past few weeks from all three of these sectors. Of course we think you should follow our lead with those suggestion or if need be sell of the "holds" on our list.

J Taylor's Low Budget/Low Maintenance Portfolio from Jan 1, 2003 through			\$1,000
Category	Weight	YTD Gain	Total Value
Augen Capital	8.61%	-77.21%	\$ 83.92
World Prec Minerals Fund (UNWPX)	14.54%	-61.52%	\$ 141.70
Central Fund of Canada (CEF)	25.44%	-32.69%	\$ 247.84
Ultra Short S&P 500	35.00%	23.48%	\$ 340.99
The Global Resource Fund (PSPFX)	7.94%	-57.96%	\$ 77.40
Uarnium Focused Energy Fund (EEI)	8.46%	-70.15%	\$ 82.42
Low Maintenance Portfolio	100.00%	-53.67%	\$ 974.28
S&P 500		-42.06%	

Our Low Budget low Maintenance Model Portfolio has fared just slightly better than our Model Portfolio despite the fact that Augen Capital has been an absolute disaster. We have recommended a sale of Augen Capital, which gives us 8.61%. We Also sold the Ultra Short S&P 500, which provides another 35%. Together these provide us with 43.61% portfolio allocation. We are going to suggest you allocate 30% of this fund to SH and the remaining 13.61% to the World Precious Minerals Fund, a mutual fund that buys more advanced and producing gold mining companies.

With these changes we think both of our portfolios are better prepared to perform well for the remainder of the year when it is very difficult to see how the equity markets in general will fare very well. If we are fortunate and get a rise in the gold shares at the same time the general market declines, we should be able to make up some of the ground we lost during what has been perhaps the worst year your editor has had in picking stocks in more than 26 years that I have been writing this letter.

Gold Stocks Were Financial Saviors During the Last K-Winter Depression



representing year-end data points. This line represents what \$1,000 invested in 1928 would have been worth if 15% were put in

Homestake Mining and Dome Mines were two gold producers that made their shareholders wealthy during the Great Depression. Before Barrick Gold acquired it, your editor received daily price data from Homestake Mining dating back to 1888. I used that information in some "what if" examples to see just how effective Homestake was in hedging against losses during the devastating 90% decline of the Dow Jones Industrials during the 1930s. Here is what I found.

In the chart above, the red line with yellow boxes represents the value of \$1,000 invested in Homestake starting in December 1928. Note at its peak in 1938, a \$1,000 investment in Homestake grew to \$6,760! Not only did it grow in nominal terms, but it was also even more impressive than it appeared, because with deflation, those \$6,760 bought more in 1938 than they did in 1929!

Now take a look at the gray line with white circles,

Homestake and 85% in the Dow Jones Industrials. Certainly it wasn't as impressive as if you had invested everything in Homestake. Nonetheless, the losses would have been drastically reduced if you had reserved just 15% of your portfolio for this outstanding gold stock. Following is a chart that shows the value (In \$ thousands) for the three hypothetical portfolios shown in the chart above:

We call your attention to several key points.

The Dow Alone:

- The Dow lost 55% of its value by the end of 1931 and 85% of its value by the end of 1932.
- During the entire duration of the K-winter (as perceived by Ian Gordon), the Dow Jones-only portfolio would have been substantially underwater, with a 33% loss still being suffered in 1949.

The Homestake-Alone Portfolio

- By the end of 1932, a portfolio comprised of only Homestake Mining would have nearly doubled in value, to \$1,970.
- For all year-end periods from 1928 through 1949, the Homestake-only portfolio was in positive territory. It gained to \$4,880 by 1949, representing a 6.2-times increase over the Dow-only portfolio.

Year	DJIA Only	DJIA + Homestake	Homestake Only
1928	\$1.00	\$1.00	\$1.00
1929	\$0.81	\$0.84	\$1.03
1930	\$0.81	\$1.01	\$1.06
1931	\$0.45	\$0.70	\$1.68
1932	\$0.15	\$0.62	\$1.97
1933	\$0.35	\$1.84	\$4.95
1934	\$0.35	\$1.07	\$6.40
1935	\$0.48	\$1.32	\$5.55
1936	\$0.67	\$1.45	\$5.55
1937	\$0.41	\$0.52	\$5.57
1938	\$0.52	\$1.14	\$6.76
1939	\$0.51	\$0.96	\$6.19
1940	\$0.44	\$0.87	\$5.32
1941	\$0.36	\$0.83	\$3.58
1942	\$0.40	\$1.07	\$3.41
1943	\$0.46	\$1.16	\$4.21
1944	\$0.51	\$1.17	\$5.53
1945	\$0.65	\$1.27	\$5.53
1946	\$0.59	\$0.85	\$3.84
1947	\$0.60	\$1.02	\$4.05
1948	\$0.60	\$0.98	\$3.65
1949	\$0.67	\$1.16	\$4.88

15% Homestake / 85% DJIA

- A 15% allocation to Homestake would have reduced your overall portfolio loss by 38%, to \$620. That would be nothing to cheer about, but certainly a lot better than an 85% loss.
- By the end of 1949, by adding 15% of your portfolio to Homestake, you could have gained 16% in nominal terms and more in real terms, given the fact that the dollar gained purchasing power over the years. In 13 of 22 years, a 15% allocation would have kept your portfolio in positive territory, whereas 100% in the Dow would have been seriously negative during the entire 19-year period.

Clearly the inclusion of a quality gold producer reduced portfolio risk and enhanced wealth over a long period of time during the Great Depression. The question now is whether the same would hold true if the current timeframe turns out to be another deflationary depression.

Will History Repeat?

There is an old saying that history always repeats, but never in the same way. In fact, things are different enough that most people take their eyes off the underlying dynamics that rule the universe we live in. I think this is one truism that has enabled people like Ian Gordon and another deflationist, Bob Hoye, to understand that no matter how powerful Ben Bernanke's fleet of helicopters may be, they cannot overcome the laws of markets any more than a fleet of U.S. Navy battle ships in the Gulf of Mexico could have stopped Katrina.

I'm not going to put words in Bob Hoye's mouth. I know from talking to him he is n't exactly on the same page as Ian Gordon with respect to the K-winter, though I don't think he really ever considered Ian's work. I tried to arrange a meeting between the two at one time in the past, mostly because I wanted to learn from both of them and also to see where the two might find a common ground of agreement. But based on my observation of Bob Hoye, I have to think of him as a "deflationist" who understands gold as well as anyone.

Regarding the gold sector in the current environment, here is what Bob said in his "Pivotal Events" letter to his institutional clients this past week:

"Our view in August was that the liquidity problem could become a disaster that would climax in the last part of October. The August 20 edition pointed out that in the 1929 and 873 fall panics the price of gold declined along with everything else. Also noted was that Jay Gould, the famous operator, got short stocks and long gold in that fateful August of 1873. Then when long gold wasn't working he sold it and stayed short stocks.

"The Other point in that edition was to get short silver—mainly the stocks. At the time the gold/silver ratio, which had broken above 54 in late July, was at 62 on its way to around 100. The high close was 84 on Friday and it is very overbought. It is time to cover silver shorts.

“The Chart Works of earlier today had the alert on a tradable change in currencies. The up dollar index is going to stall out for a while, which will release a rally in the trashed items.

“The gold sector has virtually replicated the 1929 ‘model’ and is poised for a cyclical bull market that could run for a couple of years as the conventional side suffers cyclical contraction. On the longer term, this could run through a number of business cycles making the sector an outstanding performer.

“It is time for traders and investor to get long. (the gold sector)

“We are not estimating a low for gold’s nominal price as the bottom could be violent. However the low should be set within the next few trading days.”

Why Gold Shares Do Best in a Deflationary Depression

The reason gold mining firms do better during a deflationary depression than during an inflationary depression is simple. Profit margins are at their best during these conditions. Why so? Because when there is panic in the streets, people flee to the ultimate safe monetary haven, which is gold. Meanwhile, given a collapse in industrial demand, the cost of production falls.

One of the reasons gold mining stocks have underperformed other commodity stocks over the past few years was because the cost of production was rising so dramatically. We direct your attention to our discussion below of Hawthorne Gold, our Stock Pick of the Week. Note how gold has been rising relative to oil, copper, and commodities in general, as measured by the Rogers Raw Materials Fund. We are also hearing from mining companies that in many instances it is now much easier to obtain drill rigs to explore and develop properties, and labor—both at the higher-skilled end of the spectrum to the common mine worker—is easier in some instances to find now than a year or two back.

Who Are the Potential Homestakes of This K-Winter?

As difficult as the current environment is, we think it offers tremendous opportunities for investors who own junior gold mining firms that can survive the current environment. As noted above, Homestake Mining at one point during the Great Depression increased by a factor of 6.7 times while virtually every other investment was being trashed either out of existence or toward a small fraction of its prior nominal value. During this cycle, we think there will be more gold mining firms that will richly reward investors, especially those who are able to buy these shares at their current paltry prices.



Homestake” of this K-winter.

Agnico-Eagle Is Our Top Pick

To start with, we have to look at the larger gold producers on our list that are included among our “A” progress companies. The three we have been carrying are **Agnico-Eagle (NYSE-AEM-\$30.21)**, **Goldcorp (NYSE-GG-\$19.66)**, and **Newmont Mining (NYSE-NEM - \$23.35)**. *Of these three, Agnico-Eagle is by far our favorite, because they should be able to grow production and earnings much more rapidly than the other two. So, among this group, Agnico-Eagle gets our top vote for the most likely company to become “the*

Goldcorp Inc.(NYSE-GG)



Newmont Mining Corp.



We also think Agnico-Eagle is the best managed company among these three. It has kept a sharp eye on project economics rather than growing for the sake of growth. At the same time, it is growing organically rather than through acquisition, which is the way Goldcorp and Newmont have grown over the years.

Looking at the four-year charts on this page for these three companies, we see the potential for both Agnico-Eagle and Goldcorp to bottom at key levels. For Agnico-Eagle, that would appear to be around \$20. For Goldcorp, the number is \$15. For Newmont on the other hand, their price has broken down badly, having fallen below what looks like a key level of \$35.

Given our positive view on Agnico-Eagle, we are recommending subscribers consider selling Newmont and placing the proceeds of that sale into Agnico-Eagle. Buying Goldcorp may be a good idea here too, but our enthusiasm remains heavily weighted toward Agnico-Eagle.

In our view, we think Agnico-Eagle is the lowest risk/highest return prospect among these three established gold producers that we track. Given their relatively larger sizes, both Newmont and Goldcorp will no doubt have more trouble matching Agnico-Eagle's growth levels. And as noted, we think AEM is a better-managed company than the other three.

Three Emerging New Producer "Homestake-like" Prospects

I think it is time to start aggressively buying quality junior gold mining stocks, starting with those listed as a "buy" in the progress "A" section of our Portfolio Scorecard as it appears at the end of this issue. In addition to Agnico-Eagle, we have five smaller gold stocks listed as "buy" recommendations. All the others are considered holds except for Newmont, which we are recommending you sell and apply the proceeds toward the purchase of Agnico-Eagle.

Of the five stocks, three are definitely favorites of mine **although I want to underscore, these are also much more risky than are producers like AEM, GG and NM.** But the three new producers that I like very much for major upside potential are: **Metanor Resources, New Guinea Gold, and San Gold.** I just spoke to the management of Metanor earlier today, which I have chosen as our Stock Pick of the Week. I learned that production from the Barry Project in Quebec is proceeding well. Following are comments on these three emerging gold producers, which are my current top three picks in that category.

San Gold Corporation



Beyond the major producers, we are very excited about some other emerging new gold producers. **San Gold (TSX-SGR-\$0.70)**, which we think may be on its way toward developing the next "Red Lake" gold mine at Rice Lake in Manitoba, is among our top picks. For those of you who may not be aware of the Red Lake Project, it was the "company making" project for Goldcorp.

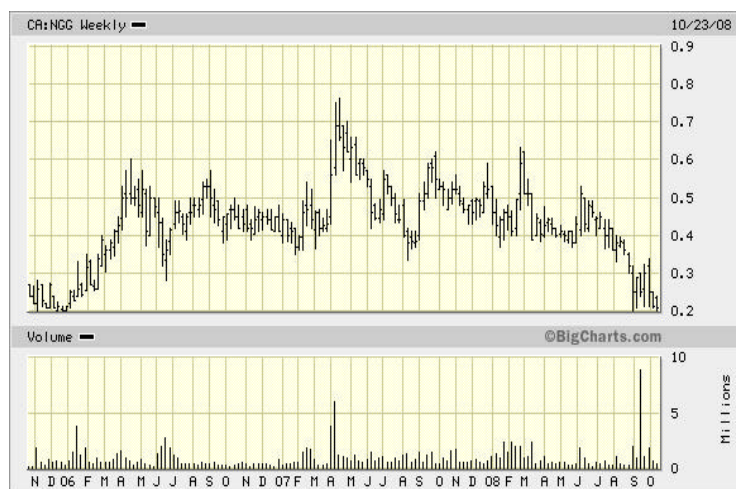
More than one geologist told your editor he thinks San Gold's Rice Lake Project has the potential to become "the next Red Lake" mine, and those comments were made before the high-grade Hinge Zone was discovered. Recently, San Gold has announced some extremely positive drill results to go along with earlier results. For example, on

October 22, President Dale Ginn reported an intersection grading 4.1 ounces of gold per ton over a 6.6 ft. intersection. For sure, these kinds of high gold grades ranging from 0.50 oz/ton to multiple ounces per ton are reminiscent of Red Lake numbers back in the days when your editor used to talk to Rob McEwen, who headed up Goldcorp in its earlier days.

As San Gold ramps up production, we expect to see the company turn cash flow positive before the end of this year. Next year, it should begin to register significant profits. It has enormous exploration potential with these deposits extending to great depths. But there is also surface potential here as well, and it is important to keep in mind that the Hinge Deposit extends near surface, which is the major reason we expect it will begin to boost profit margins in the near future. The Hinge is thought to extend to a depth of at least 5,000 ft.; plus, there are parallel zones extending to or near surface that may be expected to produce exciting exploration results for years to come.

On Monday, October 20, Al Korelin and I spoke to CEO Dale Ginn. For an update on what Dale had to say about San Gold, go to www.kereport.com. Scroll down to the Monday timeframe and click on the list to hear what Dale had to say. Suffice it to say that we think San Gold is one of the most exciting junior gold stocks available to investors today and it is a top candidate to become “the Homestake” of the current K-Winter deflationary event.

New Guinea Gold Corporation



New Guinea Gold Corporation (TSX-NGG-222,250,788 Shares-\$0.16) could be the bargain of a lifetime if we are reading this company correctly. Here are some of the features we think make this New Guinea Gold Mining company a very attractive stock at its current paltry market cap of under \$40 million:

- **Low-Cost Production at Sinivit** – While this is a small open-pit operation expected to produce between 30,000 and 36,000 ounces per year, its cash cost of production per ounce is expected to be around \$170. In other words, at \$800 gold, it could generate between \$19 million and \$23 million per year over the existing mine life of three or four years, from the oxide portion of this deposit. Longer term, the Sinivit could evolve into a higher-grade deposit as well. It has had some exceptionally good high-

grade gold intercepts from the sulfide portion of the deposit. But the real value of the Sinivit at this juncture is its ability to generate cash flows from which New Guinea expects to fund its flagship gold project, also in New Guinea, into production.

- **The Imwauna Gold Project** – At present, the Imwauna has a 43-101 resource of 706,000 ounces of gold that can be mined from surface. And while it is not possible to say with certainty how many ounces occur here, based on what is currently known about the gold-bearing structures, there is reason to believe there could be between 2 million and 3 million ounces of open-pittable gold here. Its high gold grades on surface are one of the factors that make this an unusually attractive deposit. The average grade here is 12.2 grams/tonne (0.39 oz/ton). At \$800 gold, what we are talking about is \$312 /ton rock. We are thinking the average cash cost of production for this advanced-stage project should be at or around \$100 per ounce of gold, which would easily make this one of the lowest-cost gold producers in the world. A lower-cost production should fetch a higher valuation for reserves. While the upside of 2 million to 3 million ounces is yet to be established, we think a cost structure of \$100 per ounce could reasonably lead to a \$200-per-ounce in-ground valuation. If the market agrees with my valuation view, a 2-million-ounce resource would give NGG a market cap of \$400 million. A 3-million-ounce resource might lead to a \$600 million market cap.
- **Weioko Gold Project** – This figures to be the company’s third producing mine. It is also an open-pit target. It will be moved forward toward production as Sinivit and Imwauna are advanced further. Weioko is the third priority project from a list of some eight gold targets in New Guinea that were selected by management to put into production without a joint venture partner.
- **Pacific Kanon Gold Corp.** – New Guinea spun off five of its gold targets into a separate company in which it holds a 50% interest. These projects have considerable upside potential over the longer term, and when market conditions improve, this company is expected to go public.

The Bottom Line: If you assign no value at all for the Sinivit project or the Weioko Gold Project or the company’s interest in the Pacific Kanon Project but simply valued it on the basis of its flagship property—the **Imwauna Gold Project**—**New Guinea Gold would appear to have “10-bagger” potential from its current market cap of a mere \$35 million.** Clearly a project that can produce gold at \$100 at a time when major mining companies are claiming they have trouble producing for under \$600, should fetch a much higher market cap. So a \$200-per-ounce valuation certainly seems reasonable to your editor and, as noted above, would give NGG a market cap of between \$400 million and \$600 million compared to NGG’s current market cap of just \$35 million.

Of course the company has to achieve various milestones before the market is going to give it credit for anything like a \$200-per-ounce valuation. It has had some operating difficulties at Sinivit that are seemingly being worked out now with adjustments to the leaching process. So far, as noted, the resource at Imwauna is only 706,000 ounces. A resource of 2 million to 3 million ounces, if achieved as we anticipate, would no doubt bring with it economies of scale that would boost the value of that gold deposit. Assuming NGG is able to achieve 30,000 to 36,000 ounces of annual gold production at Sinivit over the next three or four years and during that time advance the Imwauna toward feasibility and production, we think this company may have timed its progress almost perfectly to take advantage of what may be shaping up as a gold bull market of a lifetime.

Metanor Resources Inc.



Metanor Resources Inc. (TSX-MTO-US\$34-Shares Outstanding 45.9 Million) – We have not talked much recently about this new gold producer. But, when I put in a call to speak with Ghislain Morin (Jessee), Metanor's president & COO, on Friday, I knew I had to bring this name back to the forefront of your mind and mine, because I think this is another exciting, undervalued, emerging gold producer that might make many people wealthy in the years to come.

On October 9, the company announced that it had produced and sold its first commercial gold bar, that being 540.69 ounces. It was sold at C\$1,018 per ounce. According to Jessee, the company is producing gold from its Barry open-pit gold deposit at a cash cost of about

\$375 per ounce. That would give the company a cash margin of \$643 per ounce on those 540.69 ounces. Mr. Morin tells me they have a couple more bars for sale now that were produced since October 9. More importantly, the dimensions of the Barry open-pit deposit continue to expand, so there should be plenty of mill feed to keep the Bachelor Lake Mill fed for the foreseeable future. The prospects for a multimillion-ounce deposit remain good, and of considerable importance is that the grade here from this low-cost open-pit mining operation is approximately 4.1 grams/tonne, or 0.131 oz/ton.



- Metanor is currently feeding approximately 600 tonnes per day through the Bachelor Lake Mill. The company is reportedly getting 96% recoveries. So, if they are feeding 750 tonnes per day of ore into the mill that grades 0.131 oz./ton, and if they are getting 96% recoveries, daily gold production should now be at or around 94 ounces of gold per day. At a profit margin of C\$643, the company would be producing a gross cash operating profit of more than \$60,000 per day. Assuming a 300-day operating year, annual operating cash flows would sum up to \$18.2 million, or nearly \$0.40 per share.
- A second prospect located only half a meter from the mill has returned some very good assays, which of course Mr. Morin was not at liberty to share with me.

However, we should know soon about them, as they are made public. The point I would like to make here is that there are numerous potential mill feeds available to the company, some of which it owns or is developing, and there are numerous smaller gold deposits in the area that are not big enough to be economic on their own, which Metanor may acquire in time. And part of the potential future gold feed is also expected to come from the Bachelor Lake underground mine, which is a relatively high-grade operation.

- The company is working toward re-establishing underground mining at the Bachelor Lake Mine and upgrading the mill from 750 tonnes per day to 1,200 tonnes per day. Combined, the two projects are expected to cost approximately \$25 million. Of that \$25 million cost, approximately \$18 million is for refurbishing the underground workings. However, given the policies

of the Quebec government, they will get about \$9 million of that back from the government, leaving the actual cost of upgrading the Bachelor Lake Mine and mill only about \$16 million.

- On the funding side, the company has \$600,000 to \$700,000 in the bank, approximately \$4 million due from the Quebec government for past development work, and a \$10 million bank line of credit that it uses only occasionally to meet working capital needs.

The Bottom Line

This is a well-managed, new gold producer that should see production grow very considerably over the next couple of years. Assuming continued exploration success, we think this old Bachelor Lake mining camp may well once again become a household-name gold camp, with the same becoming true for Metanor's name as well. We love this stock at its current price. With 45.9 million shares outstanding, its U.S. dollar market cap is a mere \$13.3 million. Given its apparent progress, this has become one of our favorite emerging gold producers because of its low price and prospects for substantial growth in production and earnings in the years to come.

A Very Undervalued "B" Progress Company

Hawthorne Gold Corp.



Business: Exploration, development, and production of gold mining projects in British Columbia

Traded TSX:	HGC
Shares Outstanding:	29.2 Million
Initial Coverage 10/11/07:	\$1.80
Price 10/24/08:	\$0.14
Market Cap:	4.1 Million
Cash on Hand:	\$2 Million
Gold Resource Oz.:	\$1.1 Million
Progress Rating:	"B"
Telephone:	604-629-1505
Web Site:	www.hawthornegold.com

Because of the continued credit implosion, the current economic outlook is appearing more and more like a Kondratieff Winter depression. Stocks with enormous value as well as those worth not so much have been discarded left, right, and center. That hurts big time if you already own the stock in question. But when they become so incredibly undervalued—as we think is the case with Hawthorne—it represents an exciting opportunity.

Don't try to catch a falling knife. Wait until it hits the table and bounces once or twice before you try to pick it up. That is certainly good advice when it comes to trying to catch plunging stock prices as well. But with respect to Hawthorne, as you can see from the chart above, it has had a series of bounces at lower and lower levels. First \$1.25, then \$0.75, then \$0.50, and now it's below \$0.25. We first recommended Hawthorne at \$1.80 because we believed it represented very good value then. Since then the company has acquired the permitted Table Mountain Gold Mine in the Cassiar Mountains in northern B.C. from Cusac Gold Mines Ltd. Hawthorne expects to put into production during the second half of 2009.

In moving toward production, Hawthorne announced that it has hired Scott Smith as mine manager at the Cassiar Gold Camp. Smith comes to Hawthorne from Barrick Gold Corp., where he was general manager at the Eskay Creek Gold Mine in British Columbia. He brings extensive experience in managing mine operations, underground engineering, and mine development, and has also worked in advancing roles for Boliden Ltd. and Noranda Mines Ltd. Mr. Smith is a professional mining engineer.

Cash Flow Potential

The company only has about \$2 million in the till, now. That's enough to get it through current drill programs through the end of this year. Beyond that, in the short term, management plans to use some flow-through funding. It also expects to raise a small amount of capital via flow-through funding (tax breaks for Canadians) over the next few weeks. So, clearly, the company will need to raise some more money to get into production.

Raising money in these markets is always a concern. As regular readers of these pages know, in recent months we have focused our strongest recommendations on companies that are either in production, with growing production capabilities, or companies that can get into production. A most important aspect of being able to get into production will be the ability to finance their projects. That is

one of the appealing things about Hawthorne Gold. To get Table Mountain up and running costs about \$10 million, most of which includes underground development work. If the company chose to simply develop the existing East Vein, where some 24,000 ounces of high-grade material are known to exist now, it would likely cost less to get started, but operating costs might be slightly higher and infrastructure that could lead to easier access to additional mining in the future would not be in place. In talking to the company, it is my impression they could go with the lower-cost option of developing only the East Vein at this time if a current drill program outlines some larger amounts of ounces.

Either way, even in this market, modest capital required to get Table Mountain into production appears doable, unlike some of the other companies we have recently sold. Those companies that were major lower-grade gold and copper deposits required hundreds of millions of dollars of capital. I believe that, given growing fears of a global recession, copper and other base metals, which require enormous amounts of capital, will be difficult if not impossible to finance until market conditions improve drastically. But keep in mind that even in a worst-case K-winter depression scenario, gold producers—that is producers of real money (gold!)—are in the best possible environment. Homestake and Dome Mines proved that during the Great Depression. Why was that so? Because gold as money holds up well, vis-à-vis the cost of producing it, thus leading to improved margins.

New Buy Recommendation

Yamana Gold Inc.



Business: Gold and copper producer in Central and South America

Traded NYSE:	AUY
Toronto:	YRI
Shares Outstanding:	699,676,965
Recommended 11/14/08:	\$4.24
Market Capitalization:	\$2.97 Billion
Oz. Gold Resource:	4 Million
Oz. Target 2009:	7 Million
Progress Rating:	“A”
EPS (9 mos. ending 9/30/08):	\$0.37
Monthly Dividend:	\$0.01/
Telephone:	416-643-5500
Web Site:	www.yamana.com

Finding gold mining companies that are in production with positive cash flows that can be used to grow production—that is what we are looking for first and foremost in this environment. We just sold a huge number of companies, not because we think they are bad, but because we don't see how they will be able to raise capital in the midst of the worst credit market implosion since the 1930s.

Yamana Gold Inc. is one of the companies we think has the ability to fund growing gold production from internal cash flows. As such we rank it among the highest quality/lowest risk gold mining firms on our list, along with AEM, GG and NEM. Yamana is operating profitably, and with plans to double production from approximately 1 million ounces per year to 2 million ounces by 2012, we think Yamana is definitely one firm that has a chance to reward its shareholders with wealth preservation, much as Homestake did during the 1930s. Just to review what Homestake did for investors during the last depression, their stock rose from \$65 in 1932, three years after the crash, to \$430 several years later. In 1933, the company paid a \$15 dividend.

Yamana is quite profitable now. It earned \$255.4 million during



the first nine months of 2008, or \$0.37 per share. It generated \$414.3 million, or \$0.60 per share, in operating cash flow during those nine months ending 9/30/08. And we think those numbers should definitely get better as production doubles by 2012.

We are not going to do a mine-by-mine analysis at this time. A glance at the map above will show you where the company's producing mines and development projects are located. We simply wanted to get this stock onto our "Progress A" list at a time when its price is selling in the \$4 to \$5 range before it starts to rise dramatically in the weeks and months to come, along with a general rise we anticipate for the gold sector, starting mostly with producers first.

Yamana is clearly an example of indiscriminate selling in the mining sector that has befallen the industry as a whole. We see this stock as one that should be among the first to blossom to much, much higher levels as the precious metals mining stocks begin to improve. With the stock selling at around the \$4.50, it appears to be sitting at a very good level of support on the chart. It would not surprise us to see Yamana head back toward its 2007 highs sometime in 2009. In upgrading our portfolio, from companies of a more grassroots exploration level to profitable producers, we think Yamana is a valuable addition. Investors would do well to consider allocating up to 5% of their portfolios in this fine, growth-oriented producer.

Some More Favorite Gold Stocks

We don't have room to pass along our write-ups that we had in our weekly letter, but some other favorites of ours are: **Romarco Minerals Inc. (TSX-R-\$0.11-201 million shares o/s)**, Romarco is moving the Hale Mine in South Carolina back into production. The economics of this project look superb and given a strong sponsorship, we think the company should be able to fund here look superb. Production of 100,000 ounces per year at a cost of under \$350 is anticipated. **ATW Gold Corp (TSX-ATW-\$0.29-60.5 million shares o/s)** This company benefited from having its capital in C\$dollars at a time when the Australian dollar weakened substantially. Reportedly that will reduce or even eliminate capital required to be raised to get its Burnakura project into production. A\$1,180 gold and a \$700 cost per ounce would give the company a profit of A\$17.8 million per year. Among the project generators, we favor **AuEx Ventures (TSX-XAU-\$0.91-19,573,489 shares o/s)** which company we think is likely on to at least one significant new gold discovery in Nevada. We also favor **Riverside Resources (TSX-RRI-**

Uranium Stocks – We note that the spot price of uranium has risen fairly significantly of late. At present we have all our uranium stocks on "hold" as we wait for the equity markets to stabilize before committing suggesting you put any new money into them. Likewise for the oil stocks although we are recommending purchase of **Pan Orient Energy**, which company we believe will report higher earnings next year on increased production even if the price of oil remains at or around current low levels .

PORTFOLIO SCORECARD

Gold & Silver	Exch	Ticker	P	Company Activity/Comments	Price	Initial	Initial	Price	2008	Overall	Buy/
Security					7/31/08	Date	Price	11/17/08	% Gain	Gain	HOLD
GOLD & SILVER PRODUCERS ("A" Progress Companies)											
Agnico Eagle Mines Ltd. *	N	AEM	A	Mid sized Quebec Underground Producer - Qu.	\$ 54.65	4/16/05	\$ 13.32	\$30.21	-44.4%	129.3%	BUY
Aurcana Corporation	T	AUN	A	Emerging Silver play in Mexico	\$ 0.43	11/9/07	\$ 0.93	\$0.08	-82.0%	-91.7%	HOLD
GoldCorp Inc. *	N	GG	A	Low cost mid sized gold producer	\$ 37.35	4/9/05	\$ 12.90	\$19.66	-47.0%	57.3%	BUY
Metanor Resources Inc.	T	MTO	A	Small Production & Exploration in Quebec	\$ 0.68	1/25/08	\$ 0.84	\$0.34	-49.9%	-59.0%	BUY
New Guinea Gold Corp. *	T	NGG	A	Advanced Gold Mines in New Guinea	\$ 0.43	9/20/03	\$ 0.19	\$0.16	-62.0%	-15.5%	BUY
Newmont Mining Corp. *	N	NEM	A	Multi-national largest gold producer in the world	\$ 47.96	4/16/05	\$ 39.77	\$23.35	-50.7%	-37.8%	BUY
San Gold Corporation *	T	SGR	A	New, smaller gold producer in Manitoba, Ca.	\$ 1.85	9/30/06	\$ 1.27	\$0.70	-62.2%	-44.7%	BUY
Starcore Int'l Mines	T	SAM	A	Mexican gold and silver producer	\$ 0.15	8/22/08	\$ 0.15	\$0.45	193.6%	193.6%	HOLD
Average Gain (Loss) on Outstanding Producing Gold Mining Stocks									-25.5%	16.4%	---
GOLD & SILVER EXPLORATION STOCKS ("B", "C" & "D" Progrss companies)											
ATW Gold Corp.	T	ATW	B	Gold mine explor, development, & production	\$ 0.57	5/2/08	\$ 0.81	\$0.29	-49.6%	-64.9%	BUY
Luna Gold Corp.	T	LGC	B	Producing Gold MinesBrazil	\$ 0.67	10/26/07	\$ 0.80	\$0.07	-89.7%	-91.3%	HOLD
Romarco Minerals, Inc	T	R	B	Explor & Develop of gold prop. In US & Mexico	\$ 0.17	4/18/08	\$ 0.20	\$0.11	-36.1%	-45.6%	BUY
Timmins Gold Corp.	T	TMM	B	Nearing open pit gold mining production in Mex	\$ 0.80	8/26/06	\$ 0.32	\$0.41	-49.0%	29.3%	HOLD
Animas Resources Ltd.	T	ANI	C	Gold exploration in Mexico	\$ 1.64	5/30/08	\$ 1.39	\$0.46	-72.1%	-67.1%	HOLD
AuEx Ventures	T	XAU	C	Diverse gold projects portfolio projects in Nevad	\$ 2.02	9/30/06	\$ 1.59	\$0.91	-55.2%	-43.1%	BUY
Cangold Ltd. *	T	CLD	C	Early Stage gold exploration project in Mexico	\$ 0.08	6/23/03	\$ 0.08	\$0.01	-84.3%	-84.5%	HOLD
Hawthorne Gold Corp	T	HGC	C	Gold Exploration and Production in B.C.	\$ 0.72	10/11/07	\$ 1.79	\$0.14	-80.2%	-92.0%	BUY
IGC Resources Inc	T	IGC	C	Diverse Portfolio with Gold Mines in Australia	\$ 0.24	3/7/08	\$ 0.25	\$0.04	-81.6%	-82.3%	BUY
Maudore Minerals Ltd.	T	MAO	C	High grade underground gold deposit in Quebec	\$ 2.44	2/25/06	\$ 0.69	\$1.02	-58.2%	48.3%	HOLD
Moneta Porcupine Mines	T	ME	C	Exploration & Developing Gold Mines-Ontario	\$ 0.11	12/14/07	\$ 0.18	\$0.03	-69.6%	-81.6%	HOLD
Nautilus Minerals Inc. *	N	NUS	C	High grade gold & base metals mining ocean flc	\$ 1.57	5/26/06	\$ 2.85	\$0.82	-48.1%	-71.4%	HOLD
NioGold Mining Corp.	T	NOX	C	Developing underground mines in eastern Canad	\$ 0.20	12/8/06	\$ 0.21	\$0.07	-62.4%	-64.2%	HOLD
PDX Resources Inc. *	T	PLG	C	19 Million Shares of Detour Gold - 10 mm oz. at	\$ 4.00	1/1/02	\$ 0.08	\$0.62	-84.5%	72.7%	HOLD
Pediment Exploration Ltd.	T	PEZ	C	Developing gold projects in Mexico	\$ 1.26	6/1/07	\$ 0.78	\$0.42	-66.3%	-45.8%	HOLD
Piedmont Mining Co. *	O	PIED	C	Start-up Junior Mining Co with Stellar Managm't	\$ 0.14	10/11/03	\$ 0.06	\$0.04	-71.4%	-33.3%	HOLD
Riverside Resources, Inc *	T	RRI	C	Gold Exploration in Yukon & Mexico	\$ 0.91	8/27/07	\$ 0.50	\$0.23	-74.8%	-54.3%	BUY
Romios Gold Resc.	T	RG	C	Gold Exporation in B.C. and Nevada & Ontario	\$ 0.23	1/26/07	\$ 0.31	\$0.09	-61.7%	-71.0%	HOLD
Skygold Ventures Ltd. *	T	SKV	C	New potentially large gold discovery in B.C.	\$ 0.44	7/16/05	\$ 0.31	\$0.09	-79.6%	-71.3%	HOLD
SNS Silver Corp.	T	SNS	C	High grade Silver Mine in Idaho	\$ 0.28	1/26/07	\$ 1.55	\$0.06	-79.8%	-96.3%	HOLD
Pelangio Exploration Inc.	T	PX	D	Gold Exploration in Ghana & eastern Canada	\$ 0.11	9/26/08	\$ 0.11	\$0.03	-68.9%	-68.9%	HOLD
Average Gain (Loss) on Outstanding Gold Mining Stocks									-67.8%	-20.2%	----

Uranium Stocks												
Security	Exch	Ticker	P	Company Activity/Comments	Price	Initial	Initial	Price	2008	Overall	Buy/	
					7/31/08	Date	Price	11/17/08	% Gain	Gain	HOLD	
Denison Mines Inc. *	A	DNN	A	A Major Uranium Producer - Canada	\$ 6.59	6/26/06	\$ 4.11	\$0.91	-86.3%	-78.0%	HOLD	
Uranium One *	T	UUU	A	U3O8 production in Kazakhstan	\$ 3.57	2/2/06	\$ 3.22	\$0.79	-77.9%	-75.4%	HOLD	
Uranium Participation	T	U	A	Uranium (U3O5 & UF6) Exch. Traded Fnd	\$ 8.50	8/21/07	\$ 8.88	\$5.96	-29.9%	-32.8%	HOLD	
Uranerz Energy Corp. *	A	URZ	B	11.1 million lbs E3O8 Resource - ISL Proj Wyor	\$ 2.20	11/18/06	\$ 3.19	\$0.65	-70.5%	-79.6%	HOLD	
Uranium Energy Corp. *	A	UEC	B	10.2 million lbs U3O8 Resource + Much more F	\$ 3.06	6/23/06	\$ 2.80	\$0.30	-90.20%	-89.3%	HOLD	
UR-Energy *	A	URG	B	Advanced Stage uranium Proj in Wy.	\$ 1.86	8/26/06	\$ 2.00	\$0.46	-75.2%	-77.0%	HOLD	
JNR Resources Inc. *	T	JNN	C	Uranium Exploration in Saskatchewan	\$ 0.67	3/27/06	\$ 0.87	\$0.42	-37.0%	-51.2%	HOLD	
Western Uranium Corp.	T	WUC	C	31 million pound historical U3O8 Resource	\$ 1.08	1/31/07	\$ 2.29	\$0.51	-52.8%	-77.7%	HOLD	
Average Gain (Loss) on Outstanding Inflation Hedge Stocks									> ----	-65.0%	-64.5%	---
Inflation Hedge Oil & Gas & Coal Stocks												
Pan Orient Energy Corp.	T	POE	A	Thailand Oil and Gas Producer/Can oil sand	\$ 8.35	5/19/08	\$ 12.37	\$3.80	-54.5%	-69.3%	BUY	
Pennant Energy	T	PEN	A	Jr, Oil & Gas producer & explorer	\$ 0.55	5/1/08	\$ 0.44	\$0.29	-46.3%	-33.3%	HOLD	
Petrobank Energy	T	PBG	A	Deverse Oil & Gas Exploration & Production	\$ 40.22	1/28/08	\$ 46.58	\$16.60	-58.7%	-64.4%	HOLD	
Average Gain (Loss) on Technology Stocks (Including closed positions)									>	-53.2%	-55.6%	
Alternative/Renewable Energy Stocks												
Average Gain (Loss) on Alternative/Renewable Energy Technology Stocks									>	-48.6%	-22.1%	
Precious Metals & Hedge Funds												
Gold *	N/A	N/A	N/A	The Best Money Ever Discovered by Humankind	\$ 913.30	12/3/90	\$390.00	\$736.00	-19.4%	88.7%	BUY	
Silver *	N/A	N/A	N/A	2nd Best Money Ever Discovered by Humankind	\$ 17.71	11/15/97	\$ 5.29	\$9.23	-47.9%	74.5%	BUY	
Uranium Focused Fnd.	O	UFEFF	A	Toronto based uranium energy fund	\$ 4.89	1/1/08	\$ 6.78	\$1.46	-70.2%	-78.5%	HOLD	
World Prec. Metals Fnd *	O	UNWPX	A	Frank Holmes - Produc. And Expl. Gold Stocks	\$ 21.62	3/20/03	\$ 9.70	\$8.32	-61.5%	125.2%	BUY	
Oppenheimer Gold Fund	O	OGMNX	A	Oppenheimer Gold & Special Metals Fund	\$ 32.39	2/7/08	\$ 34.53	\$13.31	-58.9%	-61.45%	BUY	
Central Fund of Canada *	O	CEF	A	Holds Gold and Silver Bullion	\$ 12.94	1/7/00	\$ 7.42	\$8.71	-32.7%	18.5%	BUY	

CHART EXPLANATION|| Exch. A=American; N=New York; O=NASDAQ/Bulletin Board; C= Canadian Exchanges; M= Montreal. T= Toronto. ||**P=PROGRESS RATING** - A = Currently Operating, B=Not in operation but with pre-feasibility or feasibility study in hand; C = No feasibility study but indications of a commercially viable mineral deposit. D= A mineral resource not yet delineated but based on size of mineral bearing structures and early geological work, potential for outlining an ore body appears good. 2008 **CLOSED POSITIONS**: Geodex Minerals Ltd. (+17.2%), Global Hunter (+8.3%), Nevada Copper (+37.8%), Brownstone Ventures (-15.8%), Pen West Energy (+118.8%), Provident Energy Trust (+2.9%), Transcanada Corp (+219.7%), Excellon Resources (+561.5%), Jaguar Mining Inc. (110.9%), Peak Gold (+2.5%), Copper Canyon (-48.1%), Dynasty Metals (+35.5%), Cornerstone Capital (-62.7%),Etruscan Resources (-30.4%), Fortuna Silver Mines (+2.0%),Alexis Minerals (-73.8%), Apollo Gold (-44.0%), Endeavour Financial (-36.1%), First Majestic Silver (-77.4%), Globex Mining Ent. (-76.8%), U.S. Silver Corp (-83.7%), Copper Fox (-73.0%), Great Quest Metals (-68%), Terrane Metals (-86.5%), NovaGold (-74.6%), Oro Silver (-71.9%), Premium Exploration (-33.9%), Santa Fe Gold (-33.0%), International Royalty (-51.7%), ValGold Resources (-71.8%), Almaden Minerals (-58.2%), Coronado Resources (-85.9%), Currie Rose Resources (-89.1%), Geoinformatics Expl (-90.7%), Golden Goliath (-59.5%), Golden Phoenix(-92.3%), Mawson Resources (-43.1%), Miranda Gold (-85.2%), Orex Exploration (-38.4%), Oro Gold Resc. (-68.5%), Staccato Resc. (-50.8%), Redstar Gold Corp (-67.7%), Zeox Corp (-75.2%), Geodex Minerals (-86.4%), Marifil Mines (-74.7%), ATP Oil & Gas (-72.4%), El Paso Corp (-40.1%), Marathon Oil (-26.5%), Pyramid Petroleum (-66.9%), Suncor Energy (-35.8%), S&P Energy ETF (+8.0%), Transcanada (-10.5%), West Hawk Dev. (-92.8%), Provident Energy Tr. (-30.5%), Pen West Energy (-30.2%), Oilsands Quest (-75.1%), NWT Uranium (-49.7%), Mesa Uranium (-76.5%), Canalaska Uranium (-61.5%), Eso Uranium (-77.1%), Coper Ridge (-85.3%), Uranium City Resc. (-95.7%), Strathmore Minerals Corp (-89.1%), Bayswater Uranium (-95.9%), Target Exploration (-89.3%), Ucore Uranium (-97.3%), Ultra Short S&P (-4.0%), Ultra Short S&P (+27.5%), Augen Capital (-88.8%), Global Resource Fund (+212.9%), BTU International (-52.2%), Plutonic Power (+55.2%), U.S. Geothermal (-59.7%), Ormat Tech (-28.7%), Sasol Ltd. (-24.9%). *J Taylor's Gold & Technology Stocks*, is published monthly as a copyright publication of **Taylor Hard Money Advisors, Inc. (THMA)**, Box 780555, Maspeth, N.Y. 11378, Tel.: (718) 457-1426.|| * Represents companies in which the editor and/or his family hold a long position. Website: www.miningstocks.com. THMA provides investment ideas solely on a paid subscription basis. Companies are selected for presentation in this publication strictly on the merits of the company. No fee is charged to the company for inclusion. The currency used in this publication is the U.S. dollar unless otherwise noted. The material contained herein is solely for information purposes. Readers are encouraged to conduct their own research and due diligence, and/or obtain professional advice. The information contained herein is based on sources, which the publisher believes to be reliable, but is not guaranteed to be accurate, and does not purport to be a complete statement or summary of the available information. Any opinions expressed are subject to change without notice. The editor, his family and associates and THMA are not responsible for errors or omissions. They may from time to time have a position in the securities of the companies mentioned herein. All such positions are denoted by an asterisk next to the name of the security in the chart above. No statement or expression of any opinions contained in this publication constitutes an offer to buy or sell the securities mentioned herein. Under copyright law, and upon request companies mentioned herein, from time to time pay THMA a fee of \$500 per page for the right to reprint articles that are otherwise restricted for the benefit of paid subscribers. Subscription rates: One Year \$179; Two Years - \$329; Three Years \$399. Foreign delivery postal system, one-year for \$200.