

Today's Notes:

- 1. Dollar Strength**
- 2. No Notes Tomorrow Presenting at the Fed in Washington**

1. DOLLAR STRENGTH

The dollar is stronger against all its major trading partners as I write this AM. The realization that the US Fed must shortly cease cutting its Fed Funds target along with soaring cost-push inflation has, for the moment, righted the \$ against its fellow fiat currencies and Gold. As you may know gold moves inversely with the dollar. Dollar strength implies gold weakness. The same may be said for oil, as well. Oil fell to \$115.00 this AM, quite a knee jerk reaction and has since bounced back to \$117.35.

It is very clear to me that the global Quality of Life Cycle will trump any shorter term downward tendencies in the \$ and commodities. Earlier this week I wrote, *“The net result of the interest rate changes has been a US \$ that has fallen far and fast, perhaps too far, too fast. It has fallen 14% against the Euro and 12% against the Yen.”*



The Dollar, like its inverse cousin's oil and gold, needs to consolidate. It cannot fall indefinitely. An 8% decline in the \$ since February has been drastic. It may represent the blow off. It is clear that the ongoing spate of credit liquidations and singular actions by the Fed (\$29 billion backstop for Bear Stearns), Congress (\$15 billion allocated for

mortgage foreclosures) and Treasury (proposed regulatory guidelines), among other measures, rattled the capital markets and the \$.

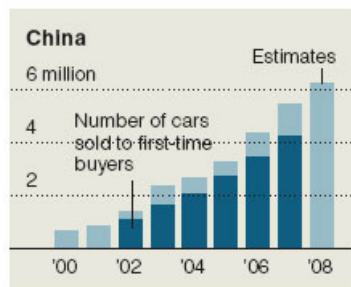
Today there are three primary forces driving the commodity markets. I think we are witnessing the unwinding of two of them. This is good. There is no doubt that, at the margin, significant speculation has driven commodities. Second, the impact of a declining \$ and negative real rates on the prices of the commodities has been significant. It also induced inflation in those countries that were pegged to the \$. In the short run there has been quite a spectacular “run” on commodities.

The third factor is the demand from economies that once were considered “emerging” who have now emerged. Take a look at the following graphic from today’s New York Times. First time Chinese car buyers are increasing exponentially. This means that the demands for every commodity from iron ore to molybdenum and of course gasoline and diesel must soar. The average cost of a new car in China today is \$9,000. In 2004 China sold slightly over 2 million vehicles. The paper estimates that this year China will sell 6 million vehicles – a 200% increase in 4 years. This reflects a 50% annual growth rate. There is no reason to believe that this growth rate will be derailed much in the near term. The NYT also reported that China has only 4 weeks of coal supplies remaining. There may be a great deal of oil and coal, but because it is not readily available to appease China’s voracious energy appetite, all these commodities will likely sell at a demand driven premium – for a very long time. There is significant nascent demand in the world and it has not yet evaporated.

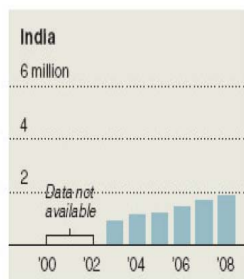
Car Buyers in Asia

The number of cars sold in Asia is growing rapidly as the economy grows. Most buyers in China are first-time car owners.

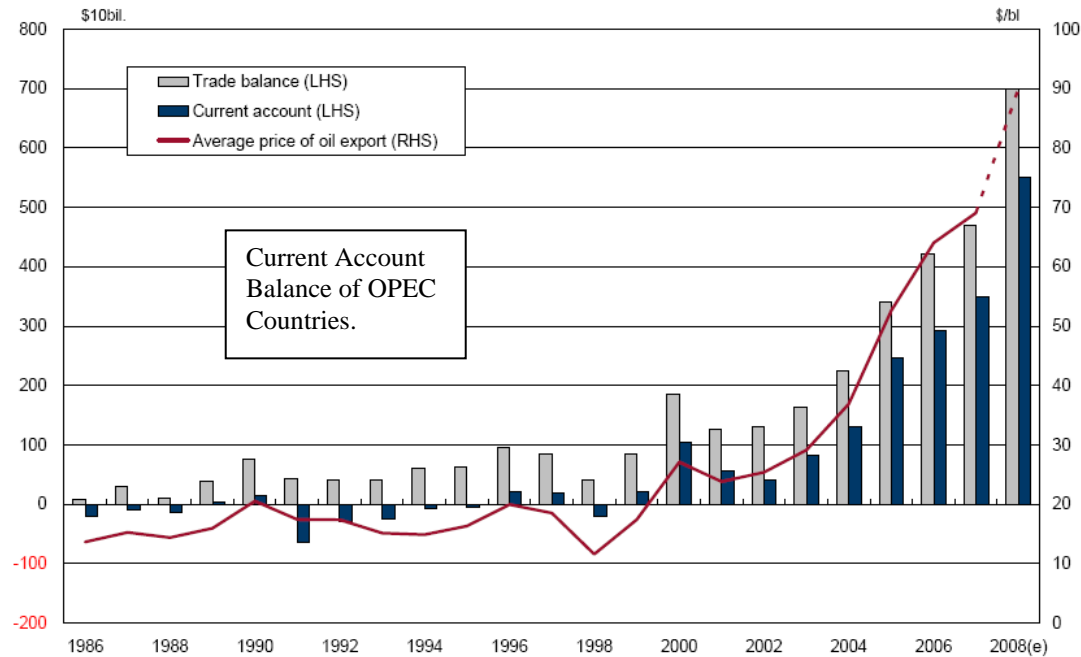
Passenger vehicle* sales



What about India? Take a look at data from the same study. India has barely 2 million in auto sales. Surely India will grow her QOL necessities at increasing rates in the future.



We will experience a consolidation and shakeout of the speculators and \$ players. I continue to suggest watching copper for the indication of true demand in the world. Longer term, copper will also send a message on the struggle between inflation and deflation in the world. Inflation seems to have won the day. I am certain that this suits Dr. Bernanke, though not necessarily his minions. Gold could fall to \$800 and still be in a primary bull market. However if demand pull inflation obtains longer term gold cannot fall too far. The US \$ can strengthen to .78 and still remain in a primary bear market. In spite of the US military might, the \$ cannot continue to be the preeminent Fiat of Fiats as long as we continue to build “treasure chests” overseas. Numerous countries are piling up oil related current account surpluses while the US drinks at the trough.



Source: OPEC, Credit Suisse

The following list is also instructive. Sooner or later these countries are going to rebel at the \$ and US policy, particularly if the \$ continues its slide longer term. I think it is unlikely that the \$ will continue as a financial hegemon. The world is no longer geopolitically uni-polar. These following countries will begin to impact the world’s capital markets by necessity.

Country	Name of Institution	Estimated Asset (\$100mil)	Main financial resource
UAE	Abu Dhabi Investment Authority	8,750	Oil
Saudi Arabia	Saudi Arabian Monetary Agency	2,500	Oil
Kuwait	Kuwait Investment Authority	2,500	Oil
Russia	Oil Stabilization Fund	1,270	Oil
Norway	Government Pension Fund	3,080	Oil
Singapore	GIC	2,150	Exchange reserve
	Temasek	1,000	Financial surplus
China	CIC	2,000	Exchange reserve

Source: IMF, Credit Suisse

In the meantime the incubator stocks we have suggested have been ravaged in this market and many are still very good values. Please remember a primary difference between a Discovery stock and a commodity stock. A Discovery company creates value in its stock by making discoveries (cancer cure, new oil discovery, new process for computation, etc.) A commodity company is valued almost strictly on its commodity exposure. The value creation mechanisms are quite different. It is now a great time to accumulate positions in your favorite Discovery names.

The material herein is for informational purposes only and is not intended to and does not constitute the rendering of investment advice or the solicitation of an offer to buy securities. The foregoing discussion contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (The Act). In particular when used in the preceding discussion the words "plan," confident that, believe, scheduled, expect, or intend to, and similar conditional expressions are intended to identify forward-looking statements subject to the safe harbor created by the ACT. Such statements are subject to certain risks and uncertainties and actual results could differ materially from those expressed in any of the forward looking statements. Such risks and uncertainties include, but are not limited to future events and financial performance of the company which are inherently uncertain and actual events and / or results may differ materially. In addition Dr. Berry may review investments that are not registered in the U.S. Dr. Berry has been awarded 10,000 stock options exercisable at \$7.50 from Senesco Technologies, 200,000 options from Aura Silver (strike C\$.30) and a monthly retainer(\$3,000), 150,000 options which strike at \$2.80 from Birch Mountain and 300,000 options from Ivory Energy for Corporate Finance consulting services. He has been awarded 100,000 options of Derek Oil and Gas exercisable at C\$.47. He is a consultant to Freegold Ventures, for which he received 100,000 stock options exercisable at \$.40, Piedmont Mining (250,000 options), Valcent Products (300,000 options), Global Green Solutions (400,000 options) and War Eagle Mining. He owns shares and/or options in Goldcorp, Golden Predator, Senesco Technologies, Birch Mountain Resources, DataMeg, Immtech International, Horseshoe Gold, Midway Gold, Derek Oil and Gas, Terraco Gold, Stealth Ventures, Kenrich-Eskay Gold, US Silver, Galway Resources, Neuralstem, Oil Sands Quest, Enhanced Oil Resources, Piedmont Mining, MegaWest Energy, Valcent Products, CGX Energy, MacMillan Gold and Quaterra Resources. He has been awarded 250,000 options on Terraco Gold exercisable at C\$.50 for 5 years, for services as a financial advisor. He has also been retained as an advisor by Dejour Enterprises (200,000 options plus retainer of \$2,500 per month), Grande Portage (210,000 options and \$5,000 per month retainer and Galway Resources (200,000 options and \$5,000 per month). In his role as advisor he has been awarded 75,000 options from Polymet which strike at C\$2.76. We cannot attest to nor certify the correctness of any information in this note. Please consult your financial advisor and perform your own due diligence before considering any companies mentioned in this informational bulletin.

