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**Second Quarter Commentary**

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The economic optimism that prevailed at the end of March has succumbed to doubts driven by weaker than expected employment and consumption data. The sense of gloom has been confirmed for many by the falling ECRI weekly index of leading indicators, a plunge in the M3 measure of money supply, and a weak stock market since late April. Our portfolios moved with the market but to varying degrees depending on holdings with exposure to the Gulf of Mexico well blowout, and alternative energy technology. Gold bullion and gold mining stocks performed well during the quarter despite strength in the U.S. dollar relative to other currencies.

Index Performance	2Q	YTD
DJIA w/divs.	-9.36%	-5.00%
S&P 500 w/divs.	-11.43	-6.65
Nasdaq Comp w/divs.	-12.04	-7.05

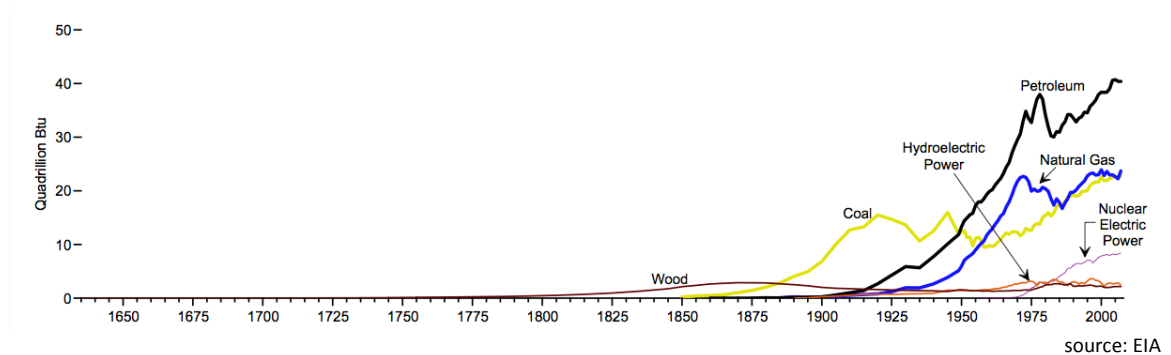
Looking to the remainder of 2010, I am convinced that our oil and gas positions will rebound and provide a markedly positive push to our portfolios for the following reasons:

1. The selloff appears overdone and indiscriminate, based on fear and emotion rather than logic and reason.
2. Global exploration and production spending is expected to accelerate through 2011. The medium and long-term supply outlook provides a strong positive backdrop for growth beyond 2012.
3. Weak economies in Europe and the U.S. are being offset by continued growth in the Middle East, Far East and Southern Hemisphere.
4. Oilfield depletion cannot be wished or legislated away and the “built environment” developed during the age of cheap fossil fuels has an intractable thirst.
5. Valuations in the sector are low enough to attract seasoned and patient value-driven investors. Liability exposure for oilfield services providers will be reconfirmed as manageable under settled contract law.
6. Expected weakness in the U.S. dollar as well as other paper currencies should increase the attractiveness of hard assets.
7. The next few months will bring greater clarity to both the causes of the Macondo well blowout and the vital importance of deep water drilling both to the U.S. and globally.
8. Nothing about the tragedy will reduce our dependence on oil. Deepwater and other unconventional sources are gaining in importance. Increased risk consciousness will increase the “service-intensity” of oil and gas- one of the main long-term drivers that I identified more than ten years ago.

The bottom line is that no matter how awful the environmental damage is in the Gulf of Mexico (and in many other places in the world too), human existence now is critically dependent on massive flows of oil, gas and coal. Roughly 1000 barrels of oil alone each second, twenty-four-seven. Over 18.5 million tons of coal each day. If we reduce these flows precipitously and without an adequate plan, we condemn millions of people to increased poverty and even starvation. To pretend otherwise is too fool ourselves and avoid thinking of ways to manage the risks. **A functioning and profitable oil industry is a prerequisite for the global economy.** All the efforts of the world's central banks and governments to deal with the post-Lehman economic crisis would amount to zero without the economic benefits derived from deepwater oil. The shock to an already weak global economy from an oil spike could be enough to precipitate a new debt crisis of unimaginable proportions.

Despite the constant and misleading claims of promoters, there are no magical alternative energy solutions that can realistically replace these flows within 100 years. Notice in the chart below how new and better energy sources supplement rather than replace old sources. Oil is a vastly superior fuel to coal, and natural gas is significantly cleaner and yet despite being 150 years into the oil age, coal has been the fastest growing fuel over the past decade. In the U.S. we still get more of our energy from wood than wind and solar combined. If history is a guide, wind, solar and other alternatives should gain in importance but they will not *displace* our existing fuel flows. Peak Oil will force us to use less oil in the future but this is an important qualitative difference with overwhelming ramifications.

Figure 5. Primary Energy Consumption by Source, 1635-2008



After a brief pause, gold and precious metals stocks should resume (and may accelerate) their uptrend. Gold stocks are roughly ten percent below a highly significant potential breakout. The reasons for continued strength in gold remain in place. These include limited expansion of mine supply; increasing distrust of government and paper money; central bank accumulation; extremely low interest rates; and the need for continued economic stimulus. As the economist David Rosenberg points out, “the U.S. turned 234 years old” (a few days ago) and yet over half of the nation’s money supply was created since Helicopter Ben took over the flight controls four years ago.” Some Federal Reserve observers believe that Chairman Bernanke is getting ready in case he needs to implement a new “monster” quantitative easing program. The trigger could be the confirmation of renewed economic weakness- possibly involving a financial crisis in one or more of the states. The U.S. dollar seems to have peaked in early June suggesting that the spotlight may be about to shift from Europe to the U.S.

Many people continue to express the worry that if they buy gold they may be buying near the top, not realizing that this concern is itself a behavior rarely seen at tops but is instead associated with bull markets in their early stages. How high could gold go is a question best answered with another question: how much money could the world’s central banks print? The answer is that there is no known limit. In today’s world of electronic ledgers central bankers create money simply by pressing a button. By contrast the world’s supply of gold is tightly limited. The entire inventory of all the gold that has ever been mined amounts to less than 3% of all the world’s stocks, bonds and bank deposits. When one considers that two-thirds of all gold is tied up in jewelry and industrial uses and another one-sixth is held as central bank reserves, the total

amount of gold held purely for investment purposes is a miniscule one-half of one percent of all the world's liquid investment and savings.

In 1980, at the time of the last gold market peak, total credit market debt was equal to 1.6 times GDP; today this figure is over 3.5 times GDP. Unlike 1980 there is no flood of cheap oil about to bail out the world's economies and make heroes out of politicians like Margaret Thatcher and Ronald Reagan. The world's population has grown by 2.3 billion (or roughly 50%). Consumers and businesses are not about to feel the rush of falling interest rates. There is going to be no boost from deregulation. Instead politicians and central bankers are grappling with slow growth, high unemployment, asset deflation, fiscal imbalances, and regulatory reform. Interest rates have already been reduced close to zero (hurting savers) and central bankers are pushing monetary policy on a string. At its 1980 peak, all the world's gold was valued at 25% of global GDP, at that level today gold would trade at \$4000 per ounce, however the conditions in place are such that gold may exceed its 1980 GDP ratio.

It is sometimes said that gold is an asset with no functional use other than as a store of value. This sounds more useful all the time.

M.S.