

Resource Stock Update - V15 #16.7 – Markets, WWPW, LVN, NYG - Nov. 10, 2009

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The Truth about US GDP

Eyes around the world were intently focused about a week ago on advance estimate of 3Q GDP in the US. Everyone was anxiously awaiting the report which will signal whether or not the US economy moved into positive territory in the July-September quarter. Pre-report GDP estimates were all over the board and I doubt any other quarterly GDP report was this uncertain in terms of pre-report estimates.

So what's the big deal?

GDP is a measurement of the economy, the growth or lack there of. Strong growth means a stronger currency, more faith and trust in government – their programs must be working. Citizens must be doing much better because the economy is growing and creating jobs!

But I am sure you know dear reader that the U.S, economy is not doing well, what is growing?, there are job losses – not growth!

The estimate came in on the high side at 3.5% - How can the recession be over?

The fact is – the U.S. Economy is a lie, another scam – like most government statistics the GDP is heavily manipulated, adjusted and tampered with!!

This is one of the main reasons the U.S. Economy is doomed and heading for a lot tougher times. Because the wrong decisions have been made for years, maybe decades based on bad information, lies and scams.

$$\text{GDP} = C + I + G + (E - I)$$

That is Consumption plus Investment plus Government Spending plus Exports minus Imports

I have seen estimates that the Cash for Clunkers added a one time contribution of 1.66% to GDP and auto sales have collapsed since then so all that did was move some demand forward

John Williams of Shadow Stats notes that on-time stimulus or inventory items represented 92% of the reported GDP growth.

The fact is - it was only government spending that created a positive GDP report adjusted with their other lies and scams. Government spending increased 7.9% in the 3rd qtr. so it is easy to see that was the big contributor, not the real economy!

David Rosenberg writes: “only economists see the recession as being over; the man on the street sees it a little differently, perhaps less enthused by the fact that a lower rate of inventory destocking is arithmetically underpinning GDP growth at this time. Put simply, a Wall Street Journal/NBC News poll found that 58% of the public believe the economic recession still has a ways to go – and that is up from 52% in September.”

You see Inventory is part of the Consumption equation, if inventories are falling then consumption is rising because a smaller inventory number is subtracted.

Then there is inflation - the government would like you to believe that no inflation exists other than that measured by their phony CPI number

US inflation is actually and has been running 8 - 10% when you measure the way it was 10 - 20 years ago and that is what is really happening. This debases the dollar by that much each year.

And guess what? the only thing that is subtracted off the GDP number is inflation. Lets say the measurement of all economic activity was \$100,000 one year and \$104,000 the next for 4% growth, you then subtract 2% inflation for real growth of 2%. What would happen if you subtracted the real inflation of 8%. Oh no! The dreaded 'R' word, but as long as GDP keeps growing you do not hear the dreaded 'R' word, recession.

So you see the phony inflation number is an important factor in measuring economic growth, the GDP.

GDP measure all economic activity of goods and services within the US border. Consider this - when any kind of disaster hits, like a hurricane that does billions in damages, it increases GDP because the money spent to rebuild and fix increases GDP, obviously we are better off without disasters. Consider all the money that is borrowed and then spent on imported televisions other goods and electronic gadgets. Only the spending is measured to add to GDP and counts as economic growth. Going in debt does not increase your wealth but GDP ignores it. The GDP is also subject to all kinds of other adjustments.

The government has a real strong incentive to have low inflation as measured by the CPI and not only for their phony GDP number. All government program payments are indexed to the CPI. A low CPI tries to hide the debasement of the dollar (purchasing power) and low inflation results in strong economic growth as measured by GDP.

I have talked about this before, numerous changes were made to the CPI measurement. Hedonics - where adjustments are made based on technical improvements. According to the stats the prices of cars have been falling for years because you get more for your money, air bags, 4 wheel disc brakes etc. The advancement of computers and their power has been enormous so their hedonic adjustment results in steeply falling computer prices and to help with their scam - computers make up a large component of the CPI. House prices use to be measured - but now they measure mortgage payments and rents. If interest rates come down like they have been since 1982, mortgage payments go down. And then there is the replacements. The governments wisdom says if the prices of oranges goes too high, consumers will switch to something cheaper like bananas. So they stop measuring the high price of oranges and substitute measuring the bananas. And don't forget core inflation, because energy and food can be volatile going up and down in price, lets cut this out altogether and go by something called core inflation (inflation minus food and energy) I would argue that food and energy are probably the two most important components affecting consumers and the people on an ongoing daily basis.

So what has really been going on for the past 10 years with real measurements is an actual recession, high inflation and debasement of the dollar. This reality has been pasted over with a massive increase in debt, at all levels of government, consumers and corporations. This has only bought time keeping the phony economic game going. After years of the of these lies and scams on the economy/numbers the reality has taken over, - the S ___ ! is in the fan.

Consumers **real** loss of purchasing power through **real/actual** inflation can no longer be made up for by increasing their debt on bubble house prices. Because there was no **real** wealth creation, increasing debt was the only way to keep up with purchases and the Jones's life style. Corporations are in the same boat. Their costs have kept rising, but now they can no longer keep going by raising prices because the consumer without a job and inflated house price to borrow from cannot buy as much. So they cut costs, jobs and wages which just keeps the cycle going down the drain.

Governments have hit the wall too - they have just kept growing, providing no real benefit to the economy and have run up their debt levels to the maximum. Most state and municipal governments are broke and cannot increase their debt anymore so they too must cut jobs and services that hurts the economy adding the the down the drain cycle.

They increase taxes now through hidden fees, levies and fines as a last resort and that hurts the consumer too. I could do a whole section of the newsletter on this. As an example, where I live the town police are constantly at the bottom of the 2 big hills handing out speeding tickets. Toronto is considering a 15% hike on public transit, a new city consumption tax. Don't get me started!!!

The federal government has an advantage, they can just print the money and debt which they have been doing to the tunes of billions and trillions. But what we have been witnessing with \$1,100 gold and other commodity prices - the smart investors and more and more of the general public are catching on to the phony game and trying to put their money into real assets like gold and commodities. But you can count on government intervention to fight this all the way because they want to keep the investment dollars going to buy their debt (treasuries) and to support the dollar from any radical debasement. I believe they are also trying to push money into the stock market. They see this as the only place left where they can create a bubble to support their debt and phony economy.

What I have talked about in the last few pages is the main reason the stock market is going up and decoupling from the reality that a lot of us see. Nobody knows how high this rally will go – it will simply last as long as enough buyers are being fooled and sucked in by the phony game. Once enough catch on to the fact that the economic recovery is not real and/or the smart money has come to the point they have made enough, this market will roll over and fall. The only question is how this next down leg pans out. I think it will be different, nothing ever seems to be the same or what the majority expect.

It could fall very fast and hard, like a crash over a few days and then continued downside action. This is why I am suggesting high cash levels. Stop losses and quick actions may not protect you. In the 1987 crash it was the pressure on the dollar that cracked the markets and we have that pressure today. But if it is a dollar weakness related crash (investors do not want to hold dollar based stocks) gold and commodities will do well, but could have short term drops in a panic sell off to make margin calls. If the downturn is more related to economic weakness and government intervention to try and keep propping up the game - it could turn out to be a very relentless downturn with one failed rally after another. When the government enacted 'The Working Group Finance Committee' (the plunge protection team). The idea was to intervene and support the market in times of crisis or extremes. This has now reverted to where Governments are now intervening in the markets on a daily basis

The good news is this market could easily hold together until year end or early next year. Have a look at my updated S&P 500 chart



I have updated this chart with my same two lines I have been using, with major resistance around 1030 that has been broken. And the line around 1160 that I have been saying is my top target and that was based on the market filling the gap on the 2008 plunge and is around the 50% retracement level, not unusual for major bear market rallies.

It is not unlike the NASDAQ melt down in 2000 from a high of 5,000 to the low of 1,400 in the fall of 2001 and then "the rebound" to almost 2100 area by the end of the year, a 50% rally from the low -- giving the beaten up investor some hope and then 2002's dose of "this is not a game" reality, when it dropped from 2,000 to 1,200 wiping out the majority of tech investors and their companies -- many who had been in the business for decades and sending the inexperienced investors into the real estate market, for the final blood bath still in progress.

The good news - S&P is up about 57% from the low and markets could just go sideways for a while and then drop, or have a final surge to my top target. I will keep you posted on any clear signs I see as a top.

While this is unfolding I am expecting upward pressure on the precious metals and other commodities. We should do very well with our gold stocks in the coming months.

How to Save Tax dollars

Among the recent changes I have been doing with the newsletter, I also want to add more value for you as a subscriber by providing other information on how to be a successful investor. It really hit home lately when another newsletter I read talked about being more of a service than a stock picker. As you know I have a longer term investment approach and we make a lot of our \$\$ because of the way we invest, not just by picking stocks. If you buy this newsletter just looking for stock picks to trade, you will likely be far less successful than longer term readers who have learned my approach and put it to good use.

I want to tell you about another investment tool I use around this time of year and until year end. It is called '*Flow Through Shares*'. Basically resource companies can raise flow through dollars via private placements but have to use these dollars on Canadian exploration and resource development projects. As an incentive the Canadian government and Provincial government give the companies and these shares tax credits that flow through to the investor. An example makes it more clear. Lets say you buy 10,000 flow through shares at \$1.00 for \$10,000. You can write the \$10,000 off your income as a deduction. If your income was \$100,000 you just reduced it to \$90,000. In Ontario the marginal tax rate for someone earning \$100,000 is 43.4% so you would get a tax benefit or refund of \$4,340 so your actual cost of the investment is just \$5,660 (10,000 – 4,340)

You can go to this link to get marginal tax rate info for all the Canadian provinces based on your income level

<http://www.taxtips.ca/marginaltaxrates.htm>

Here is a couple more links on flow through shares

http://www.canadianbusiness.com/entrepreneur/financing/article.jsp?content=20060915_115118_5188

<http://www.cra-arc.gc.ca/tx/bsnss/tpcs/fts-paa/menu-eng.html>

Now a problem many investors have or what they over look, they tend to buy flow through shares for the write off, but what you should really do is pick the flow through shares in good companies where you can still make capital gains on your investment and get the tax benefit too!! **In other words selecting a good stock is still important.** One company I would consider now is **Wind Works WWPW**, they are doing a small flow through financing at \$0.95 per share. Wind energy development qualifies as an expense for flow through shares. You can contact the company or through your broker for info, prospectus and private placement memorandum. I will also alert you to a couple of flow through investments in some of the mining stocks as they come available and if I believe they are at attractive prices. For now I will give an update on Wind Works with recent news and a couple others

Contact Cam Birge CFO, Wind Works for info on the Flow Through placement email at: campaola@shaw.ca

***** UPDATES *****

Wind Works
Entry Price - \$0.70

OTC:WWPW

Recent Price \$US1.02
Opinion - strong buy

From news since my last update it is becoming apparent that this company is going to be very aggressive in the wind energy space adding shareholder value. On November 6th WWPW announced an agreement to increase their equity interest from 50% to 100% in Settlers Landing Wind Park. The agreement calls for the issuance of 300,000 restricted common shares of Wind Works stock, and the payment in cash of \$450,000, the latter subject to milestones. As part of the acquisition of Zero Emission People, announced October 27, 2009, Wind Works acquired a 50% interest in Settlers Landing, a 10 megawatt wind energy project located near Pontypool, in Ontario, Canada.

Then on Monday they announced a new acquisition, signing an option agreement to acquire a 100% interest in Honelles, a 10 megawatt wind energy project located in Belgium. In consideration for the 100% interest, Wind Works will make an initial cash payment of \$100,000 on January 15, 2010 and a further cash payment of \$375,000 on March 15, 2010.

Here is comments in the news release from the CEO

"I have led a team that has successfully developed over 1,500 megawatts of wind energy projects all over the world and one of the most attractive countries for the development of wind parks is Belgium. With the Honelles project, we will invest \$1.1 million over the next two years and create an investment opportunity of \$25 million, offering attractive leverage to our development dollars." commented Dr. Ingo Stuckmann, CEO and director of Wind Works. "The European market for wind is mature, secure and presents great diversification for our current project portfolio. We will continue to add advanced projects in proven European markets."

What investors do not realize here and what is big about the Belgium deal is that all EU countries need to have 20% of their power generation from alternate energy by 2012 and the PPA's are above the going kilowatt rate. There are also massive incentives and grants to help companies in the EU with development and day to day operations.

The stock has still not been able to over come the first resistance level on the chart (around \$1.20) thus far, but volume has been picking up and the story is getting out more each day. It is still very new, but only a matter of time before it is more widely known and becomes valued among their peers and breaking through the first resistance level.

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www.windworkspower.com

Levon TSX V: LVN
Entry - \$0.23

OTC:LVNVF
Opinion – Strong Buy

Recent - C\$ 0.41

Levon was a bit of a surprise when the stock did not move much with those very strong drill results. I commented that it looks like another Western Silver to me. With Western Silver, we bought at 0.90 and as low as 0.60 in 2002 than sold the last of the position in 2006 at \$32.70 on a takeover. The first big move was in 2003 when it went over \$6

In 2003 Western Silver put out an independent mineral resource estimate completed by SNC-Lavalin Engineers and Constructors Inc., the Chile Colorado zone was estimated to contain an indicated in-situ mineral resource of 118 million tonnes grading

41.85 grams per tonne silver,
0.36 grams per tonne gold,
0.38 per cent lead and
0.89 per cent zinc

Based on SNC Lavalin's calculations in 2003, Western Silver estimated that the deposit contained the following amounts of in-situ metals: 158.8 million ounces of silver, 1.36 million ounces of gold, 988.8 million pounds of lead and 2.3 billion pounds of zinc.

This was in 2003 and the metals bull market was only just getting started and the stock was under \$4.00 then and I had it rated as a buy on what was a pull back at the current price then under \$4.00

Levon's news last week with Drill Hole 5 intersected 152 meters grading

80.6 grams per tonne SILVER,
0.61 grams per tonne gold,
1.41% ZINC and
1.22% LEAD,

We can see from Levon's drill hole that the grades are basically twice as good as what Western Silver had. It is still early days and Levon has a lot of drilling to do before they come up with tonnage and average grades and it could end up to be lower than what Western Silver had or could be better. It is just too early.

My point is, at this stage of the game it compares extremely well and I think with the stock not jumping higher with these kinds of drill numbers is a real opportunity. Everybody should have some of this stock in their portfolio. The way it is looking it is going to be a favorite for years to come.

The company also update their presentation on the web site at this link

<http://www.levon.com/i/pdf/LevonCorderoSummary3.pdf>

What this points out is that Levon's discovery hole #5 is better than the first discovery holes by Kennecott at Western Silver's (now Goldcorp) Penasquito. It is also better than Canplats recent discovery at Camino Rojo. And better than Silver Standards Pitarilla, although I am not as familiar with this one.

I have been following metal discoveries for years and I can tell you that you do not hit 152 meters with grades like Levon reported and not find anything else. This will be a big discovery, it is only a question of how big, how good the grade and how long before the market figures it out!!

Now I also want to point out that you should not be concerned if the remaining drill holes come back poorly because they are a long way from the discovery hole #5. They range from 1 to 3 kilometers away from the discovery hole. Now if one of these holes does hit, it will only mean that this is probably a very huge discovery.

I have no good answer why the stock did not move. There looks like there was quite a few short term traders and speculators as a lot of buying and selling out of the normal retail houses. The other big seller was through House 1 Anonymous so we do not know where that is coming from. Cannacord and Bolder have been the big buyers.

Regardless, a lot of these sellers probably do not realize what they have here and we will take advantage. The stock looks like it may just consolidate in the low \$0.40s and then when ready move higher to the next level.



Since breaking out in October, the stock has seen two previous consolidations of gains that lasted about 2 weeks each indicated by the black lines around \$0.26 and \$0.32. If the pattern continues we could remain around the \$0.42 level for another few days or a week or so.

<http://www.levon.com>

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Nayarit Gold
Entry Price \$0.50
Stop/loss \$0.40

TSXV:NYG

Recent Price C\$0.60
Opinion – hold

It has been a while since I updated NYG, but on Monday they announced positive metallurgical results from its Orion District. SGS Mineral Services ("SGS") of Durango, Mexico was retained by the Company to complete a preliminary metallurgical investigation on the Del Norte Deposit to determine the amenability of the ore to direct cyanidation, gravity concentration and flotation. The Company has been working with SRK Consulting from Denver, Colo., who is in the process of finalizing the NI 43-101 resource calculation with an estimated release date scheduled for next week.

Highlights:

- Recoveries obtained by bottle roll leaching ranged between 96.4% and 85.3% for gold (average 92%) and between 87.6% and 81.5% and for silver (average 85.2%):
- Recoveries obtained by flotation and subsequent leaching of the flotation concentrate and tails returned overall recoveries between 88.7% and 88.2% and for gold (average 88.5%) and between 82.1% and 71.1% and for silver (average 76%).

The stock has finally began moving higher and I am looking forward to a good resource number in the 43-101 report to continue the up trend in the stock

<http://www.nayaritgold.com>

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