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The Greatest Transfer of Wealth in History: Impact on Resource Markets

The US and G-7 are rapidly becoming far less important and command far less control in the world economy. The emerging world and G7 are still coupled but that will change in a few years. In order to make an accurate forecast, one must determine what has already happened that will affect the future.

When you make an investment, what you own is an opinion. This is mine.

In the 1950's the US was the world's largest creditor. Japan was beginning to industrialize with South Korea soon to follow. Europe was rapidly rebuilding. During the next 50 years Europe, followed by the US, became more and more socialistic. Equal results for unequal efforts defies the laws of nature. Socialism always has and always will continue to fail.

The US went from the world's largest creditor to the world's largest debtor. In 1977, the US federal budget was \$300 billion. In 2007, it was \$3 trillion - 10 times larger. Leverage is as toxic on the way down as it was intoxicating on the way up. Today we owe \$4 trillion to the rest of the world. Much of the world doesn't want any more treasury bills so they have started sovereign wealth funds to buy real assets. This is the largest rotation of wealth in world history. The Jeanie is coming out of the bottle and it won't look like Barbra Eden. Greenspan bailed out long term capital by printing, Y2K by printing, NASDAQ bubble by printing, and housing by printing. Now the Greenspan put is being exercised. It's being put to the taxpayer.

Only government – Congress made up mostly of lawyers, could accomplish such a colossal mismanagement of America's economy. Congress and diapers have a lot in common they both need to be changed often and for the same reason. The dollar decline will continue in an ongoing zigzag downward course. Currencies are the only market where the long and the short want the price to remain the same so it will be a continuous depreciation over time at an increasing rate not a crash.

The rate of decline is set to accelerate from 2.5 to 3% per year to 5.5 to 6% per year. Congress, Bernanke and Paulson are fighting the free market forces along with other central banks. Over time they will fail, but they make the rules and put folks who violate them in jail. They have power and they work for their campaign contributors bidding, banks and brokerage firms are big contributors. New rules – manipulation. You can't be short banks and brokerage firms and you can't be long oil.

The problem was created by too much debt and spending so congress borrows 160 billion and sent it to consumers to spend. The money is gone. The debt remains. The economy and stocks will now head lower. When Bernanke, Paulson and Cox testified, did any one else think of Mo, Larry and Curley? The answer is to give the FED more power - to also

regulate brokerage firms after failing to regulate banks. Only government rewards total failure with more money and power.

“Change” is the 2008 campaign word. Get the economy moving again. I wish there was one front runner who meant moving forward, not more taxes regulation and deflation of the currency.

The current plan is to have the Bernanke FED create boat loads of dollars. Helicopter Ben will rise to the occasion and be joined by many other countries. Currencies do not float they sink at different rates. The supply of paper assets will overwhelm the supply of raw materials.

Raw materials could become the new world currency as they are priced in a world market.

A major shift of wealth is occurring rapidly today, from the developed world to the emerging world. The emerging world's debts are at historical lows and their savings are at historical highs. The developed world G-7 nations conversely are extremely vulnerable in the current debt crisis as they are in the opposite position of debts at historic highs and savings and investment at historic lows.

Our creditors hold the winning position. China, Russia, India, Venezuela and the Middle East are willing suppliers of goods, services and raw materials. The credit requirements just to keep up the outstanding obligations and current spending are astronomical.

The external debt payments of the industrialized world to these emerging markets have more than doubled in the last three years. And at the rate the developed world are debasing their currencies, their credit offerings are the bubble. It is one of the principle reasons asset markets are skyrocketing, a good portion the new money the emerging world are receiving is not going into these fixed income assets, they are now going into “Sovereign wealth funds” and assets to protect themselves from the global money printing machines. And those same assets can just reprice as the currencies they are priced in, debase.

When looking at the average growth rate in the developed world and then looking at the credit and money growth in those same countries we can also see that the developed world is creating almost 4 dollars of new credit obligations for every dollar of GDP growth. Borrow four to make one? Is not a recipe for sustainable growth!! Every dollar of debt must be paid for with future earnings. Those deficits and credit obligations are calls on future earnings. The anemic growth has to service growing mountains of debt.

These are the seeds of Protectionism in the west. Politicians and their citizens in the west will recoil sooner or later as they become poorer and poorer, and their suppliers become wealthier and wealthier. Insatiable consumers and debtors passing the keys of their future wealth to their supplier of their manufactured goods, energy and raw materials.

This reliance on borrowing from the developing world WILL NOT STOP” until they refuse to do it, and they won’t until their futures are firmly within their own grasps.

The Politicians in Washington just keep encouraging reckless behavior.

They blame foreigners for our problems as they pay back their campaign contributors to the detriment of the producers. Larding up on unfunded social programs, dumbing down their electorates, raising taxes and regulations in a relentless manner. Destroying incentives to work and fostering a dependence on government mentality. As this grows more and more productive, people and companies will vote with their feet.

There are plenty of problems in the emerging world, but they are constantly being reduced, while the problems are just increasing in the Developed world as politicians resist reform, deregulation and tell their constituents they can fix the problem by passing a law for or against whatever issue or problem is concerning or bothering them that day.

The manufacturing base went off shore for one reason, and one reason only. The federal governments in Washington DC and Europe who regulated, taxed and mandated their way to the unprofitability of these domestic ventures. I recently heard there was a light at the end of the tunnel in the real estate market. I checked, the light was a fire to warm a family that was foreclosed on.

US and Central Europe have some of the highest Corporate tax rates in the world. As we look for the reasons of industrial decline in the developed world look no further then the fools on Capital hill.

The emerging world is sitting on trillions of dollars of reserves, and as sure as savings are the seed corn of capital formation and wealth, new local capital investment opportunities are emerging at a breakneck pace. Homes, offices, Factories, roads, infrastructure, cars, and power generation are just a few of the items needing to be built. Many analysts believe the Commodity bull market over because of the auto and housing slumps in the United States. Just because 300 million people in the United States reduce their expenditures on housing and cars, this isn’t a good case for a commodity bear market as 3 billion new entrants onto the world stage are quite willing to step in to cover the weakening demand for materials in the developed world. Look at the copper. It rallied from under \$1.00 to \$4.00. The US is in a housing depression and yet copper is over \$350. The price tells you a huge change has taken place.

50 million emerging world citizens are new entrants into the middle class every year.

In the last 20 years three billion people have started to climb the first rungs of the Global economic ladder and are being lifted out of poverty and ignorance. The shift of wealth is set to accelerate as the “Sea change” of prosperity and economic growth swing from the developed world shift to the emerging economies. These people are working 60 hours a week, saving and investing, and going to school, this is a recipe for success wherever you reside.

The “G7” developed world will continue to grow but is in a general decline that is well entrenched and gaining momentum on the downside, and as any trend follower knows it is a big opportunity to identify an established trend early and ride it for all its worth for a long period of time, they generally go farther and last longer than anyone can imagine. In the US the policies of growth have been abandoned in favor of illusions of growth supplied by printing press, also known as “INFLATION”, deflation of the currency.

Just as Chinese income has quadrupled in 15 years, and Russia’s has doubled in 6. The US and Europe’s incomes have gone stagnant to down during the same period.

The money now lies outside the G7, and that pile is growing by the day, to not pay in one form or another is not an option for G7 politicians as not to do so require that they destroy their own financial systems and economies to do so. So they will do as they always have for decades now, they will substitute “MONEY PRINTING” for the policies of growth and their constituents will ALWAYS be poorer for it and the emerging world will be richer for the same reason.

The only thing that can create a prosperous future is embracing it and getting down to work and study. Encouraging good character traits such as hard work, personal responsibility, excellence in education, saving and investing. Politicians do this by rewarding this behavior, not by punishing it, over regulating, taxing and destroying it as they now do in the G7. You do this through understanding the sources that created the wealth we now have and encouraging us to return to the roots of our previous successes, not by implementing the policies which caused the emerging world to fail before it learned the benefits of capitalism.... The emerging world now rewards these character traits while the developed world relentlessly destroys them.

The US Government’s raw material supply policy matches their brilliance in other areas. Our energy policy is: The only place you’re allowed to drill for oil is next to a dry hole. The only place you are allowed to build a refinery is no where. Don’t drill within 100 miles of a shoreline and don’t build a wind turbine where Edward Kennedy can see it. Bin Laden must be designing congress’s energy policy.

I’m looking forward to when Obama’s two daughters come home from Jr. High and tell Dad they dropped out of school. When he ask why, they will explain “it will be 10 years of hard work before there is any benefit so they quit” – just like the democrats energy program.

We restrict raw material supply as demand is exploding.

As the US moved from capitalism to socialism, many third world countries were moving toward capitalism.

Today, 1 billion people in the world, G-7, use two thirds of the worlds raw materials. Over 5 billion use the other third. Many are pursuing capitalism; China, India, Russia,

Brazil and Vietnam. In China, to be rich is glorious. In the US, if you're rich, you're attacked. In China there is no capital gains tax and no corporate tax. Money and talent go where it's treated well.

Today, it's easier and cheaper to start and operate a business in China than in the land of the free, where we are free to pay tremendous federal, state and local taxes, free except for the mountains of regulations.

Is it any wonder that China is growing at 12% and America at 2%?

In my opinion, the raw material market, energy, agricultural and base metals are only in the second inning of a nine inning bull market.

30 years of restrained and neglected natural resource supply is being overwhelmed by demand. The lead times to create more supply are measured in years. Three billion people in emerging nations have discovered capitalism. In only 30 years capitalism has brought China from the stone age to an economic super power. They are number one in the world in manufacturing, surpassing the United States.

Capitalism is easy to understand, its nature with a balance sheet.

The difference is in nature. If you fail, you are eaten. Under capitalism you go broke. I like capitalism better.

Today, China is booming. They have declared the national bird to be the construction crane. In the last five years China went from exporting oil to the second largest importer in the world. The emerging market countries will go from walking, to bikes, to motorcycles, and to autos. They will need oil and gas, chemicals, forest products and metals. At \$1.00 per hour they are deflating manufacturing costs, but as they become more successful, they will throw away their bicycles and buy motorcycles and eat better, increasing the demand for raw materials.

China and India are transforming their economies from poor agrarian nations to the newest industrial powers, replete with heavy industries, mass transportation and higher education. Rising from these giant new economies will come millions of new consumers, the very people who are already straining the natural resources of the earth.

In 1900, the US started to industrialize. We were using one barrel of oil per person per year. By 1970, we were using 27 barrels per person. In 1950, Japan started to industrialize, they were using 1 barrel per person. By 1970, they were using 17. In 1965, South Korea started to industrialize. They were using one barrel per person per year. By 2000 they were using 17. Today, China uses 2 barrels per person per year and India uses 1.

In 1950, Japan per capita income was 18% of the US, today it's 96%. In 1965, South Korea's per capita income was 16% of the US, today it's 56%. India and China have 2.5

billion consumers, 9 times the US. The US uses 25% of the world's energy, China and India use 8%. India and China have 280 people per car. The US has 2 people per car. Last year, China produced and sold the same number of autos as the US. Eighty percent were purchased with cash. Just wait until they have a consumer credit system.

Real incomes are just beginning to rise to levels that create large demands for consumer goods. Between 1950 and 1970, Japan's urban population increased 70%. Personal consumption increased 600%.

What is occurring today in China, which contains just over 1/3 of the citizens of the emerging nations: China currently is 40% urban, 60% rural. The US is 97% urban and 3% rural. China has 20% of the world's population and 7% of the world's land. China's grain imports will grow from 14 million tones today to 57 million tones in 2020.

China was the largest economy during 27 of the past 30 centuries. China currently consumes 47% iron ore, 32% aluminum and 25% of the copper. China currently consumes 6 million barrels of oil per day. The US consumes 25 million barrels per day. China has almost five times the population of the US and will some day consume more oil than the US. In the US, consumer spending is growing at 2% Chinese consumer spending is growing at 20%.

To date most of China's growth has been on the east coast. 800 million Chinese live in rural China today and 40 million a year are moving to the city for the better life.

China wants to halt this migration by bringing the better life to the whole country. To accelerate this, they have a number of infrastructure construction projects in effect. All the projects are scheduled to be completed in 5 years.

- \$200 billion dollars for 500 power plants. They are currently completing 4 power plants per week.
- \$200 billion dollars for railroads to the west.
- \$65 Billion for 97 new air ports.
- \$40 Billion for subways in 15 major cities.
- \$300 Billion for 10,000 miles of new expressways.

The \$900 Billion in construction in China will be paid for by US taxpayers, not out of their kindness to strangers, but in interest on the money we have borrowed from China. Now add Egypt, Russia, Brazil, Vietnam and you begin to understand why I started a raw materials fund.

The mergers of the giant producers today do not create one more ounce of supply. It won't be long and they will be merging the junior mining companies. Years into this bull market, and still the cheapest place to drill for oil and mine metals is the stock exchange.

Today, 1 billion people consume two thirds of the world's raw materials. 5.6 billion people consume the other third and they are becoming more successful. The industrial

revolution involved 300 million people. The emerging nation revolution involves 3 billion.

There is no need to connect the dots, they overlap.

Lead times to create raw materials are measured in years.

China's growing at 12%, the US at 2%. Money goes where it's treated well.

Currently oil companies who search for oil at great risk earn 9 cents per gallon. The US Government, at no risk takes 51 cents per gallon.

The political systems of G-7 are at a great disadvantage, stuck with unfunded liabilities and debt. Current politicians are unwilling to cut spending growth. The Chinese have a 30 percent savings rate and 1.4 trillion US dollars to purchase real assets.

Demand for raw materials has increased. In many cases, the capacity to produce raw materials has declined dramatically in the last 20 years. Tops and bottoms are creatures of extreme. Markets rise above all expectation and then go higher and then fall further than common sense suggests. The most desirable investments for the future might not be in cyber space but back to the basics. Sure they're a little less bullish while G-7 is suffering a recession, but it's just a pause.

I believe we are only at the start of the largest bull market in history for raw materials.

By the end of this bull market, there will be a bounty on caribou, you will be able to see an oil rig from every beach and they will be digging a coal mine in Al Gore's yard.

As you climb the ladder of financial success, check to make sure it's leaning on the right wall. I believe raw materials will be one of the best investments for the next 10 to 15 years.

Long-term- the future is very bright because man has been succeeding in bringing about change for the better since he or she first emerged from the cave. Big problems usually disguise big opportunities. Markets travel in a zigzag form. For many years set backs will be an opportunity to buy. In all probability, every one of us who got in early will sell way too soon.

Governments and central banks are completely incapable of keeping tomorrow from coming.

In the next 12 months, let the winds of change fill your sails. Don't just look at the stars – be one.

Thank you.

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