

The G20 people met and, surprise, produced nothing substantive but instead voted for (more) fiscal stimulation. This in addition to the monetary stimulation which has filled the financial press for months. Perhaps we should buy United Technology shares (they own Sikorsky) so the helicopter Bens around the world can do their thing. Stock markets (and real estate markets) have lost tens of trillions of value and there is much work to do. But we have every confidence money will flow; G20 policy makers, and all policy makers, feel they have no choice and are certainly not interested in discipline.

Money makes markets go and the current panic will end as suddenly as the speculative bubble burst. Our guess is an end to the panic will lead to a period of picking through the wreckage, searching for survivors and burying the dead. With gold down 30%, wheat and silver down 50%, copper and oil down 60% and other declines too gruesome to describe (real estate?) there'll be lots of bodies. Speculative excess (already pretty well exhausted) will give way to focus on hard value. The dreams, already dampened, will be washed away; the real estate dream because there is a frightening glut and the gold-in-the-ground dream because, in most cases, the gold isn't there. The grey light of dawn...

Recent quarterlies are both encouraging and discouraging. Imperial finished a great quarter with earnings of \$1.57 per share. Going forward the lower \$Cdn will help, and the normal course issuer bid, which seems to be ongoing, will cost about \$500 million less (because of the lower price for the shares) leaving more money for capex, dividends, whatever. The cancellation of 5% of outstanding shares every year (financed with perhaps a third of cash flow) automatically increases eps by 5% and this puts IMO in a class by itself.

While the dynamics have changed for the worse in the iron ore sector, we continue to feel LIF.UN offers upside from current levels. Most of LIF's earnings come from Iron Ore Company of Canada royalties, off-the-top, and because of IOC's large pellet production, the cartel-like atmosphere of the iron ore industry and the lower \$Cdn, we don't see a dramatic fall. Sure, LIF's 2009 distribution is unlikely to match the expected \$5/unit in 2008, but it should be over \$3.

We still like Viterra. Shares are down 50% from their 52-week high of \$15, and still people have to eat. Viterra dominates the Western Canadian grain handling business with over 40% of the market share. Revenues are primarily based on volumes, not grain prices. Viterra is in great financial shape as a result of a \$400 million common share offering at \$14 in May 2008. Based on current valuation metrics Viterra shares appear undervalued.

(over)

Recently we wrote up Franco-Nevada because of the company's impressive portfolio of royalty resources in the gold and oil & gas sectors, and its ability to act as a merchant bank in a dried-up equity and credit market for the resource industry. Even though royalties are an easy way to invest in the metals industry, they are still subject to metal prices and mine closures. Recently the economic viability of Stillwater, one of Franco's larger royalty streams has come into question. We don't like Stillwater's chances and are therefore now cautious about Franco.

Barrick Gold's Q3 statement is fascinating. They deal extensively with the hedge book, over a thousand words of heavy legalese, admitting that "depending on the circumstances, this may result in early settlement of such [hedge] contract." Wow. These guys are four, five or more billion dollars under water on over nine million ounces of hedges, they have over four billion of debt, and they may have to start covering? There are better ways to play gold, such as gold bullion itself.

Panic associated with wealth destruction (yikes, I'm broke!) and panic associated with supply destruction (the mine is closing!) will soon give way to panic about what to do with all the existing cash and the inevitable waves of future cash. Good times await the healthy survivors of this mess.

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