DUNDEE CORPORATION

2013 Annual Report

DUNDEE

This DJIA chart is taken from an article entitled *Global Banking System on the Verge of Collapse*, written by Damon Geller

The chart is an example of how the Botox economic policies of the U.S. Federal Reserve Board (the Fed) have influenced the rise of U.S. stock markets from 2008 to 2014 – an upward bias that does not necessarily reflect the actual business activities of the companies whose shares are listed on the stock exchange.

Dear fellow shareholders,

Let me start this 23rd Annual Report message of Dundee Corporation with the admission that other than being able to deliver a tax-free dividend of shares of DREAM Unlimited to our shareholders, valued at $16 per share, we have not had a great year. Accordingly, while shareholders received a bonus, many employees of our company, including me, have not received year-end bonuses. But, we are quite sure that the coming year will be different for our employees. We will still look to provide upgrades for our shareholders, but we fully expect that our company's activities, development and programs through 2014 will be satisfying, provide growth and allow our employees to once again be deserving of a year-end bonus. Hopefully, as you read through this report and begin to understand the projects that we are working on, you will be able to understand my optimism.

One of the main considerations is that on February 4, 2014, our contract with the Bank of Nova Scotia (BNS) that did not allow us to compete using the excellent third party asset management skills that exist at DundeeWealth (now called HollisWealth), as well as Dynamic Mutual Funds, is no longer keeping us out of the businesses that we know very well and have been successful at, in my instance, for almost 50 years. We are now free to once again work in the asset management business. In other words, the road is open for us to return to what we know best – i.e., investment management.

On another subject, personally, I am very proud of the fact BNS has decided that with its purchase of our company, it has achieved a depth and excellence in Canadian asset management that has rendered its significant ownership of CI Financial unnecessary.

The new plans for our overall business are under review and will be released at a later date. Suffice it to say that we hope once again to offer first-class asset management to third party investors, and our company. We all look forward to be back in the business that built our Dynamic company. We have acquired or are building our business, about which we are likewise excited. We are very proud of our people and the complete dedication that they deliver to our company and its shareholders.

We are not a bolted organization, but we have created an organism of separate cells working well together in something that is natural and mostly unplanned.

In my career, to achieve this, we needed an instinctive sense of value, much like an artist has an instinctive sense of what he or she wants to produce. Investing is, in fact, like any art. We are not searching for the theorist with a lot of words – the so-called "intellectual" who punches his or her listeners with excessive differences. We looked for differences of opinion. We know that we will thrive on prima donnas who blow off steam and then go away to do something artistic again; all of this, with as little oversight as possible.

We recognize that it is not only the warm bath of freedom we encourage that develops the best in people. Talking about the process that develops strong investment people, Ned Johnson of

Fidelity once said, “Things like struggle and trouble bring out the most glorious flavours.” He added, “Change is what matters. Change, while being good, is often a painful and soul-wrenching experience.” Here, I am also reminded of the title of a book that I gave to each of my sons early in their careers: *Whoever Makes The Most Mistakes Wins*.

The whole process is about exposure. If you study the great golfers, you will find that most of them became great because they watched and worked as caddies for other great golfers.

Our view is that people with talent oriented toward the stock market tend to develop relationships that are purposeful and useful. To such people we have offered an environment that nurtured a free exchange of ideas, allowing each one to develop his or her talent to a fantastic extent. And it happened often, even with a non-existent training program that was pointedly unspecific, unregimented and not even describable specifically. But it attracted the best and brightest to our organization, where all participants are required to manage money, teach others to manage money and learn from others.

Our style is to have as little structure as possible. A fund manager may rely on in-house research or rely on others on Bay Street or Wall Street, but must follow up with our own work.

The two words that best describe the people we look for as money managers are *Intuitive* and *Flexible*, even though for other firms such people may be inarticulate, capricious or vague.

Dundee Corporation is today a holding company that owns subsidiaries engaged in investment banking and private client wealth management. Other businesses include oil & gas production; gold mines; natural gas storage; cattle, fish and chicken organic food stuff; as well as resource exploration and investment.

Dundee Resources includes:

- United Hydrocarbons
- Dundee Energy
- Dundee Precious Metals
- Metallex
- Dundee Agriculture
- African Minerals
- Dundee Sustainable Energy

Dundee Miscellaneous includes:

- Real Estate
- Food
- Casino & Hotels
- 360 VOX
- DREAM Unlimited
- Resource Innovation portfolio

In Dundee's initial *Annual Report* for the year 1991, dated May 11, 1992, I wrote that our investment philosophy encompassed fundamental principles and was totally oriented toward value. I stated that it was essential that we understood the business before we invested, and that we looked to purchase assets that were likely to increase in value by at least 150% over a five-year period. We knew from past experience that we must understand how to sell before we buy, and that always requires the establishment of a selling target along with a plan of action for achieving that target.

Our objective remains achieving outstanding per share value on a long-term basis for Dundee. In 1991, we expected to achieve this goal "by helping to develop businesses [that] generate positive cash flow and can consistently earn an above-average return on capital," with our management influencing strategic corporate decisions on financial and other capital allocations. Our view was, and remains, that when our target objective has been achieved, the initial investment position may be reduced to a portfolio position or eliminated entirely. I am proud to say that we have lived by that management process, providing our investee companies "an entrepreneurial owner/management team with capital and strategic experience and knowledge," while creating value for our investee clients as well as for Dundee.

The Clarkson Centre for Business Ethics and Board Effectiveness (CCBE) report of 2013 showed that we were able to achieve a 20-year share price return of 18% per annum for our shareholders, while increasing the market price of our stock by more than 30 times over that period. I can assure current shareholders that not one part of our process and philosophy has changed since 1991, and it is my intention to remain as a shareholder and senior officer of our company for as long as health and sanity allows. And, I hope for at least another 20 years with similar results. If perchance nature does not allow this, I can assure you that there are other well-trained, acceptable and younger replacements for me at our company. I use these individuals comfortably on a daily basis to help me.

The story of Bernard Baruch began in the aftermath of the U.S. civil war and stretches beyond the Atomic Age to the present day. In his day, instead of fighting the mainstream of the early U.S. economic policy, Mr. Baruch rode it. His success was that he was able to see the future and embraced the transformation of the U.S. from an agrarian republic to an industrial democracy. Using simple but intense thought, he dealt with the America that we experienced in place prior to the year 2000. Today, I read advertisements from those who used to be our competitors in the mutual fund industry that say, "Ready for what's ahead? The world is changing; get ready."

While I do not profess to have achieved anything close to Bernard Baruch's greatness, his writings did teach me that the future is always more important than the past – or even the present – when you want to be a good investor.

I am very proud of the fact that I was able to report in last year's *Annual Report* that our company had an 18% annualized return over the previous 20 years, as well as a 31% return in the three years following the 2007-2008 financial crisis. And, in 2013, we provided our shareholders a tax-free dividend that today amounts to about $16 per share when we spun out our real estate division, now known as DREAM Unlimited and trades on the Toronto Stock Exchange at $15 to $16 per share.

The question I am asked most often about our company is: "Why did you sell Dynamic Mutual Funds to the Bank of Nova Scotia?" The answer lies in the advertisement I quote above. It lies in the forward thinking that I have practiced, and learned from reading about others. It lies in the experience I have from gained from 50 years as an investment professional looking after other people's money.

The answer to that question also lies in an article I just read in the most recent *The Economist* entitled, *Death of the Fund Manager* (page 10, May 3, 2014), which I have copied below – not to brag, but to show how important it is to be aware of the future, both from a micro and macro view, in order to be a successful investor. I think the article explains our sale of Dynamic three years ago quite well:

"The business of managing other people's money is being commoditized. About time.

"The first stock market index fund was created more than 40 years ago, in 1973. Two years later, Jack Bogle of Vanguard launched the first index fund for retail investors. Dismissed at the time as a folly, the fund started with $11 million in assets; it now runs $166 billion, on which the annual costs paid by investors are less than one-fifth of a percentage point. That compares with the 1-2 points a year that investors can pay for active fund management, where the experts try to beat the index.

"The surprise is that the Vanguard fund is not bigger. In all, the asset-management industry runs $64 trillion. In many other businesses a cheaper competitor would sweep all before it. But index funds still comprise only 11% of the market.

"Two things have held them back. One is distribution: the people who sell funds to investors have had little incentive to sell cheap ones. Either they work for banks (and try to flog their own firm's products), or they are paid commission by the fund-management firm rather than by the client – and the higher a fund's fees, the greater the incentive to sell it.

"The other problem is a belief that investors can do better than the index by picking a hot fund: money for old hope. Some funds will indeed beat the index, whether by luck or skill. It is easy to identify those funds with hindsight, but hard to do so in advance. And the index represents the performance of the average investor before costs; the higher the costs, the greater the odds that a fund will do worse than the market.

"Thankfully the industry is changing. It is slowly being commoditised, like others before it. PwC, an accountancy and consultancy firm, thinks the market share of tracker funds will double by 2020.

“The change is happening for three reasons. First, more advisers are being paid a fee by their clients, rather than taking a commission from the fund provider. This allows them to recommend cheap products such as exchange-traded funds (ETFs), which track indices and can be bought and sold like regular shares. The ETF sector has increased sevenfold in a decade and is now nearly as big as hedge funds. Almost any asset class you can imagine can now be found in ETF form.

“Second, many active managers try to exploit anomalies in the market – for example, that smaller companies often beat larger ones, or that companies that look cheap relative to their assets or dividends subsequently outperform the market. But such strategies can be replicated by ‘smart beta’ funds at very low cost. This segment is also growing fast.

“The third change is the demise of defined-benefit pensions, where retirement income is linked to a worker’s final salary, in favour of defined-contribution (DC) ones, where the employee bears the risk. Employers that run DC schemes tend to use trackers, as an obvious way to show they are protecting their workers’ interests; the average cost of such schemes in large British companies is now 0.41%. That in turn puts pressure on the charges even of those active managers with a good record.

“Might a market dominated by trackers be more prone to bubbles, as investors pile into the biggest stocks regardless of their value? Not really. As the dotcom bubble showed, active managers are themselves prone to chase trends. And most smart-beta funds, by their nature, buy stocks that are unpopular; they will provide a natural counterweight. So the rise of index funds is one financial fashion that should be welcomed.

“Indeed, it should be encouraged by governments that would like citizens to save enough to give themselves a comfortable old age, rather than depending on the state. Governments should ensure that financial advisers are paid, not by product providers, but by clients (much as you would not want doctors to be paid by the drug companies). More countries should follow Britain’s example and stop the use of commissions. And the European Union should make more effort to ensure that funds are bought across national boundaries, rather than leaving people in the clutches of banks at home.

“In a world of slower growth, low inflation and Treasury-bond yields of 2.5-3.0%, future investment returns are likely to be low. All the more reason for them not to be eroded by the fees of an industry with such a lacklustre performance.”

So, fellow shareholders, you can easily see why Dundee’s Goodman & Company Investment Counsel sees the opportunity to once again offer anyone investment management in many ways, but not with old style mutual funds. Our investment management for the public will take place using fully managed low-cost, imaginative and performance-oriented exchange-traded funds that will be traded on the Canadian Security Exchange (CSE), a stock exchange in which we are 33% shareholders. I think that Bernard Baruch would agree and be proud of us. We are well-trained investment managers and will be available to the public through the entire brokerage community, of which approximately 100 currently work for Dundee Goodman Private Wealth (DGPW). We will also be offering alternative investment asset funds.

Our investment process remains dedicated to the future. Yes, the world is changing; the *Financial Times* has said that the world is "wobbling." We have been ready and, for our purposes, the future looks like we will have great investment opportunities that are fully managed with appropriate exposure soon after our family of exchange-traded funds are put on the market and our alternative funds are made available.

Let me add some recent news headlines I have seen, to reiterate why we left the mutual fund business three to four years ago:

- "An end for trailer fees"
- "Embedded fees must go"
- "Embedded commissions have outlived their usefulness"
- "Discretionary portfolio management is more efficient, that's the future of what clients want – simplicity" (and that's how we built Dynamic)
- "A year of notable changes to come"
- "Lacklustre pay miffs advisors"
- "Bank-owned investment dealers rule the roost when it comes to size and scope, but independent brokerages are praised for their ability to establish and maintain two-way communication with their advisors as well as having an inclusive culture"
- "The Canadian Securities Administration says it is considering further reforms as part of consultations on mutual fund fees it launched in 2012"
- "High fees mean lower returns – and increased risk"
- "Risk should be calculated differently for each product"
- "Not all indexes are created equal"

The most pride that I have about our entire Dundee/Goodman organization is the family culture that we have built and retain. We are not a family business – we are a business family.

Our culture is such that our advisors and those from other (possibly bank-owned) firms will be on the same page as us, or we will take proactive steps to deal with the many regulatory changes that are coming in the future. It's all about the future!

I started writing this on February 4, 2014, which, as I said, was the day on which our non-compete agreement with the Bank of Nova Scotia ended. I have been very fortunate in my career to have started my university study at McGill as an economic geologist under the tutoring of Dr. Thomas Clark for the oil & gas industry and Dr. James Gill for the mining industry. Both used the discounted present value method of future cash flows to determine value. As it happens, discounted cash flow (DCF), is what Warren Buffett uses for every industry in which he may get involved.

At a private luncheon I was honoured to attend, I was able to ask Mr. Buffett why in all his writings – annual reports, etc. – he never mentions whether he is optimistic or pessimistic about the stock market. His answer was that he is never either of those. I then asked the obvious, "What are your feelings for investment?" to which he replied that he is "realistic." When I asked him to expand on "realistic," he said "realistic" is when he can buy a company that will provide a 15% annual return on the purchase price forever. It is all about the right purchase of the right investment.

Other than my BSc and MBA degrees from McGill and the University of Toronto, I was fortunate to be one of the earliest Chartered Financial Analysts (CFA) in Canada. In addition, I have had the tremendous advantage of having as partners and friends two of the best money managers of our country – Austin C. Beutel and Seymour Schulich. Together, we created Beutel, Goodman & Company Ltd. as investment counselors and the Dynamic Group of Mutual Funds, both of which today are under new and different owners and managers.

What made us so successful in the past still remains with me as my personal assets, and my view of the investment management industry in general. What is it I, Austin, Seymour and, later, my sons and my family retain that relates to excellence in asset management?

In essence, our group collectively and individually were and are able to show that aggressive, intensive money management, with a large emphasis on capital appreciation, could produce consistently superior gains without undue risk. To this, we added that to only search for a fixed annual yield on one's investment was not necessarily prudent or realistic.

The key to our success is that we created and cultivated individual asset managers with success in investing other people's money. Many of these people are still with the Dynamic organization.

In our Dynamic days, we created enthusiasm that invariably rested upon freedom, individualism and pride in being successful. Our funds under management were left to individual portfolio managers rather than to an overseeing committee. We all acted as each other's "second opinion."

We tried to create an attitude and an environment where bright individuals were able to develop their talents to the greatest extent possible. Our attitude was laissez-faire, but without chaos. Being the father of four sons who are also portfolio managers, I believe firmly that "children always know you love them and that you are always there even when you leave them on their own."

David Goodman has returned to Dundee from his position as CEO of Dynamic Funds and we are moving back to the business of investment management under his leadership. In 2013, Goodman & Company, Investment Counsel Inc. created and privately seeded two alternative exempt market investment products – Goodman Bluespring Fund and Goodman Eclipse L.P.

Both have been in operation for approximately six months, and we have many more opportunities for those interested in alternative and other progressive investing.

Goodman Bluespring Fund employs a value-oriented investment strategy that seeks to identify mispriced public equities through proprietary due diligence and capitalize on the differential between our insights and those of an inefficient market. The fund's portfolio manager, Brian Bosse, is an advocate of using active value, intrinsic value and arbitrage pricing to make non-consensus investments.

Goodman Eclipse's current investment mandate is market neutral investing, with a focus on hard-asset companies. Goodman Eclipse employs conservative underwriting, rigorous bottom-up due diligence, with a focus on downside protection. The L.P.'s portfolio manager, Michael Costa, has successfully managed similar portfolios at both Goldman Sachs and UBS.

Since the expansion of DGPW, we have deepened the strong relationship between it and Goodman & Company to further identify and champion the needs of DGPW advisors and their clients. Caroline Cathcart, a portfolio manager as well, bridges the gap between Goodman & Company and DGPW. Under her guidance, Goodman & Company provides market strategy and individual investment research specifically tailored for DGPW advisors and their clients. Our private wealth research covers carefully analyzed and chosen investment ideas, and includes the following:

- Weekly market commentaries
- "*Weekend Reading*" summary of what we are reading
- "*Thoughts from Ned's Team*" – monthly market, sector, company-specific or thematic commentaries
- "*Perspectives & Market Comment*" – quarterly market review and outlook targeted for our DGPW high net worth managed clients

Now that we are free of our non-compete contract, both of our well-managed hedge funds are available to the public. We are back in the business that we know from successful past experience at Dynamic Funds and Beutel, Goodman & Company.

I am in currently reading an excellent book by Hunter Lewis entitled *Where Keynes Went Wrong: And Why World Governments Keep Creating Inflation, Bubbles, and Busts*. John Maynard Keynes came up with the idea that a government could take the edge off a business recession by making more credit available when money was tight, and by spending more money to make up for lack of spending on the part of consumers and business people. He even whimsically suggested the idea of hiding bottles of cash around town where people might find them and spend the money; thereby, causing a revival of the economy. Much of the tactics that former Fed chairman Ben Bernanke suggested, he could do in a similar vein by dropping money from a helicopter. Obviously the politicians of those days, and indeed even today, like the program of allowing government to meddle in private affairs on a grand scale. President Barack Obama is a big-time Keynesian money spender today.

But, even today, it does not seem to bother anyone in officialdom that the whole idea was actually stupid and is truly a scam.

Nobody seems concerned about the question: where does this new money come from? Whose money was it? What makes those economists think that they know better? Are not politicians supposed to work within political means rather than economic means?

There are many instances in life where we are given two ways to get what we want. There are honest ways and dishonest ways. There are economic means and there are political means. There is persuasion and there is force. There are civilized ways and there are barbaric ways.

But when economists undertake to get people to do what they want, either by offering them money that is not their own, by defrauding them with artificially low interest rates, or by printing money that is not backed by anything of real value (such as gold or silver), it can be said that they are using political means to achieve their goals. There are today a large group of us “non-Keynesians” who believe that these economists have crossed to the dark side. Let us face it, if the National Assembly could make people rich simply by passing laws, we would all be billionaires.

Where Keynes’ meddling and President Obama’s usage of the Keynesian approach is of greatest danger is in the U.S. dollar being today accepted as the reserve currency of the entire world. At a time when the world is undergoing momentous changes in Europe, Latin America, the Middle East, Asia and Russia, how long can the National Assembly of the U.S. allow the Fed to go on printing dollars that are not earned and not backed by anything other than faith that they will print more if you want to cash in your Treasury bills? How much longer will the U.S. be allowed to use the “scam” of printing reserve currency dollars and continue to have them accepted by equally smart but richer members of the world, such as China, Russia and the rest of the BRICS community? This is when we will find out where Keynes went wrong and why the world’s governments will not allow the U.S. and other countries to keep creating inflation, bubbles and busts by printing too much “paper” money.

Without the belief of the U.S. dollar as an acceptable world reserve currency, the U.S. is a bankrupt nation. The reserve currency is that country’s Achilles heel, and the stock and bond markets are not prepared for the consequences of the U.S. dollar no longer being a reserve currency.

Let us go back to 2008, when the world’s financial system failed and the world governments intervened decisively. President Obama was guided by many economists with impeccable credentials. The intention was to not only stimulate the economy, but to “jolt” it back to the schemata of borrowing and spending as usual. Critics (me among them) asked: “Doesn’t the root problem lie in the fact that Americans have already borrowed too much, and are now taking on more with the U.S. government’s attempts to relieve the country of its debt and deficit problems? Should the U.S. be allowed by its global neighbours to continue to print paper at will that has the unique advantage of being accepted by all as a reserve currency?"

If Keynesian economics are wrong and only lead to inflation, bubbles and economic busts, then so are the economic policies of President Obama, Ben Bernanke and virtually all world governments who remain friendly with the U.S. today. What happens when, like China and Russia, they all wake up to the fact that the U.S. dollar is not worthy of being a reserve currency and the U.S. is left to borrow from its own population, many of whom are unemployed, short of spending money and over-leveraged with debt?

Throughout my 50-year career, I have subscribed to a creative habit of always thinking about the end before starting the beginning. The story goes that Pope Leo X heard Leonardo da Vinci was experimenting with the formulas for varnishes instead of executing a painting. The Pope declared, "This man will never do anything, for he begins thinking about the end before beginning his work." However, it is amply clear Leonardo understood that the better you learn the nuts and bolts of your craft, the more fully you can express your talents.

The great painters of the world are incomparable draftsmen. They know how to mix their own paint, grind it, add the fixative – no task is too small to be worthy of their attention.

Great composers are usually dazzling musicians. They have to know their instrument and their abilities before they make the effort to play the tune in their heads.

The same can be said about great chefs who can chop and dice better than anyone else in the kitchen. And, the best writers are well-read people. They have a rich appreciation for words and vocabulary, and a keen ear for language and grammar.

I also know that a successful entrepreneur and investor must be able to do anything – develop a product, design an ad campaign, close a deal, and placate an unhappy customer as well as, if not better, than those who work for him or her.

Creativity is good, but craft is more important, and skill gives you the wherewithal to execute whatever occurs to you. As Picasso once said while admiring an exhibition of children's art, "When I was their age I could draw like Raphael, but it has taken a whole lifetime to draw like them."

Take a look at the U.S. jobs picture. The number of short-term unemployed Americans remains at nearly 11.3 million, or around 7.6%. Add to that 4.1 million long-term unemployed, and that equals 9.8% of work-aged adults. Now add the 5.6 million underemployed, and in total you get 13.6% of the country unable to find work to make ends meet – more than 21 million people. And the new jobs that are being created pay less than the jobs lost because of the Great Recession.

The only thing "improving" is the stock market.

I cannot say it better myself, and so I quoting Charles Goyette:

They Saved the Economy (But Have You Been to the Grocery Store?)
Charles Goyette

'It reminds me of that great Groucho Marx line: "Who are you going to believe, me or your lying eyes?"

A week ago, the Consumer Price Index numbers for April were reported. They showed that over 12 months, the CPI had climbed 2%. But food prices were the attention getter, reported to have risen 0.4% for the month. Annualize that.

It's hard to take government numbers seriously when confronted with the evidence of our own eyes. Just yesterday I was dispatched to Safeway to pick up a few things. As soon as I got home, my wife noticed that a large carton of Safeway's Lucerne brand cottage cheese, which has long been 32 ounces, has suddenly been repackaged in a 24 ounce carton.

There's a lot of that sort of thing going on these days. We've all seen it – laundry detergent, cereal, paper towels, cookies, peanut butter and other products, all being repackaged to conceal price increases. But then who are you going to believe, government statistics or your own experience?

I call it the phenomenon of the incredible shrinking candy bar. We see it when inflation starts moving.

Producers, wholesalers, retailers and marketers get very creative about passing higher prices along to the consumer. You may feel deceived when you notice that the new cereal box appears to be the same size – the front of the box looks the same – but it has actually been narrowed considerably.

It wasn't long ago that my wife came home angry because what had always been a five-pound bag of sugar had suddenly shrunk to just four pounds. Smaller packages are just one manifestation of the rising prices. Sometimes it's a deterioration in product quality. Other times service is downgraded. If balancing your new tires was free, now it costs; if delivery and set-up was free, now it's extra. I suppose it's a normal thing for people to blame the producers and the merchants for these things. But such blame is misplaced since they are victims, too. Victims of a round of monetary malfeasance dating back to the mortgage meltdown in 2008.

At this juncture, with consumer prices beginning to rise, the narrative that former Treasury Secretary Tim Geithner is proclaiming with his new book, that he and the

Keynesian crew of Geithner's predecessor, Henry Paulson, former Fed Chairman Ben Bernanke, and the rest "saved the economy," is more than a little unseemly.

Paulson has also been full of praise for the way he and Geithner and Bernanke worked with each other to "Stop the Collapse of the Global Financial System," as his book's subtitle so modestly describes their heroics.

Does it strike anybody as odd that capitalism should be so very frail, and that although it is capable of creating wealth and prosperity such as the world had never before seen, it can easily be brought to its knees by the misfortunes of a handful of reckless crony banks?

Even if not true, this narrative proved to be persuasive enough to enable those cronies to become the special beneficiaries of a wealth transfer of epic and unprecedented scale.

In any event, one must take the economic "saviors" claims of success with a great deal of skepticism. Among the saviors was Neel Kashkari. A colleague of Paulson's at Goldman Sachs, Kashkari was named to manage the TARP program, the $700-billion Bush bailout.

Now running for governor of California, Kashkari, with all the characteristic modesty of the rest of his colleagues, claims that the bailout program was not only a success, but that it actually made a profit.

"In other words, despite capitalism being so pathetically inept, once the economic saviors took on the task, deftly applying just the right resources to just the right places at just the right time, the water of capitalism's failure was turned into the wine of profitability. It is well past time to reconsider the entire narrative that we have gotten from the monetary and fiscal authorities about their actions. It is a narrative repeated endlessly by the influential and well-connected institutions that profited from the policies. Of course the shameless wealth transfers were a success from their perspective. They got the money!

But there is another side to the balance sheet: the costs. A hard reckoning of the price paid has yet to be made.

The narrative of success is also a short-term story. While the banks have temporarily kept their freshly printed windfall dollars quietly on account with the Fed, the short-term view has prevailed. And while it is true, as Keynes observed, that in the long run we are all dead, the short-term narrative is beginning to expire, the money is beginning to move, and we are still here to witness its aftermath.

Among the costs that the US will have to confront is some $400 billion that savers have been deprived of as the Fed contrived its zero interest-rate policy. It was a move to make the banks whole at the expense of savers. It may not be long before we learn about the consequences of that policy on Americans who were forced to seek riskier alternatives to the pitifully low rates earned on savings.

Some close observers of the Fed's economic miracles are starting to get nervous for other reasons. In a piece this week speculating about what the Fed can do with the trillions of dollars it printed to take troubled bonds off the books of the banks, Wall Street Journal *reporter Jon Hilsenrath discusses the Fed's interest-rate tools. He writes, "As Fed officials move toward a new system, trading in the fed funds market could dry up and make the fed funds rate unstable. That could unsettle $12 trillion worth of derivatives contracts called interest rate swaps that are linked to the fed funds rate, posing problems for people and institutions using these instruments to hedge or trade."*

Phoenix Capital Research has responded to this account saying, "So ... the Fed may not be able to raise interest rates because Wall Street has $12 trillion in derivatives that could be affected?

"Weren't derivatives the very items that caused the 2008 Crisis? And wasn't the problem with derivatives that they were totally unregulated and out of control?

"And yet, here we find, that in point of fact, all of us must continue to earn next to nothing on our savings because if the Fed were to raise rates, it might blow up Wall Street again... simply incredible and outrageous."

So now, after all the crazed money printing of the past six years; after all the monetary authorities' certainty and bluster about the wisdom of what they were doing; after turning a deaf ear to the Austrian economists whose track record of warnings on such polices has been dead-on; after all of that, we are beginning to hear forebodings from the authorities. They are whispering among themselves that they don't know how to exit from their reckless policies.

The most destabilizing results of the Fed's actions are beginning to show up in the price of groceries. In the repackaging of consumer goods like cottage cheese to conceal price increases. In the faces of shoppers in the checkout line wondering how they will make the household budget work.

The further squeezing of the middle class has been forestalled for a while, but seeing is believing. Rising prices at the grocery story tell us that the Fed's monetary excesses are now beginning to trickle into everyday commerce in the form of higher prices.

And what starts as a trickle can end in a flood.'

Best wishes,
Charles Goyette

Thank you, Charles

The "Botox" economy may soon bring rough waters. There is currently significant deterioration beneath the market's surface, and we are at a point where almost everything is overbought. Insider selling and sentiment numbers are flashing warning signs, and negative divergences are present in a plethora of indicators. Furthermore, excessive margin is being utilized. Valuation is also in the top 5%, when compared to the past 100 years. More recently, key names such as IBM and Caterpillar are breaking down technically, hitting six- to nine-month lows, while the market is at virtual all-time highs. This sub-surface deterioration is a clear sign that rough waters are ahead. It is time to batten down the hatches and prepare for the inevitable storm!

The front cover of any major publication serves as an excellent contrarian indicator. A recent *Barron's* cover portraying bullishness is definitely negative from a contrarian's point of view.

Last spring, insiders were heavy sellers ahead of the June correction. Upon this recent advance, the ratio of sellers to buyers has again become extremely bearish.

Before the 1981 start of the generational bull market for bonds, rising unemployment and slowing economic growth over the previous 16 years led to virulent inflation that Paul Volcker had to control in 1980 through very high interest rates. Because of the growing financial crisis Ben Bernanke – to fight deflation – started supplying more money with his printing press than a "normal" economy would require. The result he must have hoped for is a global devaluation of the U.S. dollar and rising interest rates, as well as rising asset prices in U.S. dollars.

So here we are, well into 2014, and the headline media noise coming out of Wall Street is that we should be looking at financial stocks for our portfolio. This concept has been around for some time, along with the new "Volcker Rules" and the bullish noise that has been baked into financial stocks for some time now. The main force facing all financial companies is, of course, the outlook for interest rates and the ultimate shape of the yield curve. Longer term, U.S. bond yields will be bumpy, but, in the end, will rise significantly as the Fed goes through the transition of its new leadership. I was fortunate to spend some time with Warren Buffett early this year and learned that he, like me, is quite sure U.S. interest rates are going higher. In his view, this will be the basis of renewed U.S. economic growth, which is expected to continue gradually before 2014 ends. But, it is also likely that the new Fed leadership will pay too much public lip service before we will see any significance of higher interest rates and positive moves for financial stocks.

Personally, I am more concerned about the U.S. heading into a hyperinflationary mode before the end of 2014. John Williams of Shadow Government Statistics, whose views I respect, has been predicting U.S. hyperinflation “by the end of 2014” since January 25, 2012. He predicted that “heavy sellers of the U.S. dollar could hit with little warning.” In November 2012, Dr. Williams wrote that the U.S. economy was already in a stagnant renewed contraction.

To quote his 2012 viewpoint, which he still maintains is “inevitable”, “The US financial and political system has been troubled for decades, with the government and consumers living well beyond their means, supported by excessive and unsustainable growth in debt.” He added, “Faced with structured impairments to individual income growth, the Federal Reserve (former Chairman Alan Greenspan) actually encouraged the excessive growth of consumer debt as a way to support overall economic activity, which continuously was borrowing economic growth from the future, and the Federal government handled their affairs likewise. Inevitably the day of reckoning for the US financial and banking system came literally to the brink of collapse in September 2008. To prevent the unthinkable, the Federal Reserve and the US government, created, spent, loaned, guaranteed and gave away whatever money was necessary.”

But they did bail out or acquired a number of large corporations, including a number of banks, including AIG, GM and Chrysler. Anything needed to keep the system afloat was pursued, whatever the cost. These actions did forecast a system collapse, but did not really resolve the fundamental underlying difficulties. The economic downturn “exacerbated systemic excesses.” Dr. Williams goes on with “contrary to official GDP reporting, there has been no subsequent economic recovery in the US. Broad business activity in the US has been stagnated since 2006 and the negative implication of a deteriorating economy for the US dollar, political, and central bank issues are rapidly turning against the US currency, upping the risk for a major sell off of the US dollar in the foreign exchange market in the near term.” (November 20, 2013.)

Dr. Williams expects the weakening dollar to translate into higher oil prices and new consumer inflation. On November 20, 2013, he reiterated that his hyperinflation call of 2012 remained unchanged, saying, “The entire unfunded liabilities for the Medicaid overhaul added nearly $8 trillion in net present value unfunded liabilities to the 2004 federal deficit, exceeding the total $7.4 trillion gross federal debt of the time in 2004.”

The U.S. stock market and its gains are illusions caused by purposely faulty statistical information provided by the government. Dr. Williams wrote, “It is the global flight from the dollar – which increasingly should become a domestic flight from the dollar – that should see the early stages of the domestic hyperinflation.”

We are approaching the “End Game.” The bridge of the world is weak. Nothing is normal: not the economy, not the financial system, not the financial markets, and not the political system. The financial system still remains in the throes and aftershocks of the 2008 panic and near-systemic collapse, and from the ongoing responses to same by the Fed and the federal government. According to Dr. Williams, further panic is possible and hyperinflation remains inevitable.

Typical of an approaching, major turning point in domestic- and global-market perceptions, bouts of extreme volatility and instability have been seen with increasing frequency in the financial markets, including equities, currencies and the monetary precious metals (gold and silver). Consensus market expectations on the economy and the Fed policy also have been in increasing flux. The Federal Open Market Committee (FOMC) and then Fed Chairman Ben Bernanke put forth a plan for reducing and eventually ending quantitative easing in the form of QE3, but that appears to have been more of an intellectual exercise aimed at placating Fed critics, than a plan to actually "taper" quantitative easing. The tapering or cessation of QE3 was contingent upon the U.S. economy performing in line with deliberately, overly optimistic economic projections provided by the Fed.

Manipulated market reactions and verbal and physical interventions have been used to prop up stocks and the dollar, and to pummel gold.

Underlying economic reality remains much weaker than the Fed's projections. As actual economic conditions gain broader recognition, market sentiment even could shift from what now is not an imminent end of QE3, but an expansion. The markets and the Fed are stuck with underlying economic reality and, increasingly, they are beginning to recognize the same. Business activity remains in continued and deepening trouble, and the Fed is locked into quantitative easing by persistent problems that are now well beyond its control. Specifically, the banking system's solvency and liquidity remain the Fed's primary concerns and are driving quantitative easing. Economic issues are secondary concerns and, for the Fed, these are used merely as political cover for quantitative easing or printing money, which should continue for as long as required.

The same systemic problems face today's Fed Chair Janet Yellen, who will have to deal with the same quandaries and issues addressed by Ben Bernanke. Wherever she will be involved actively in formulating current Fed policies, no significant shifts are likely. More printing should continue for the foreseeable future.

The still-forming great financial tempest has cleared the horizon. Its early ill winds are being felt with increasing force. Its impact on the U.S. and those living in the dollar-based world will likely dominate and overtake the continuing economic and systemic-solvency crises of the last eight years. The issues that never were resolved in the 2008 panic and its aftermath are about to be exacerbated. Based on the precedents established in 2008, likely reactions from the Obama government and the Fed would be to throw increasingly worthless money at the intensifying crises, hoping to push the problems even further into the future. Such attempts to save the system, however, all have exceptional inflationary implications for the future.

The global financial markets appear to have begun to move beyond the forced patience with U.S. policies that had been induced by the financial terror of the 2008 panic. Again, the U.S. dollar likely faces extreme and negative turmoil in the months ahead.

We are still living with the 2008 crisis. Despite the happy news from the headline gross domestic product (GDP) reporting that the recession ended in 2009 and the economy is in full recovery, there never has been an actual recovery following the economic crash that began in 2000, and collapsed into 2008 and 2009. No other major economic data series has confirmed the pattern of activity now being reported in the GDP. Indeed, the 2012 household income data from the Census Bureau showed no recovery whatsoever.

What followed the economic crash was a protracted period of U.S. business stagnation that began to turn down anew in the second and third quarters of 2012. The official recovery seen in GDP has been a statistical illusion generated by the use of understated inflation in the calculation of key economic statistics. Nonetheless, given the nature of official reporting, the renewed downturn still should gain eventual recognition as the second-dip in a double- or multiple-dip recession, according to Dr. Williams.

What continues to unfold in the systemic and economic crises are just ongoing parts of the 2008 turmoil. All the extraordinary actions and interventions bought a little time, but they did not resolve the various crises. That these crises continue can be seen in the deteriorating economic activity and the Fed's ongoing panicked actions, where it is still proactively monetizing U.S. Treasury debt at a pace suggestive of a Treasury that is unable to borrow otherwise. As of the government shutdown, the Fed had monetized in excess of 100% of the net issuance of U.S. Treasury debt since the beginning of calendar-year 2013.

The Fed's unconscionable market manipulations and game playing in fueling speculation over the future of quantitative easing clearly were used to move the U.S. dollar (the purpose of initial quantitative easing was U.S. dollar debasement). Continuing efforts at dollar-debasement are not about to go away. Further complicating the circumstance for the U.S. currency is the increasing tendency of major U.S. trading partners to move away from using the dollar in international trade. The loss of some reserve status for the U.S. dollar is likely as these crises break, and this should intensify both the dollar-selling and domestic U.S. inflationary pressure. A recent Russia/China trade for US$400 billion of natural gas has completed without any U.S. currency.

The Fed's recent and ongoing liquidity actions themselves signal deepening problems in the financial system. Dr. Bernanke has admitted the Fed can do little to stimulate the economy, but it can create systemic liquidity and inflation. Accordingly, the Fed's continuing easing moves appear to have been primarily an effort to prop up the banking system and provide back-up liquidity to the U.S. Treasury, under the political cover of a "weakening economy."

The Fed's new Chair, Janet Yellen, has bought into Dr. Bernanke's program in totality. However, as much as her words seem to imply continuing "tapering," the reduction in QE3 is likely to be minimal because the Fed is facing further, not less, financial system stress. Dr. Yellen will soon find herself under pressure from the market, as well as her not-yet-confirmed associate, Stanley Fischer, who likely shares the view of the so-called "hawks" on the Fed who are questioning the very efficacy of quantitative easing. This may be why Dr. Yellen's first message was that further tapering remains "data dependent."

Some, including me, suspect that Dr. Fischer's selection as Vice-Chairman was designed to dilute Dr. Yellen's dovish views. This means Dr. Yellen will likely not be able to use the weakness in the labour market as cyclical rather than structural, and also reduces the likelihood of something concrete being done about more than 6.5% unemployment, which comes about because people are leaving the workforce and are not getting unemployment insurance money. She does not seem to make any distinction between the ending of tapering and higher interest rates, while keeping close to zero interest rates in place.

Dr. Fischer is the previous central banker of Israel, where he did a superb job. He has always maintained that it is impossible for a central banker to predict the future. His background also shows some skepticism about the efficacy of quantitative easing. His appointment by President Obama may be a sign that the administration is having second thoughts about quantitative easing because of the discrepancy of a growing division of wealth gains, but he did insert the Foreign Account Tax Compliance Act (FATCA).

Dr. Yellen came to the job of leading the Fed in the 45th successive month in which the number of Americans leaving the labour force exceeded those that found a job. It is likely nonetheless that, when the decision is based on the results, negative stock and bond market action will give Dr. Yellen excuse for retreat, because, as Christopher Wood of Asia-based think tank Credit Lyonnais Securities Asia (CLSA) said earlier this year: "QE is a trap from which it is hard to get out of." He also reminded us that with Dr. Yellen's focus on "normalization of monetary policy and 'tapering', the Fed will still expand its balance sheet by US$65 billion this February." The money printing continues until further notice.

John Williams continues to remind us that the U.S. administration's inflation statistics are continuously understated, and that this has the effect of overstating the U.S. economy's inflation-adjusted growth. He maintains that if the deflation measure were "corrected," meaning filling for the hedonic-adjusted understatement of the respective Producer Price Index (PPI) inflation measure, the post-2009 uptrend would be a "little more than a flat line," reflecting an ongoing bottom bouncing along a low level plateau of economic activity, with a pattern of renewed downturn now well entrenched. The only thing in the U.S. Botox-fixed economy that is going up is the stock market, and we should expect weaker economies and stronger inflation.

Dr. Yellen will likely soon find out that it is not easy to arrange a good track record. Yes, she has been sitting beside Ben Bernanke for the last several years, but the calls were his. Today she has a new partner, Stanley Fischer, and a hurting U.S. economy that will remain so in the months and years ahead. Higher inflation in the U.S. is a very strong likelihood. Meanwhile, the dollar faces a pummelling from foreign dollar holders, the ongoing U.S. fiscal crisis, a weakening U.S. economy and deteriorating U.S. political conditions on a worldwide basis.

The U.S. today is less influential, less esteemed and less assertive; the superpower nation has been reduced, all caused by Washington's policy of intervening and being constrained less when it comes to world problems.

President Obama says leading from behind, pressing the reset button, and more flexibility is a great reason to be humble. But, the world takes it as a retreat and reacts accordingly. But, per the Pew Research Center's survey, this is what the U.S. wants. America has become less respected and its enemies are brazen and aggressive.

The U.S. government intervention has distorted the allocation of resources and slows the transition to any sustainable solution. The economic stimulus provided by the Fed exhausts precious resources, scares off productive risk taking, leaves structural problems unresolved, and has accumulated a massive mountain of debt in its wake.

Four years ago, U.S. taxpayers did not realize that the Botox stimulus would come at such a huge price tag, without really any permanent positive results. They soon will. The most insidious mistakes are almost always the ones you do not realize you are making. They are things that you do on purpose – but with unintended or unexpected consequences because your mental model of the world and its economy at the time is just wrong.

But worse, long before the unintended consequences unfold, even the intended consequences do not take place according to plan. If the Fed's stated dual goal of full employment and price stability is to be believed, there is a long and increasingly tenuous lag between the actions and results.

Since the recession ended in June 2009, 95% of the gains in income from the Fed's largesse accrued to the wealthiest 1% of Americans. This is the largest of its kind since the Roaring Twenties. The top 1% earned almost 20% of household income last year, the biggest share since 1928, and the wealthiest 10% captured a record 48.2% of the annual household income. All the while, almost 50 million people are on government food subsidy and home rental subsidies.

To change the subject to something more germane to our company, in 2011, the McKinsey Global Institute (MGI), together with McKinsey's Sustainability & Resource Productivity Practice (SRP), published a report entitled *Resource Revolution: Meeting the world's energy, materials, food, and water needs*. In this report, SRP highlighted the fact that the world is in the throes of a fundamental shift in the resource landscape. The unprecedented pace and scale of economic development in emerging markets means demand for resources is surging, and prices for most resources have risen sharply since the turn of the century.

The most recent MGI resource-related research, dated September 2013 and entitled *Resource Revolution: Tracking global commodity markets*, highlighted the fact that, despite declines in some resource prices over the past two years, commodity prices have more than doubled since 2000 on average. Even with a step change in resource productivity – the efficiency with which we develop, extract and use resources – significant additional supply of resources will be needed to support economic growth.

Another MGI report entitled *Reverse the curse: Maximizing the potential of resource-driven economies* builds on past work by taking a closer look at how the world's rising need for resources can be met. In particular, it examines how countries that have large resource endowments can handle them more effectively in order to bolster economic development. This research is a joint effort of MGI, SRP, and McKinsey's Global Energy & Materials Practice (GEM). It aims to offer new insights on how the supply landscape is evolving in oil & gas and minerals, and the potential opportunity for resource-driven economies. It discusses how policy makers in these countries will need to adopt new approaches to ensure that their resource endowments are a blessing for their economies rather than a curse, as they have proved all too often in the past. The report considers issues ranging from local content to shared infrastructure and economic diversification. It also examines the strategic implications for extractive companies and argues that they, like governments, will need to adopt a new approach if they are to reap the full benefit of new resource reserves that could come online in the years ahead.

The historical rate of investment in oil & gas and minerals may need to more than double by 2030 to replace existing sources of supply that are coming to the end of their useful lives, and to meet strong demand from huge numbers of new consumers around the world, particularly in emerging economies. If resource-driven countries, particularly those with low average incomes, use their resource sectors as a platform for broader economic development, this could transform their prospects. The research estimates that these economies could lift almost half the world's poor out of poverty – more than the number that have left the ranks of the poor as the result of China's rapid economic development over the past 20 years.

However, many resource-driven countries have failed to convert their resource endowments into long-term prosperity. Almost 80% of these countries have per capita incomes below the global average, and since 1995, more than half of these countries have failed to match the average growth rate (of all countries). Even fewer have translated growth into broad-based prosperity. On average, resource-driven countries score almost one-quarter lower than other countries on the MGI Economic Performance Index. In addition, only one-third of them have been able to maintain growth beyond the boom. As a result, resource-driven countries need a new growth model to transform the potential resource windfall into long-term prosperity.

On average, resource-driven countries do not compare favourably with the rest of the world on their infrastructure, and this often puts investors off. The Fraser Institute's survey of mining companies finds that more than 55% of investors considered infrastructure a deterrent to investment in 15 of the 58 countries analyzed. Drawing on research by MGI and McKinsey's Infrastructure Practice, we estimate that resource-driven countries will together require more than US$1.3 trillion of annual total infrastructure investment over the next 17 years to sustain projected economy-wide growth. This is almost quadruple the annual investment that these countries made during the 17-year period from 1995 to 2012.

As a result of the likelihood of generally rising resource prices and the expansion of production into new geographies, the number of countries in which the resources sector represents a major share of their economy has increased significantly. In 1995, there were 58 resource-driven economies that collectively accounted for 18% of global economic output. By 2011, there were 81 such countries, accounting for 26% of global economic output, and today it is higher still.

Unprecedented scale of new demand. More than 1.8 billion people will join the ranks of the world's consuming class by 2025. The growth of India and China is historically unprecedented: it is happening at about 10 times the speed at which the U.K. improved average incomes during the Industrial Revolution and at around 200 times the scale. The new demand caused by this consuming class is huge. If we look only at cars, for example, it is expected that the global car fleet will double to 1.7 billion by 2030. Demand from the new consuming classes will also trigger a dramatic expansion in global urban infrastructure, particularly in developing economies. Every year, China could add floor space totalling 2.5 times the entire residential and commercial square footage of the city of Chicago. India could add floor space equal to another Chicago annually. All of the above is according to the work done by the McKinsey Institute.

The result will be that high levels of new investment will be needed to meet the demand for resources and replace existing sources of diminishing supply. Even if we assume a significant improvement in resource productivity and shifts in the primary energy mix consistent with achieving a 450-ppm carbon pathway, MGI estimates that US$11 trillion to US$17 trillion will need to be invested in oil & gas and minerals extraction by 2030. This is 65% to 150% higher than historical investment over an equivalent period.

It is likely that Africa has more, not fewer, assets than advanced economies that have been extracting resources for two centuries. But to date, there has been only limited international investment in exploration and prospecting in Africa. Much of that continent's resources still await discovery or development. Our position in oil & gas in Chad is a good example.

Once again, according to McKinsey, if all resource-driven countries were to match the average historical rate of poverty reduction of the best performers in this group, there is potential to lift 540 million people out of poverty by 2030. This is more than the number of people that China managed to lift out of poverty over the past two decades.

Investment in resource extraction could trigger economic and social transformation in lower-income countries over the next two decades.

The U.S. faces a move towards hyperinflation, which will be accelerated by the current official reactions. Even with the U.S. government's spending, debt and obligations running far beyond its ability to cover with taxes, or its political will to cut entitlement spending, the inevitable inflationary collapse, based solely on these funding needs, possibly could have been pushed well toward the end of the current decade. Yet, the effects of various systemic crises, the extraordinary economic downturn and the government's responses, have advanced the shift in U.S. Social Security funding from net surplus to net deficit by several years.

The Fed and government responses to these crises also have destroyed the usual global confidence in the U.S. dollar, and have otherwise rapidly accelerated the pace of movement toward a deeper economic crisis in the U.S.

Conceivably, massive and fiscally painful action now by the U.S. federal government to restore and maintain long-range U.S. government solvency still could avoid the likely dollar collapse. But the political will to do so does not seem to exist among those who control the federal government (at present). This has been evident in the actions of both the White House and Congress in the last six-to-eight months.

The printing presses have been running, and the Fed has been working actively to debase the U.S. dollar, effectively fully funding net U.S. Treasury debt issuance to the public during QE2 and QE3. The current global rejection of the U.S. dollar and criticism of U.S. government fiscal actions and the Fed's monetary policy generally have been accelerating, along with calls for a new world reserve currency. Heavy selling pressure against the U.S. dollar has been relieved at key times by the markets turning their focus to the euro, which has also been targeted artificially.

It is in this environment of rapid fiscal deterioration and related massive funding needs that the U.S. dollar remains vulnerable to a rapid and massive decline, along with the likelihood of a dumping of domestic- and foreign-held U.S. Treasuries. The Fed might be forced to monetize further significant sums of Treasury debt, triggering the early phases of a monetary inflation. Under such circumstances, current multi-trillion dollar deficits would feed rapidly into a vicious, self-feeding cycle of currency debasement and possible hyperinflation.

Gary Shilling told us in his 2011 book, *The Age of Deleveraging*, that the good life and rapid growth that started in the early 1980s was fuelled by massive financial leveraging and excessive debt, first in the global financial sector, starting in the 1970s, and later among U.S. consumers.

That time of leveraging propelled the dot-com stock bubble in the late 1990s and followed up with the famous housing bubble. Those two sectors were, of course, later forced to deleverage, and, in the process, transferred their debts to the banks and the U.S. government. That deleveraging is still taking place, and today we are living with the new leverage that has come as a result of the 2008-2009 economic and stock market breakdown.

Deleveraging never occurs in a straight line, but in a series of seemingly isolated events. To quote Gary Shilling again, "When the subprime residential mortgage market collapsed in 2007… it spread to Wall Street with the implosion of two big Bear Stearns subprime-laden hedge funds in June of that year. Most thought that the financial crisis was then over. But it spread instead."

The savings rate of American customers fell from 12% in the early 1980s to 1% before the rebound, meaning that, on average, consumer spending rose, but Americans were saving less of their after-tax income.

As Will Rogers once told us, “Things ain’t what they used to be, and probably they never was.”

Business conditions prior to the onset of globalization and the emergence of China as a major global industrial country probably did create the evolution that has gradually created a world connected by fewer threads and a very weak bridge. Occurrences far from home now have a direct and immediate impact on U.S. stock markets and companies. Today, as a business and investment leader, we have to rigorously plan for and seize the new future or we will soon find out that we are losing.

The great demographic tide is ebbing and flowing. Our developed world is aging and making many mistakes about health, retirement and social security programs. We are living in the past.

Meanwhile, the developing world has millions of ambitious young people looking for jobs and trying to create economic growth. Companies need a global view today.

Warren Buffett did not make his billions by buying cheap. He did it by buying at the right time in the economic scene and by working safely, using valuation that made sense when applying a discounted present value of future cash earnings. And, in the inflationary crisis that I currently foresee, along with what is now in my opinion an overvalued U.S. stock market – safety is important. The U.S., and the world, is undergoing a monetary crisis. Virtually all countries are printing money and have more debt than is possible to reduce easily, along with very low artificially installed interest rates, mostly created so that the U.S. could afford to carry its very large and rising debt load.

The monetary crisis that I foresee as a result of what you just read, for the U.S. at least, will be that interest rates will rise significantly from the zero interest rate policy (ZIRP) and stocks will plummet, while the U.S. dollar loses its status as the world’s reserve currency.

Many investment professionals profess to be being value investors (à la Graham and Dodd and Buffett). However, during the inflationary crisis that I foresee, it will be more important to be either out of the market in general or to own businesses that do better because of inflation (or that can at least hold their own during a stagflation or inflationary environment).

It is not time to conclude that inflation is dead, as the Fed lies to us. It is time to be worried about possible hyperinflation and interest rates rising to unacceptable levels.

It is time for protective investments – hard assets that will rise with the inflationary impact that the world will face.

The U.S. central bank has printed so much money that the U.S. dollar has fallen to a billionth of its value in the last 25 years. The U.S. care of its money value resembles Argentina. To retain the buying power of a single Argentine peso in the year 2000, you today need 100 billion pre-1983 pesos (they are called pesole). If you laid those pesos end to end, they would go around the earth at the equator, loop from pole to pole, and reach all the way to the sun. The paper costs more than what that money is worth.

In a nutshell, I believe that interest rates will rise, stocks will plummet off their Botox-induced highs, and the U.S. dollar will lose its status as the world's reserve currency. I am also negative about the capital markets' equity component.

When I started in the business, the Dead Sea was still alive. I am just delighted that a pipeline carrying water from the Red Sea to the Dead Sea will give it life once again. I feel really good in the same way, because, after many months, my non-compete in the investment management world that emanated from the sale of Dynamic Funds expired early this year, and we are going back into the investment business at a time when the overall stock market will be falling out of bed and give us a good buying period.

The elimination of the U.S. dollar as the world's reserve currency and China's continuous acquisition of gold bullion has serious implications for gold, agricultural land, real estate – all inflation resistant areas, and the places to be.

In his inaugural address, Chinese President Xi Jinping laid out his new aspirational proposal. He spoke of a dream born from an accident of history. In the Middle Ages, China was the most advanced country in the world. The Chinese developed the compass and printed books well before their counterparts in the West. The gun that laid waste to Constantinople in 1453 and ultimately brought the Middle Ages to an end was based on Chinese gunpowder and cannon technology.

The following 400 years of stagnation put the brakes on China's development and paved the way for "a century of humiliation" by the West. President Xi is tapping into a well of cognitive dissonance and historical insecurity in a bid to re-unify the populace under a new Big Tent vision: the pursuit of happiness.

For a uniquely Chinese vision, President Xi's "Chinese Dream" bears an awfully close resemblance to Adam Smith's Invisible Hand and Roman law.

Put simply, we need to leave to the market and society what they can do well, and on the part of the government we need to manage well those areas that fall into its purview. "Law should have a sacred place in our society. No matter who you are, and what you intend to do, you should not step beyond the boundary of the law," said President Xi.

To paraphrase some of President Xi's other inauguration comments: "China today is a 21st century world member and even with its historical background we are participating in an economic world no longer merely modelled on and shaped in accordance with America's psyche. The rise of China in the last 10 or 12 years is proving to be a defining economic and geopolitical change in world political and monetary affairs."

Becoming the leader of a country as important as China today requires some celebrating. Both times Barack Obama was voted in as President, he celebrated by taking his wife and family on a special trip and holiday, but not to Kenya or Hawaii to visit family and/or old friends.

What did Mr. Xi do almost immediately after he was chosen as China's leader? He called his good friend Vladimir Putin, the head of Russia, and told him that he was coming to Moscow for a visit. Mr. Putin welcomed the self-invitee and the two leaders met at the Kremlin.

When asked, President Xi described his visit to Russia as a meeting of "strategic partners." In Russia, President Putin greeted China's new President thus: "We are grateful for your decision to make your first foreign trip to our country."

The recent major sale of natural gas from Russia to China has enormous, but probably negative, implications for the U.S. that have yet to be flushed out. The meeting between Presidents Putin and Xi focused on a raft of energy and investment accords. A key deal foresees Russia massively ramping up oil and natural gas supplies to China.

Following his welcome in Russia, Mr. Xi said, "Russia-Chinese ties are an important factor of international politics" and that he was eager to boost "strategic cooperation" with Mr. Putin. "We are good friends," said Mr. Xi.

Clearly, we are looking at a new world epoch in relations between two very large and rich countries, including the country with the world's largest population and one that appears to be destined to be a world economic leader.

We must remember that Russia and China are key members of the BRICS group of emerging countries, which includes Brazil, India, South Africa and others.

Talking about the U.S. reserve status dollar in 2011, China's previous President, Hu Jintao, said, "The current international currency system is the product of the past." He noted then that making the RMB (yuan) an international currency would be a very long process. Two years later, interacting with *The Wall Street Journal* and *The Washington Post*, he said of the stock market and financial crash of 2008, "It's root cause lies in the serious defects of the existing financial system." He added that global institutions had "failed to fully reflect the changing status of developing countries in the world economy and finance."

Mr. Hu also said, "The monetary policy of the U.S. has a major impact on global liquidity and capital flows and, therefore, the liquidity of the U.S. dollar should be kept at a reasonable and stable level."

It is clear Ben Bernanke took the comments of Mr. Hu to be his model. The problem is that, while he was printing money, using the U.S. gift of having a reserve currency, to raise new required debt for the U.S., China was using Mr. Hu's plan to continually cash in its ownership of U.S. Treasury bills, and using the U.S. currency so obtained to buy gold bullion, as well as resources and many hard asset companies all over the world.

How long before the new "strategic partnership" between Russia and China and the other BRICS countries tell the U.S. that its "reserve currency" needs to have some backing other than "trust in God?"

There is some likelihood that, in the next little while, the BRICS nations will begin to move to unwind the U.S. dollar as the global reserve currency.

The following is quoted from a book written by Matthew Hart entitled *GOLD: The Race for the World's Most Seductive Metal*.

"Gold lost its structural ballast when it lost its formal relationship to money. Now it tosses on the same sea of events as other assets.

"In 150 years the world supply has grown from 10,000 metric tons to 170,000, from a modest cube six feet a side to a dazzling block that would cover the infield at Yankee Stadium. Every three years we pack as much fresh gold onto the block as our ancestors mined in 6,000 years. We trade it like men possessed. Every quarter an amount of gold equal to twice the amount ever mined flies back and forth in London in a storm of trades. And that's just the metal. Trading alongside it is an even thicker blizzard of derivatives. Yet even though the gold trade has accelerated to the hyper-speed of modern commerce, its folkways are as secretive as ever, less like a business than a court intrigue. One of the gold world's traits is secrecy. They polish furtiveness as if it were the family silver. Consider the arcane practice of fixing the price. Every weekday morning at 10:30 a dealer in the precious metals trading rooms of a London bullion bank picks up the phone and punches into a special line. The dedicated line connects him to four other bankers. The five banks form a powerful and self-policing group called the London Gold Fixing. Its members are: ScotiaMocatta, the gold trading arm of the Bank of Nova Scotia; Barclays Capital; Germany's powerful Deutsche Bank; Société Générale; and HSBC, the London-based multinational created from the old Hong Kong and Shanghai Banking Corporation. These banks set the price of gold.

"The fixing starts with the "nomination" of a price by the bank holding the rotating chair. Often this opening number is midway between the last recorded London buying and selling prices.

"The chairman asks who would buy and who would sell at the suggested figure. That's communicated by each of five members to their colleagues in the dealing rooms. So let's say today's fixing starts at such and such a price, and the dealers are in touch with all of their clients, and the clients are in touch with their clients, and so on and so forth until you get right down to every man, jack, and dog that wants to follow the gold fixing.

"If the numbers of buyers and sellers fail to match at the suggested price, the figure is adjusted up or down until it hits a point where buyers and sellers are equally enticed into the market with equal volumes of gold, and agree on price. "All the nominations are done in bars," said Jeremy Charles. "I might say, 'I'll buy 80 bars,' and somebody else wants 80, and if the price is agreed, it is fixed'.

When the banks locate that point of equilibrium – buyers matching, sellers – the 'fixed' price is flashed out around the world. They repeat the process in the afternoon.

Some of the firms dealing gold in London have been doing it for centuries. ScotiaMocatta can trace its origins to 1671, when Moses Mocatta began trading bullion in London. When Jeremy Charles started in the tea room at Rothschild's in 1975, the bank still operated from its old stone building at One King William Street.

No outsider is allowed to witness the fixing. When Matthew Hart spoke to his informant, they had their interview in a meeting room on a high floor at the bank, with a view of the Thames flowing past Greenwich. As the informant showed him out, Mr. Hart asked if we could stop by the precious metals trading room so he could see what it looked like. "Oh, that's strictly forbidden," he was told.'

Mr. Hart also wrote: *'There's a lot about gold that is generally hidden, including how hard it is for ordinary people to deal in. The idea that gold is universal money is laughable. Who would accept it? It would have to be someone with testing equipment at his elbow. It's not easy to sell gold. That's why those who trade on the London market don't really deal principal to principal, but through bullion banks. Gold is easy to convert to cash if you work at HSBC, otherwise, not so much. A group of London criminals discovered this painful truth thirty years ago when they suddenly found themselves with a large amount of bullion on their hands, and began a tale of woe that has not stopped to this day.*

On November 1, 1961, an agreement was reached between the central banks of the US and seven European countries to cooperate in achieving a shared, and very clearly stated, aim.

The signatories to this particular agreement were, in alphabetical order, the central banks of Belgium, France, Germany, Italy, the Netherlands, Switzerland, the UK and the US. But, unlike other agreements of the time – such as that signed at Bretton Woods in 1944 – this one had no catchy title and was agreed upon with no fanfare and no publicity. In fact, this particular agreement was, if not exactly secret, then secretive by design.

The agreement became known as the London Gold Pool, and it had a very explicit purpose: to keep the price of gold suppressed "under control" and regulated at \$35/oz through interventions in the London gold market whenever the price got to be a little, let us say, frisky.

The construct was a simple one.

The eight central banks would all chip in an amount of gold to the initial "kitty." They would sell enough of the pooled gold to cap any price rises and then replace that which they had been forced to sell on any subsequent weakness.

The US – which at that stage owned roughly 47% of the world's monetary gold (excluding that owned by the Soviet bloc) – promised to match every other bank's contribution, ounce for ounce. The value of the US gold hoard was very easy to calculate, thanks to the fixed price of gold at the time ($35/oz): $17,767,000,000.'

Or, put another way, roughly six days' worth of the Fed's quantitative easing.

It is my personal view (Ned's, not necessarily Hart's) that the U.S. has very little gold left from the days of November 1961. The U.S. claims that its gold hoard has never been audited (for over 40 years) and that is why it cannot give out the real number of ounces it owns. For the U.S., inflation is not a risk – it is a necessity, and highly likely.

An Unhappy Planet (An extract from *The Story of Stuff*, by Annie Leonard)

'While excessive shopping, acquiring, and consuming make us unhappy and anxious as individuals (assuming our basic needs are already met) and societies, they make for an extremely unhappy planet as well. The Global Footprint Network (GFN) calculates the Ecological Footprint of various countries and of the earth as a whole. It arrives at the Footprint by calculating the use of both natural resources and ecosystem services like climate moderation and water cycles and then figuring out how much land would be needed to support this use. Globally, GFN reports that we now consume the resources produced by the equivalent of 1.4 earths per year. That is 40% more earths than we have! It now takes the earth one year and five months (or very nearly five) to regenerate what we use in a year. How is that possible? Well, the planet produces a certain amount of natural resources each year; we're not only using all of them, but we're also dipping into the store of resources that have been accumulating since the earth began – but they won't last forever. I was in a meeting recently in which people were debating if the number of earths' worth of productive capacity we use annually is actually 1.4 or 1.6. Does the discrepancy even matter, people? Anything over 1.0 is a major problem, especially with population continuing to increase exponentially. This hard truth has inspired the term 'one planet living', referring to the goal of redesigning our economies and societies to live well within the ecological limits of our one planet.

While the highest rates of consumption have historically happened in wealthy regions like the US and Europe, most developing countries now have a rising 'consumer class' that is increasingly adopting the same patterns of hyperconsumption. India's consumer class alone is thought to include more than 1 million households. The global consumer class in 2002 included 1.7 billion people, a number that is expected to rise to 2 billion by 2015 – with almost half the increase occurring in developing countries.

What would it look like if everyone on the planet consumed at US rates? And what about at the rates of certain other countries in both the so-called developed and developing worlds?

"Global Footprint Network has also identified the day each year in which we go into 'overshoot' – the point after which we are consuming more than the earth is able to regenerate in that year. The first year in which we used more than the planet could sustain was 1986, but just by a smidgen. Earth Overshoot Day that year was December 31. Less than a decade later, in 1995, the day we reached the limit had moved up a month, to November 21.

"Another decade brought it up another month: in 2005, it fell on October 2. So humanity is consuming more than the planet can regenerate each year. At the same time, millions of people actually need to consume more to meet even basic needs: food, shelter, health, education (that's an issue I'll discuss more fully later in this report)*. This is not a good trajectory. In fact, in the most literal meaning of the term, it's unsustainable.'*

In November 2013, Chinese leaders gathered for an historic meeting in order to jumpstart their lagging economy. Many skeptics, including Jim Rogers, figured these would be ceremonial "reforms" that would make for a good press conference, but really would not have any teeth.

Instead, President Xi Jinping pulled out a rather dramatic series of changes that focus on China's bloated, incompetent state-owned enterprises, demographic nightmares and draconian social policy.

So, what does this have to do with us as investors? Lots!

The first thing on President Xi's agenda was to shake up the bloated state-owned businesses that muck up the works by cultivating cronyism, and, just like anywhere else, are bad for business in any country.

Historically, according to President Xi, China's state businesses have taxed the nation's resources and "boxed out" private sector businesses – much to the detriment of the average investor, Chinese or otherwise. So, as part of its 2014 reforms, China is actually allowing private sector corporations to invest some "free market savings" into the state monopolies. Jim Rogers says, and I agree, "This is a big deal." Our company, Dundee Corporation, is already learning about this directly as participants.

I was recently invited to present a speech to the delegates at the Prospectors and Developers convention held in Toronto. I opened my remarks to a full room with, "You may think that it's all about gold, copper or money, but I am about to tell you that it's all about China."

The Chinese government is allowing state companies to introduce employee stock ownership plans, a way of encouraging managers to target profits. Bringing more private investors on board will also increase the portion of state companies in the hands of performance-minded shareholders, a disciplining force.

Even more important are the reforms that will change their operating environment. Shifts to market-based pricing for energy inputs and interest rates are, over time, undermining the advantages that state companies have over their private rivals.

In order to further embrace free-market ideals, the Chinese also announced they would loosen the harsh price controls that have dampened private investment in their energy and agriculture industries.

The end game here is to transition China's economy from one of investment and exports to one that is a free market and consumer-driven. But, pure economic reforms will not be enough to transition China into the consumer-driven behemoth it wishes to be.

Countries like China, India and Russia reject the U.S.'s currency printing press. They have been building gold reserves, while encouraging their populations to save gold and silver, and quietly calling for an end to the global reserve currency supremacy of the U.S. dollar, which has had that status since the end of World War II.

The U.S. dollar has enjoyed widespread use, in part, because it was originally backed by gold for international transactions until 1971. But, since then, substantial government spending and a growing welfare state caused other nations to demand gold for their dollars and the ties to gold were cut. If we fast forward to today, we can see that the world has moved from a barter system to a commodity-backed monetary system, to a "fiat currency" system.

In the 40 years before President Nixon took dollars off the gold standard, the U.S. money supply had doubled. In the approximately 40 years since that time, the U.S. money supply has increased by more than 20 times. There is a reason why the U.S. gets caught in increasingly larger and dangerous investment bubbles. It is mostly because all that newly printed money has to go somewhere.

The likelihood is that the U.S. dollar must decline in value but remain in prominence, as other countries compare their currencies (i.e., the RMB, euros and roubles) and look forward to having a globally traded, more widely held currency that can be used in a broad group of financial transactions.

The world knows that there is nothing to stop a fiat (backed by nothing) currency from dropping to zero. That is why the Chinese have been championing the International Monetary Fund's (IMF's) takeover of the global reserve currency position through the use of Special Drawing Rights (SDRs). It is also why China has been a large purchaser and producer of gold bullion.

In addition, we live today with gold being a very under-owned asset, even though it has become much more popular. If you ask any central bank, any sovereign wealth fund, or any individual, what percentage of their portfolio is in gold in relationship to their financial assets, you will find it to be a very small percentage, particularly at a time when it clearly appears that the U.S. is losing the dollar regime as the reserve currency.

Gary Shilling wrote in *The Age of Deleveraging*, "Deleveraging, especially of the global financial and US consumer sectors, will dominate the worldwide economy for years." He called for slow global growth for the next 10 years – i.e., to 2021. His views were based on many things that we are aware of today – U.S. consumer retrenchment, financial deleveraging on a global basis, increased U.S. government regulation and its involvement in other economies, as well as global fiscal restraint. To these Mr. Shiller added in another chapter, rising protectionism, a weak state, local government spending and chronic worldwide deflation.

The fact is, however, that rising indebtedness – both in the private and government sectors – has been around for over the last 20 years. Short-term care was taken through policy reflation, with the Fed and government imposing a new credit cycle. Today, it looks to me as if a major inflection point of too much leverage has been reached almost globally.

BCA Research starts a recent article on the subject of deleveraging with, "Debt is a four-letter word." It points out that "credit booms and busts have been a feature of economic life for hundreds of years." Periods of cheap and widely available credit, combined with people's vulnerability to excessive greed and euphoria, creates a powerful and toxic mix that, in turn, creates what I call the "Botox economy." BCA Research says the toxic mix "invariably ends badly." And if the bust is bad enough, it can have a lasting impact, like the Great Depression, which convinced an entire generation of people to embrace financial restraint for the rest of their lives.

BCA Research goes on to say, "The Global Economy is currently characterized by an excess of desired saving relative to perceived investment opportunities. This is highlighted by the unusually low level of real interest rates." BCA continues, "The global economy is partially trapped in a global thrift paradox, with the majority of countries trying to improve their domestic balance sheets. It is all very worthy from each country's perspective, but very dangerous for global growth."

The overview is that the deleveraging pressures will likely curb domestic demand in a number of emerging markets, and that, according BCA Research, "The bar for a severe crisis in those emerging markets is quite high, with the bar for significant spillovers to developed economies even higher." BCA Research expects – as many do – that "market volatility is likely to remain more elevated" than even the recent past year.

In my view, the bullish stock market of the last several years was driven by massive fiscal stimulus from the Fed and hope from the investing public. The Botox economy has enticed portfolio managers of mutual funds, who are obliged to live up to the stock market indices. The main concern is that these are the same people that will become disillusioned when the market goes against them. We must always remember the observation: “A bull market is like sex. It feels best just before it ends.”

The obvious antidote to that kind of foolish investing, much of which has recently occurred, is for an investor to accumulate shares based on micro and macro reasons for long-term purposes, and to stay invested for the long haul. Our company investment process operates on that basis.

Inflation in the U.S. is measured and often misrepresented at the consumer level by the Consumer Price Index (CPI). The misrepresenting is usually a result of the creative adjustments that frequently occur, which makes the U.S. CPI a highly suspect price measurement. The powers that oversee the CPI have had the authority to remove items and add others as it suits their need for stability in the U.S. economy. One of the most common and disingenuous practices actually deceives twice. By using a “core” CPI, the volatility in prices gets hidden, and using a trailing 12-month price when inflation is rising tends to lower values more than they actually are. Some people like to say that core U.S. CPI is inflation “not counting the stuff that went up.”

Not too long after I delivered the keynote speech at the Prospectors and Developers Association in Toronto, I received a note of congratulations from bestselling author Willem Middlekoop and a copy of his book entitled *The Big Reset: War on Gold and Financial Endgame*. This is a great book that I recommend to anyone who shares the concerns I have raised in these comments. Mr. Middlekoop is the founder and operator of The Commodity Discovery Fund, and is noted as being the predictor of the 2007 credit crisis.

In *The Big Reset*, Mr. Middlekoop states clearly that our global financial system needs to be changed and fixed. We need a “new anchor” to replace the U.S. dollar before the year 2020. I totally agree, but think that it will happen sooner than 2020. He writes: “Since the beginning of the credit crisis, the US realized that the dollar will lose its role as the world’s reserve currency and has been planning for a monetary reset.” He says that this reset will be designed to keep the U.S. in the driver’s seat, allowing the new monetary system to include significant roles for other currencies such as the euro and the RMB. I have a problem with that view, but he gets me onside when he says that, in all likelihood, gold will be reintroduced as one of the pillars of this next phase in the global financial system. He goes on with a really “big reset,” when he says that gold could be revalued at US$7,000 per troy ounce. This, he agrees, will require looking past “the American ‘smokescreen’ surrounding gold and the dollar.” China and Russia have been accumulating massive amounts of gold reserves, positioning themselves for a more prominent role in the future. “The reset,” Mr. Middlekoop writes, “will come as a shock to many.” The Big Reset will help everyone who wants to be fully prepared, which is what we are doing on a regular basis.

Looking back at my macro comments in last year’s *Annual Report*, I have to report that not much has happened to categorically change my views. With knowledge and experience, I do know that financial markets have the ability to correct themselves both on the upside and downside. As well, I do understand that financial markets cannot and do not predict the state or direction of the economy with any degree of accuracy.

But, markets can cause downturns in the economy when the investing public is confused by biased, misinterpreted and incorrect actuality presented by the media at large that, today, has the propaganda ability of a Goebbels, and can create a diversion in the thinking of the masses based on emotions of fear, greed and hope. We have been living through such a time, and we witness the financial markets ebb and flow based on macroeconomic events that are not totally understood. The world is in a major financial crisis, and central bankers are taking major gambles that could have serious longer-term negative repercussions.

George Soros asks the question: “When do the reflexive connections which are endemic in financial markets turn into self-reinforcing, historically significant processes[,] which affect not only prices in the financial markets but also the so-called fundamentals that those prices are supposed to reflect?” He then offers a hypothesis that has yet to be tested: that there has to be both some form of credit or leverage and some kind of misconception or misinterpretation involved for a boom-bust process to develop. He goes on to say that “misconceptions play a significant role in the making of history.”

While his message was particularly relevant in understanding the 2008 market crisis and bust, it also helps to understand the current turmoil in Europe and the U.S. – the misunderstanding of and misconceptions surrounding the impact of the vast quantities of sovereign credit and leverage. Historically, be it for a state, a company or an individual, an excess of debt and/or credit does not lead to good things, especially when fiat currencies are the only available resource for repayment.

Too much leveraged debt and credit is resolved in usually one of four ways:

1. Repay in a currency acceptable to the lender.
2. Beg forgiveness by the lender.
3. Do not repay; accept and face bankruptcy proceeding.
4. If you are a sovereign state with your own fiat currency, you print more currency and hope that it remains immune to turbulence.

Many years ago a wise man by the name of Ludwig von Mises said: “There is no means of avoiding the final collapse of a boom brought about by credit expansion. The alternative is only whether the crisis should come sooner as a result of a voluntary abandonment of further credit expansion, or later as a final and total catastrophe of the currency system involved.”

Today, we are witnessing massive printing of fiat currency by virtually all of the important nations of the world, but especially the three super currencies: the U.S. dollar, Europe and Germany’s euro, and the Chinese RMB.

A history of thousands of years has proven that we cannot print ourselves to prosperity, unless the current central bankers have figured out something new and creative. But, they are using the same tools and calling them by different names. Printing fiat currency by buying garbage debt owned by the commercial banking community is really just that, printing new fiat currency, but they call it quantitative easing.

Since the 1970s, the U.S. has led the world in money printing and its dollar has fallen from being able to buy a dollar's worth of goods in 1970, to only 17-18 cents worth today. This is after we lived through the early dollar debasement from 1970 to 1999, when the dollar's purchasing power fell by 50% – all this credit system expansion and balance sheet building by the Fed was under the guidance of many governors, from Arthur Burns in the 1970s through to Alan Greenspan and Ben Bernanke and, today, Janet Yellen. They all did it because they had to, and they did.

There were times when it was necessary to paper over the economic cracks that emanated from the forceful growing of the U.S. economy so that politicians could get re-elected. Eventually, those economic cracks became deep holes, and one thing that often occurs is that they keep digging when they are stuck in a hole. Keep digging means that the U.S. requires increasing amounts of monetary expansion in order to seduce the population about American prosperity.

Before 2008, there were many instances when efforts were made to correct the debt and credit imbalances. But, for political reasons, it was easier to push them aside, hoping that something would happen in the future to achieve self-correction.

Instead we had 2008, a period that will remain in most of our memories for a long time. And as a result of that financial crisis, it was necessary to do even more printing so that the banks could be bailed out and subsidies could be provided to the beaten industries and many unemployed.

Time after time, when in distress, the smartest of political and financial administrations forget about long-term consequences and carry on with quick fixes without resolving any of the obvious problems. Politicians are only judged by quick solutions that last until the next election. They do not have the political longevity to go for the long-lasting fix. History is littered with the remains of dead currencies that were allowed to die because the quick fix was more expedient than biting the bullet or working toward permanent repair.

Because of quick-fix solutions over many centuries of dead currencies, nations had to live with budget deficits to fight wars or keep the king or president living in luxury, and, of course, this process only builds up more debt. This debt becomes more and more difficult to live with and eventually something has to give, because history has taught us that we cannot achieve or keep prosperity by continuing to take on debt and printing money.

Too much debt must be forgiven, defaulted, or diluted through new equity.

Bill Gross, the bond maven of PIMCO, recently put it on the line when he said: “A 30-50 year virtual cycle of credit expansion which has produced outsize paranormal returns for financial assets – bonds, stocks, real estate and commodities alike – is now deleveraging because of excessive risk and the price of money at the zero-bound. We are witnessing the death of abundance and the borning [sic] of austerity, for what may be a long, long time.”

According to the McKinsey Global Institute, there is a “looming resource challenge.”

During most of the 20th century, the prices of natural resources such as energy, food, water and material such as steel all supported, and were in turn supported by, the economic growth of the times. But that benign era appears to have come to an end. The past 10 years have wiped out all of the price declines that occurred in the previous century. As the resource landscape shifts, many are asking whether an era of sustained high resource prices and increased economic, social and environmental risk is likely to emerge.

However, as many of us will admit, there have been times in the past when the risk negativity has “proven unfounded.” Yes, Malthusian theories have enjoyed brief revivals, especially in the Club of Rome’s report in the 1970s. However, the dominant theme of the period after that for the 20th century was that the market always seemed to ride to the rescue by providing sufficient supply and productivity.

Driven by a combination of technological progress and expansion into new low cost sources of supply, the commodity price index fell by almost half during the 20th century, when measured in real terms. This was thought to be “astonishing,” given that the global population quadrupled in the 20th century, and that global economic output expanded roughly 20 fold, which created a jump of between 600% and 2,000% in demand for resources.

The recent, but minor, rise in resource prices and the scale and price of the economic development sweeping across many emerging and developing markets have positively revived the debate about resources.

Innovation and the market is likely to rise again to the rescue, and will be able to generate and access data that has been “revolutionized” by the increasing number of people, devices and sensors that are now connected by digital networks – including even small-scale farmers in sub-Saharan Africa.

Development in all phases of resource work has been dramatically improved and, over time, we will find that there is no shortage of resource technology. Higher resource prices will likely accelerate the pace of innovation, even though the size of the challenge for the next 20 years will be quite different from the resource-related shocks that we have seen in past years.

We are looking at a world with three billion more middle class consumers emerging over the next 20 years, compared to just over half of that today. This will drive up demand for a range of resources, including food. McKinsey’s report said that: “this soaring demand will occur at a time when finding new sources of supply and extracting them is becoming increasingly challenging and expensive, even with the technological improvements that have occurred."

McKinsey's analysis shows that the resource productivity improvements available would only meet about "20% of demand for resources in 2030."

It states: "There is an opportunity to achieve a resource productivity revolution comparable with the progress made on labour productivity during the 20th Century. It will not be easy, unless the resource process was to increase significantly and market forces would naturally drive greater resource productivity. But boosting production alone would not be enough to meet the likely demand requirements over the next 20 years. Supply would also need to grow.

Although getting prices right would go a long way toward addressing the global resource challenge, action and sufficient capital will be needed to address market problems associated with property rights, incentive issues and innovation."

McKinsey goes on to say that this new era presents opportunities and, of course, risks for business. Resource prices over the past century allowed companies to benefit in most sectors. But the next 20 years will have competitive dynamics requiring more attention to resource-related issues in the buyer's business strategies, along with the necessity to adopt a "joined-up" approach toward understanding how resources might shape their profit, produce new growth and disruptive innovation opportunities, and create new risks for the supply of resources and competitive symmetries, while worrying about the regulatory context.

The headings for two of the seven chapters in McKinsey's report devoted to the subject of resources in the future are:

- Cheaper resources underpinned global economic growth during the 20th Century
- The world could be entering an era of high and volatile resource prices

As I mentioned earlier, up to three billion more middle class consumers will emerge in the next 20 years. Also, as noted, this growth is taking place at more than 10 times the speed at which the U.K. improved average incomes during the Industrial Revolution, and on 200 times the scale. It is expected, for example, that the global car fleet will double to 1.7 billion cars by 2030, calorie intake per person will rise by 20% over the next 20 years, and that China's meat production could increase by 40% to 75 kilograms (165 pounds) a year and still be well below U.S. consumption levels. "Demand from the new middle classes will also trigger a dramatic expansion in the global urban infrastructure particularly in developing economies," showed McKinsey's analysis.

Demand is soaring at a time when finding new sources of supply and extracting them is becoming increasingly challenging and expensive. McKinsey's analysis says that within the next 20 years there are unlikely to be absolute shortages in most resources, "however, demand for many resources today has already moved to the limits of short run supply curves where supply is increasingly inelastic – in other words, a point at which it is more difficult for supply to react quickly to meet rising demand." This means that even small shifts in demand can drive greater volatility. McKinsey believes this trend will persist because long-run marginal costs are also increasing for many resources, depletion in supply is accelerating, and, with the notable exception of natural gas and renewable energy, new sources of supply are often in more difficult and less productive locations.

As urbanization proceeds on an unprecedented scale, new and expanding cities could displace up to 30 million hectares of the highest-quality agricultural land by 2030 – i.e., roughly 2% of land currently under cultivation.

For these reasons, among others, the Chinese state operates in an atypical way in comparison with conventional nation-states. What might seem a logical consequence of a government action in an ordinary nation-state may not follow at all in a country of such huge scale like China. It is conventional wisdom in the West that China should become "democratic" – i.e., in the West's own image. The democratic systems that we associate with the West, however, have never taken root in any nation of as a vast size as China, with the single exception of India. Indeed, apart from India, the only vaguely comparable example is that of a multinational institution like the faltering European Union, and this has remained determinedly undemocratic in its constitution and modus operandi. One day soon China will move, in its own fashion, towards something that resembles democracy, but Western calls that it should do so more or less forthwith glibly ignore the huge differences that exist between a vast continental-sized civilization like China and the far smaller Western nation-states. The fact that China's true European counterpart, the European Union, is similarly without democracy only serves to reinforce the point.

Little has changed with Communist rule since 1949. Popular accountability in a recognizable Western form has remained absent, with no sign or evidence that this is likely to change. The state is required to deliver economic growth and rising living standards. Given its remarkable historical endurance – at least two millennia, arguably much longer – this characteristic must be seen as part of China's genetic structure. The legitimacy of the Chinese state, profound and deeply rooted, does not depend on an electoral mandate; indeed, even if universal suffrage was to be introduced, the taproots of the state's legitimacy would still lie in the country's millennial foundations. According to Martin Jacques, author of *When China Rules the World*, "The Chinese state remains a highly competent institution, probably superior to any other state-tradition in the world and likely to exercise a powerful influence on the rest of the world in the future. It has shown itself to be capable not only of extraordinary continuity but also remarkable reinvention."

Habituated to rapid change, China is instinctively more at ease with the new and the future than is the case in the West, especially Europe. Once again, according to Mr. Jacques, the Chinese embrace the new in the same way that a child approaches a computer or a Nintendo games console – with confidence and expectancy. In contrast, European societies are more wary, even fearful, of the new, in the manner of an adult presented with an unfamiliar technological gadget.

China's version of modernity, however, by virtue of the country's size, must also be seen as distinct from those of other East Asian societies. While countries like Taiwan and South Korea took around 30 years to move from being largely rural to becoming overwhelmingly urban, around half of China's population still live in the countryside some three decades after 1978, and it will be at least another 20 years before this figure declines to around 20%. This makes China's passage to modernity not only more protracted than that of its neighbours but also more complex, with various states of development continuing to coexist over many decades as a result of the persistence of a large rural sector. This juxtaposition of different levels of economic development serves to accentuate the importance and impact of the past, with the countryside providing a continuous feedback loop from history. It makes China, a country already deeply engaged with its own past, even more aware of its history.

The Western consensus believed, quite mistakenly, that the Chinese Communist Party was doomed to fail. Western attitudes toward China continue to be highly influenced by the fact that it is ruled by a Communist party; the stain seems likely to persist for a long time to come, if not indefinitely. In the light of recent Chinese experience, however, communism must be viewed in a more pluralistic manner than was previously the case: the Chinese Communist Party is very different from its Soviet equivalent. Since 1978, the Chinese Communist Party has pursued an entirely different strategy. It has displayed a flexibility and pragmatism that was alien to the Soviet party.

Whatever the longer term may hold, the Chinese Communist Party, in presiding over the transformation of the country, will leave a profound imprint on Chinese modernity and also on the wider world. It has created and re-created the modern Chinese state; it reunited China after a century of disunity; it played a critical role in the defeat of Japanese colonialism; and it invented and managed the strategy that has finally given China the promise, after a century or more of decline, of restoring its status and power in the world to something resembling the days of the Middle Kingdom. In so doing, it has also succeeded in recommencing China to its history, to Confucianism and its dynastic heyday.

Arguably all great historical transformations involve such a reconnection with the past if they are to be successful. The affinities between the communist conception of the state and the Confucian, as outlined earlier, are particularly striking in this respect. Given that Confucian principles had reigned for two millennia, the Chinese Communist Party, in order to prevail, needed, among other things, to find a way of reinventing and recreating those principles.

According to Mr. Jacques, China will, for several decades to come, combine the characteristics of both a developed and a developing country. This will be a unique condition for a major global power, and stems from the fact that China's modernization will be a protracted process because of its size. In conventional terms, China's transformation is that of a continent, with continental-style disparities, rather than that of a country. The result is a modernity tempered by and interacting with relative rural backwardness. Such a state of bifurcation will have numerous economic, political and cultural consequences.

In time, China will increasingly behave as a developed country, rather than a combination of the modern and its past. But, for the next half century, it will continue to display the interests and characteristics of its past, an outlook that is likely to be reinforced by the sense of grievance that China feels about its "century of humiliation" at the hands of Japan and the Western powers, especially its experience of colonization. China, in fact, says Mr. Jacques, could become the first great power that comes from the "wrong" side of the great divide in the world during the 19th and first half of the 20th centuries – a creation of the colonized rather than the colonizers, the losers rather than the winners. This experience, and the outlook it has engendered, will be an integral part of the Chinese acceptance of the era of modernity, and will likely strongly influence its behaviour as a global power.

A broader point can be made in this context. If the 20th century world was shaped by the developed countries, than that of the 21st century is likely to be moulded by the developing countries, especially the largest ones. This has significant historical implications. There have been many suggestions as to what constituted the most important event of the 20th century. Three of the most oft-cited candidates are the 1917 October Revolution, 1989 and the fall of the Berlin Wall, and 1945 and the defeat of Fascism. Such choices are always influenced by contemporary circumstances; toward the end of the last century, 1989 seemed an obvious choice, just as 1917 did in the first half of the century.

It is clear to me that Chinese modernity will be very different from Western modernity, and that China will transform the world far more fundamentally than any other global power in the last two centuries. This prospect, however, has been consistently and incorrectly downplayed by many. The Chinese, for their part, have wisely chosen to play a very long-term game, constantly seeking to reassure the rest of the world that their rise will change relatively little.

Those of us in the West, on the other hand, having been in the global driving seat for too long, find it impossible to imagine or comprehend a world in which this is no longer the case. Moreover, it is in the nature of vested interests – which is what the West is, the US especially – not to admit, even to themselves, that the world stands on the edge of a global upheaval, the consequence of which will be to greatly reduce their position and influence in the world. China is the elephant in the room that no one is quite willing to recognize. As a result, an extraordinary shift in the balance of global power is quietly taking place, almost by stealth, except one would be hard-pressed to argue that any kind of deceit was involved either on the part of China or the US.

The contrast with previous comparable changes – for example, the rise of Germany prior to 1914, the emergence of Japan in the interwar period, and the challenge of the Soviet Union, especially after 1945 – is stark. Even though none carried anything like the ultimate significance of China's rise, the threat that each offered at the time was exaggerated and magnified, rather than downplayed, as in China's case. The nearest parallel to China's rise, in terms of material significance, was that of the U.S. itself. This was marked by similar understatement, though mainly because it was the fortunate beneficiary of two world wars that had the effect of greatly accelerating its rise in relation to an impoverished and indebted western Europe. But, even the U.S.'s rise must be regarded as a relatively mild phenomenon compared to China's.

Increasingly, China's rise will likely be characterized by the powerful countervailing pressures that push toward a difference from the established norms. In a multitude of ways, China does not yet conform to the present conventions of the developed world and the global polity, but its underlying nature and identity should increasingly assert itself. A nation that comprises one-fifth of the world's population is already in the process of transforming the workings of the global economy and its structure of power. A country that regards itself, for both cultural and racial reasons, as the greatest civilization on earth will, as a great global power, clearly in time require and expect a major reordering of global relationships. A people that suffered at the hands of European and Japanese imperialism will never see the world in the same way as the people that were the exponents and beneficiaries of that imperialism.

We of the West have been shaped by the Declaration of American Independence in 1776, the Canadian equivalent and the French Revolution in 1789, the British Industrial Revolution, the two world wars, the Russian Revolution in 1917 and the collapse of communism in 1989. For China, the great historical moments are mostly very different. The different historical furniture betrays a different history. While the rise of China since 1978 has been characterized by its current desire to reassure the world that it is a "responsible power," the divergent tendencies will, in due course, come to predominate as that nation grows more wealthy, more self-confident and more powerful.

There are two powerful forces that will serve to promote the steady reconfiguration of the world on China's terms. The fact that China is so huge means that it exercises gravitational pull on every other nation. The nearest parallel is the U.S., albeit on a smaller scale. Size and population will enable China to set the terms of its relationships with other countries: hitherto that has been limited by its level of development. But China's gravitational power will grow exponentially in the future. China's mass obliges the rest of the world largely to acquiesce to its way of doing things. Moreover, the country's size, combined with its remorseless transformation, means that time is constantly on its side. It can afford to wait in the knowledge that the passage of time is steadily reconfiguring the world in its favour.

Also with the rise of China, indeed, time itself takes on a new and different meaning: timescales are, in effect, elongated. We have become used to thinking in terms of the reverse: the ever-shortening sense of time. The template for this is provided by the U.S., a country with a brief history, a short memory, and a constant predilection for remaking itself. China is the opposite. It is possessed of a 5,000-year history and an extremely long memory, and, not surprisingly, views the future in terms of protracted timescales. As a result, it is blessed with the virtue of patience, confident in the belief that history is on its side. For Dundee, we intend for China to become an important part of our future business plans.

The question remains, "How will China act as a great power once it is no longer confined to the straitjacket of modernization?" It would be wrong to assume that it will just behave like us.

While Europe, and subsequently the U.S., have been aggressive and expansionist, with their tentacles reaching all over the world, China's expansion has been limited to its continent. In the era of globalization, that might change. Many in the West are still concerned about the absence of a Western-style democracy in China. But, over the last 35 years, the country has become significantly more transparent and its leadership more accountable. This process is continuing and, at some point, will result in a much bigger political transformation. However, any democratic evolution is likely to take a markedly different form from that of the West for the foreseeable future.

The greatest concern about China as a global power lies in its deeply rooted superiority complex, much like that of the U.S. How that will structure and influence behaviour and its attitudes toward the rest of the world remains to be seen, but it is clear that something so entrenched will not dissolve or disappear. If the calling card of the West has often been aggression and conquest, China's will most likely be that overwhelming sense of superiority and the hierarchal mentality that this has engendered.

The arrival of China as a major power does mark the end of Western universalism. Western norms, values and institutions will increasingly find themselves competing with those of China. The decline of Western universalism, however, is not solely a product of China's rise, because the latter is part of a much wider phenomenon, an increasingly multipolar economic world and the proliferation of diverse modernities. The rise of competing modernities heralds a new world in which no hemisphere or country will have the same kind of prestige or force that the West has enjoyed over the last two centuries. Instead, different countries and cultures will compete for legitimacy and influence. The Western world is over; but the new world, at least for the next century, will not be Chinese in the way that the previous one was Western. As Martin Jacques writes in *When China Rules the World*, we are entering an era of competing modernity, albeit one in which China will increasingly be in the ascendant and eventually dominant position.

In any instance, and for the time being, the muddled world is preoccupied by the onset of the biggest recession since the Great Depression. At the time of this writing and beyond, the consequences of this remain frightening and unknown. Depressions are a bit like wars: they test societies in a way that normal periods of prosperity and growth do not. They reveal weaknesses and vulnerabilities that otherwise remain concealed. They give rise to new political ideologies and movements, as the world learnt to its great cost in the interwar European years.

In the face of it, in my opinion, China is much better equipped to deal with this more recent crisis than the U.S. and Europe. Its financial sector is in a much superior condition, having avoided the hubristic risk-taking that bobbled the Western banks. China is not confronted with the kind of deleveraging that threatens deflation and a major shrinkage of demand in the U.S. While the developed world faces the prospect of shrinking economies for perhaps two or more years, China is still looking forward to considerable growth. The unknown for China is the effect that a sub-8% growth rate, perhaps 6% or even much lower, could have in terms of unemployment and social unrest.

The world is entering an entirely new political era. Despite regular Western warnings that the Chinese model was unsustainable and needed to be Westernized, the U.S. financial crisis in 2008 marked the demise of neo-liberalism and the failure of the Western free-market model as practised since the late seventies: the Chinese approach, rather than the Western approach, has been affirmed. If China continues to grow at 6%-8% and can avoid debilitating social unrest, while the Western economy continues its period of negative or near-zero economic growth, then the global recession is likely to significantly accelerate the trends discussed above and result in an even more rapid shift of power to China.

- U.S. interest rates and inflation will devalue the bond markets and the stock market, as well as real estate.
- Massive federal (U.S.) spending must take place for infrastructure that is beyond repair at the moment.
- U.S. dollar printing is being continued for the U.S. to even survive poorly.
- The U.S. stock market will likely go down.
- Investment will be best played in the re-emerging emerging countries and the ownership of hard assets that will increase in value from inflationary forces to come.

Furthermore, China is the largest producer of gold in the world. It is also the largest buyer. Other major gold-buying countries include Russia, Brazil, South Africa, India and Chile. There might come a day when China will make the RMB a reserve currency backed by gold at a much higher price, and likely back the IMF's currency as well. The U.S. is headed to being a second class country.

The world today runs with an old U.S. system, where money can be created at will or by decree – fiat money as it is known. The world's last link to gold was severed by Richard Nixon in 1971. He was fortunate to have Henry Kissinger as an assistant who was able to convince the Saudi Arabians to only sell their oil to those who paid in U.S. dollars, which thus created the U.S. dollar as a currency required by nations that needed oil.

This has lasted for over 40 years and is about to come to an end.

The Long Cycle in Real Estate Activity

Does real estate have cycles? Yes, very definite ones; they're just longer than most folks' memories can grasp – and harder to see. The daily availability of stock prices and interest rates make financial markets psychologically and emotionally volatile and, as a result, short-term swings are highly visible. But the stock market is like a silent partner who is always there offering to buy or sell your part of the business – an offer that is dangled in front of you like bait, luring you into, perhaps, stupid transactions. Not so with real estate – there is no daily bait; no daily, or even monthly, emotion.

Instead, there is the 18-year “Long” cycle, named after Princeton University’s Clarence Long, who first wrote about these cycles in 1940. The Long chart traces the real estate cycles back to 1870. In any business lifetime, you might see two or three Long cycles or secular trends at most, but you tend not to think of them as cycles. The wipe-outs seem like disasters unique to you, and some may have happened several times in your life already.

Without stock market daily prices and volume to help you envision these Long cycles, it usually helps to see them as cycles stacked on top of other cycles. Stacked on top of and swinging around that fluctuating base of other cycles is the Long cycle, which provides a hint of what is happening in real estate. These Long cycles are usually caused by the interplay of interest-rate-generated fluctuations and the satisfaction of generational demands for different kinds of shelter. Finally, if available, while swinging around the Long cycle, it helps to stack the three- to four-year business cycles that we are used to seeing on top of all these cycles.

You do not believe it? Most folks don’t believe it either. But let me relay some of the past’s predictive powers. There was a cyclical peak in 1945. The next peaks? Adding on nine-year increments give 1954 and 1963. Old-time real estate buffs know that the market stumbled badly starting in 1954. After 1981, farm real estate collapsed and then came alive again, residential real estate was in extreme overcapacity, and residential prices had stopped galloping ahead the way they had in the late 1970s. Why had prices soared so much since the early 1970s? Could it be the Long cycle? After the 1954 trough, adding 18 years would have put the next trough at 1972, after which the Long cycle upswing should have started, which in fact did happen.

When the U.S. Resolution Trust was created in 1985, it marked the bottom of the U.S. real estate market and the beginning of its securitization.

Because of the strength of the Canadian banking industry, the bottom in Canada took longer to be achieved. In our view it happened sometime in 1996, when Michael Cooper and I were just starting Dundee Realty, now known as DREAM.

The Long study, which covers the period all the way back to 1870, has conclusively proven that real estate markets have their own predictable 18- to 20-year cycles from peak to peak, and trough to trough.

Many of you may not remember, but we had a severe recession in 1973 and 1974, and it proved to be financially fatal for real estate developers, along with the stock market.

From 1969 to 1972, 61 new office towers were built in Manhattan, adding 51 million square feet of space. By 1974-1975, 30 million square feet were empty and another 51 million square feet were looking for a sublet. By late 1975, New York City was balanced on the edge of bankruptcy, and there was concern about race riots, crime waves and garbage collection.

In late 1976, Canada's Paul Reichmann made the deals of his career. He bought the Kinney-Uris real estate package of secondary New York office buildings for $346 million – $46 million down and $300 million in a mortgage. I think he borrowed the $46 million as well.

He made the most extraordinary transaction in his career almost two years after the U.S. market for real estate had bottomed and was just beginning to turn up. In 1985, eight years after he bought it, the same property had a value of 10 times the purchase price. Mr. Reichmann paid off the $300 million mortgage by arranging a new one for $1.7 billion, pocketing $1.4 billion tax free.

He rode the cycle from bottom to peak – in approximately 10 years from 1975 to 1985.

In 1987, at the approach of the peak of the cycle, Mr. Reichmann put the shovel in the ground for London's Canary Wharf. The rest is history that we all know, or should know.

He rode the cycle down for the next five years and then declared bankruptcy in 1992.

The cycle bottomed in 1993-1994 in the U.S. and, in 1995, in Canada.

When Michael Cooper and I told this story in late 1995 and early 1996, we could not convince anyone to readily buy our Dynamic Real Estate funds or to even give us an IPO underwriting for Dundee Realty. One underwriter even suggested he would do an IPO if we had Paul Reichmann as a partner.

So, if we accept that 1993 was the bottom, then 2003-2004 was a top that we have lived through and survived. The next bottom to have a nine- or 10-year upward life is right now, 2013 or 2014. Michael and Robin, we have a great 10 years ahead of us; stay healthy and well, and for DREAM and 360 VOX it should all be good.

The most important lesson I have learned from 50 years of investing is something that Sigmund Freud said. He said, "Thinking is rehearsing." What he meant was that thinking is not a substitute for acting. In the world of investment, or in any field, there is no substitute for taking action. An investment should be bought or sold to the "sleeping point". Thinking is just the rehearsal. To be really good, you must learn to react and act.

The three major blocs of the developed world are in significant debt, the deleveraging of each will play out over many years rather than in a single moment. And there is no certainty (as yet) as to how or when it will be done. None of the ready paths are carefree and cheerful.

The U.S. will likely create some kind of crisis to get the deleveraging in process, because as long as the dollar remains the world's reserve currency, there does not seem to be any reason to do anything. The ability to borrow money from around the world and repay these borrowings in printed dollar bills is a "made in Heaven" proposal. Perhaps, for the U.S., it will take a crisis directly related to the reserve currency gift given to the American people by the rest of the world.

Europe is already in a crisis mode and Japan has started its own crisis, choosing to inflate its way out of debt by likewise printing yen.

In a recent article in *Foreign Affairs* magazine, China was described as a "Hidden Dragon No Longer". The article reads, "The speed, the scale and reach of China's rise are without precedent in modern history. Within just 30 years, China's economy has grown from similar to the Netherlands' to larger than those of all other countries except the US. If China soon becomes the largest economy, as some predict, it will be the first time since George III that a non-English-speaking, non-Western, non-democratic country has led the global economy." Also, "History teaches that where economic power goes, political and strategic power usually follows." China's rise will inevitably generate interesting and sometimes conflicting interests, values and world views. Preserving the peace will be critical not only for the three billion people who call Asia home, but also for the future of the global order.

"China views these developments through the prism of its domestic and international priorities," continues the article. "The Communist Party's top leaders see its core responsibilities as keeping the Communist Party in power, maintaining the territorial integrity of the country – sustaining robust economic growth by transforming the country's security, preserving global and regional stability so as not to derail the economic power agenda. China will likely pursue a more modern military and more robustly assert its foreign policy interests, while enhancing its status as a great power." As previously said, we at Dundee intend to be there and, as investors, take advantage of China's growth.

Within the parameters of China's overall priorities, President Xi Jinping will have a significant and perhaps decisive impact on national policy. According to *Foreign Affairs*, he is well read and has a historian's understanding of his responsibilities to his country. He is, by instinct, a leader and is unlikely to be satisfied with simply maintaining the policy status quo. Others point to his foreign policy approach during his visit to the U.S. in February 2012, when he referred to "a new type of great power relationship with Washington," and was puzzled when there was little substantive response from the American side.

Over the next decade, President Xi will likely take China in a new direction. President Obama's second term and President Xi's first present a unique window of opportunity to put the U.S.-China relationship on a better course. But history teaches us that, as Arthur Jacques said,"the rise of new great powers often triggers major global conflict." It lies within the power of Presidents Obama and Xi to prove that 21st century Asia can be an exception to what has otherwise been a deeply depressing state of foreign affairs and the historical norm.

Clearly, with Mr. Xi in the mix, the 21st century will likely be different. Along with the rise of increasingly powerful non-Western countries, the U.S. will no longer be dominant and there will be many other ways of being modern. In this new era, the central player will be China. Even today, its influence is greater than its economic impact. We are close to the days when China's ages-old sense of superiority will move to reassert itself. This rise of China will also change the whole world as it is now known by us, where for over 200 years we have lived in a Western-made world with every notion of modernity being synonymous with being "Western."

We should expect to see our globe becoming increasingly reshaped by China as time goes on. We of the old West will find it difficult to argue against President Xi's innovative thesis of creating a modernized China while keeping its essential "Chineseness," which he has recently vowed to do.

The U.S. has a solvency problem, and its leadership has put the burden on solving that problem on the Fed, an institution that was created and designed to deal with liquidity, not solving problems. As such, as an investor it is difficult to stay ahead of what may come next. Eventually the U.S. is going to have to use taxpayers' money, rather than allowing the Fed to continue to print new paper dollars.

At the moment, the U.S. is facing both a recession, as well as a world concerned about the level of money bring printed and its use of the reserve currency privilege.

We know that religion and politics have been the cause of most wars, and today we also know that regulation and increasing diversification lie close to the reason for many fund managements' lack of success.

In the equity world, the Canadian banks and regulators have taken diversification to "gambling extremes" beyond poker and roulette. The average mutual fund today owns more than the hundred names all close to the index that the regulator and the quest for relative performance lead to poor performance. The only error that can occur is a mistake in proper tracking to the necessary index that all wish to emulate.

There has been much damage to the world of investment management committed in the name of diversification.

So, how should we look at the proper and most successful way to invest other people's money? Let me quote the famous John Templeton, who put it best when he said, "For all long-term investors, there is only one objective – maximum total returns after taxes." Nothing else matters.

Our approach originally at Beutel, Goodman & Company, and latterly at Dynamic Mutual Funds, was based on the following objectives; and we will once again use these as we re-enter the investment management business:

(a) Value investing minimizes the risk of loss
(b) Contrarianism is a necessity
(c) Patience is important – wait for the "Fat Pitch"

(d) Exploit value opportunities always
(e) Do not rely on the future by unnecessary forecasting
(f) Realize that we cannot predict, but we can prepare
(g) Be aware of the economic, credit, interest rate and other cycles in which you operate
(h) Disregard "this time is different" and remember – if it happened before it can happen again
(i) Be a skeptic, with critical thinking
(j) Think about your clients as if you are one yourself; look at your purchase as if you are using your own money
(k) Expand your insight to include not only the attributes of the actual investment, but do not forget about what is happening in the economic and financial world around you, and not even necessarily close to your investment idea
(l) Do not forget about the discounted present value of the future cash flow of your investment, as well as the entire market in which you operate
(m) Remember Warren Buffett's view of being "Realistic," rather than Optimistic and Pessimistic

Let me expand on the tenet of being a contrarian, which has been a personal practice in my entire career.

To quote John Maynard Keynes, "The central principal[sic] of investment is to go contrary to the general opinion, on the grounds that if everyone agreed about its merit, the investment is too dear and therefore unattractive." And to add John Templeton's words here, "It is impossible to produce superior performance unless you do something different from the majority." I know that following the value approach, using the discounted present value formula, maintaining Mr. Buffett's realistic view, and having patience will almost always lead us to respectable and top notch investment performance.

The bottom line is that global value investing does work. To seek out bargains wherever they are located, regardless of the industry in which they are operating, makes sense both theoretically and empirically. The emerging economic world is re-emerging and we are in a world that will define fund managers into specific boxes as today an approach that is totally unconventional. We intend to be the unconventional, which prompts me to quote John Templeton once again, "It is impossible to produce superior performance unless you do something different from the majority."

Ned Goodman and my Dundee family are returning to the investment management business, and we look forward to the whole process with excitement.

Like George Soros, I too am a fan of Karl Popper and his excellent book *The Open Society and Its Enemies*. As it did for Mr. Soros, it struck me with a distinct revelation on the excitement of the practice of managing investment money.

Mr. Popper, a great philosopher of science, argues that the Nazi and Communist ideologies had things in common. He noted that both claimed to be nothing but the “ultimate” truth. But since the ultimate is beyond anyone else’s reach, both ideologies were likely biased and based on distorted reality designed to misdirect society with the use of suppression. Mr. Popper juxtaposed a principle of social acceptance that was based on first, the recognition that the ultimate truth is far from anyone’s reach. Second, we require certain institutions that allow us, all with different views and requirements, to live together in peace. He called it an “open society.”

As a scientist, I was able to grasp his view that most scientific theories cannot in fact be verified, but that they must be treated as hypotheses, and, as such, might in fact be totally false. If we can accept that they are not false, perhaps we can accept some as being truthful.

However, the necessity to replace verification with falsification totally eliminates the need for inductive logic. This was Mr. Popper’s greatest contribution to the philosophy of science, or anything that depends on science and the use of inductive logic.

However, it is a moot question as to whether or not Mr. Soros’s financial success was due to this philosophical thinking and acceptance of the Popper difference between natural and social phenomena. What did play a key role in how Mr. Soros looked at things related to financial affairs and his success, was his greater “interest in the real world than mathematical models.” That was what led him to his concept of reflexivity, which identified elements of indeterminacy “inherent in situations that have participants who operate on the basis of imperfect understanding. Instead of a universal tending towards equilibrium, financial markets follow a specific one-directional course. There may be patterns that tend to repeat themselves, but the actual course is indeterminate and unique.” In another way, the common statement “this time is different” misleads us from the fact that if it happened before, it definitely can happen again.

The risks today, as the global economy spins through the mega dangers of the political space, include widespread and now internationalized armed conflict in the Middle East and North Africa. Add to this an enormous catastrophe in Japan, and a fiscal debt and banking crisis in Europe. Each of these events has longer-term implications in many areas, especially global energy. And, all of this is taking place against a backdrop of intense political bickering in an almost bankrupt U.S., as well as extreme global economic rebalancing and change from the developed to the developing world. Against all of this, geology and the historical path of the planet seems at least less risky because it has survived 4.5 billion years. So will our economic system, but not without those few bumps and the odd head-on collision. I remain a perennial optimist, but I am beginning to feel lonely.

To quote the perennial bear, Albert Edwards, formerly of Société Générale in London, with whom I often disagree: “The global economy is critically ill. The fact that it has just risen from its sick bed to perform a frenetic Irish jig is more a function of the financial morphine and steroids that have been pumped into its emaciated body than any miracle cure. You don’t have to be Dr. Doom to expect the patient to collapse back into a deep coma after the stimulus has worn off.”

Since 2008, when I first noticed the speculative activity of house and condo flipping by people who really could not afford the purchase, I have been railing about impending inflation in this annual message. Now, the world is frightened about inflation. On our television or the front page of newspapers, we can see the world has realized that inflation is actually more of a political phenomenon than a money phenomenon, but the value of money is always the messenger that alerts us that we have problems.

I do know that we have been living through a period of disinflation for most of the last 30 years – since 1982. Nonetheless, on a gross basis, the U.S. government pays out 15% of its revenues in interest, and this during a period of lower-than-average interest rates of 1% or 2%. This is in comparison to a 200-year average of almost 6% for U.S. government bonds. So what happens to the U.S. dollar crisis when interest rates return to the 200-year mean? It means that gross U.S. government interest rates, as a share of revenue, should exceed 30% or more as spending is increased to provide for Obamacare, etc.

Central bankers around the world have now bought into the program of combining low interest rates with money printing to keep the economic recovery going. This means inflation is certain. One of the economic feelings of history is that a country like the U.S. is today can acquire technological innovation and profitable geopolitical expansion, and this can somehow help it out of a massive mountain of debt that is growing on a daily basis.

Harvard historian Niall Ferguson does not think that the U.S. can achieve this historical solution to its debt problem, and I agree. According to Mr. Ferguson, evidence suggests that it will be very hard for the U.S. to achieve higher growth under its current heavy debt burden. In their study, Carmen Reinhart and Kenneth Rogoff, also of Harvard, noted 26 episodes thus far of debt overhangs – i.e., when public debt in advanced countries exceeded 90% of GDP for at least five years. Each of these episodes were associated with lower growth of 1.2% of GDP over protracted periods, lasting on average 23 years, and lowering the level of output by nearly 25% relative to the pre-overhang trade.

The current confused state of the world's economy is best described as volatile, uncertain, complex, ambiguous and quite scary from an investment perspective. There are some who feel that we are living in a "new normal" of volatility and the total uncertainty of global economies and the interconnected financial markets. We are working hard to adopt and develop pockets of profitable opportunities. Government creativity and entrepreneurship have become necessary on a daily basis. Do we worry enough about – and plan for – the deflation that is certainly currently obvious, or inflation that is a certainty sometime in the near future?

The global economy is undergoing a large change and, for many in the traditional West, it will not be for the better. We should expect a U.S. financial crisis that could be as severe as:

- the 1933 end of the gold standard; and
- fixed exchange rates and change of gold backing for the U.S. dollar.

The global buildup of U.S. debt in the last 40 to 50 years will surely have profound global economic effects.

The choice for the debtors is inflate, stagnate or default, which is all that is left for the world to consider.

Today's discussions about economic forecasts usually leads to the supposition that we are coming out of the recession that really started in 2000 and burnt us badly in 2007, 2008 and 2009, and that we will continue to live in an economy masked by financial Botox.

Despite the overall abundance of U.S. domestic, fiscal and monetary uncertainties, as well as many unanswered questions related to Obamacare, infrastructure, taxes and whatever, business economists show a surprising unanimity of opinion that seems to indicate that the U.S. economy's rate of expansion will be robust. This, and almost this general view alone, is what is keeping the U.S. stock market in a positive and illusionary mode. As usual, I am a contrarian to that view.

There is today an unfortunate investment view that is looking on the succession of Janet Yellen as a coronation that seems to assure the bullish types that the Fed will continue with the heroin and Botox feeding on an uninterrupted basis.

There is overall no thought being given, other than by my friend Ian McAvity, to the possibility that at some stage, 10-year bond yields will return to 4% to 5% or more, at which point the Fed's balance sheet will display remarkable losses on a mark-to-market basis.

The bullish believe that the country can just keep on printing, even though the Fed already owns more than 60% of all the 10-year U.S. debt. When do the Chinese and the Russians begin to sell and create a global currency crisis to their advantage?

As Ian recently said, "The Feds have Bernie Madoff on their payroll for 100 years, and they may need his expertise sooner rather than later."

The problem gets even more magnified, because vast amounts of money are flowing into mutual funds at a pace not seen since the last major market top.

Mutual fund investment managers are coaxed and ordered by their large financial institutions to make sure that their funds participate in a rising market. In addition, their bogey is always: "Be sure to be at the index level or above." Mutual fund inflows are at record highs, and the money is creating higher and higher bubble-like index numbers, which reminds me of previous major market tops.

The U.S. stock market is a portfolio of illusions. As a Chartered Financial Analyst, I look at countries in the same manner that I study businesses. Any country's currency valuation is similar to a company's stock price, and the U.S. dollar is going down while the country's debt and deficits are going up. The U.S.'s income statement is not supportive of its needs and, thus, it absolutely needs to print currency through quantitative easing. This will continue with Janet Yellen for some time.

The U.S. balance sheet leaves a lot for an analyst like me to be concerned about in terms of how they can keep their reserve currency status. A status without which they will not be able to sell their bonds on a global basis and raise the money deficit required. The Americans do not look so good when you look at household debt as well. The largest item on the U.S. balance sheet is the education loans taken out by a host of unemployed 20-year olds who have no jobs or ability to ever repay. In fact, many of them might not even complete their university studies and remain part of the falsely stated unemployment numbers in the U.S.

Before we talk about our feelings concerning management of the country, we should realize that almost 50 million Americans do not have enough money to feed themselves and are granted food money by the government – that is 50 million out of a population of 300 million.

It is hard to talk about the U.S. government's management without stating that it does leave a lot to be desired. Just watch the television news about the recent antics of the Obama administration. The U.S.'s reputation is going down in value, its currency is suspect, and both China and Russia are unfriendly.

Russell Napier of CLSA recently wrote, "So far the deflationary wind from the East has been positive for developed-world equities. As inflation has declined from 4% towards 1%, prompting more QE, equity valuations have risen. However, with inflation now likely to fall below 1%, benign disinflation will become dangerous deflation. Investors should watch corporate-bond spreads, TIPS-implied inflation and copper as lead indicators of this tipping point. The deflation from the East in 1997-98 proved good for US equity valuations, but with nominal rates near zero today, this ill wind will blow nobody any good."

The U.S. is facing a major collapse in its national monetary system that will affect most peoples' way of life. The U.S. government has been borrowing and printing so much money for too many years. As Russell Napier said, "This ill wind will blow nobody any good."

I cannot help but add a recent quote from gold expert Jay Taylor: "We're in a deflationary environment that policy makers are trying to overcome with inflation. That won't work as long as people remain confident in the currency, but if there's a loss of confidence in the currency, deflationary forces will give way to inflation. It might even lead to a hyperinflationary situation down the road. That's the worst outcome, but I fear it could happen."

I do not forget that it is during times like those suggested above that Warren Buffett started his career and still owns some of the winners that he purchased in 1973 and 1974. The days of buying great small-capitalization opportunities will soon come again, and we are prepared to participate with our re-entry into investment management.

In today's financial climate – on a global basis – whether as corporations, personally or as governments, we are all obsessed with debt. Governments are failing and workers are facing austerity and unemployment. It is all about money, debt and what is surfacing as a new world order.

Another name for debt is credit – a word derived from the Latin *credere*, which means, believe it or not, to believe. When we borrow or lend money, we have to believe that it can be repaid. The simple fact is that the massive debts accumulated by sovereign nations over the last 50 years – my whole career – cannot be repaid in full from traditional sources of income like taxes, earnings and cash flow. The incomes of most countries cannot grow quickly enough to service their debts. The U.S. leads the pack here, followed by the many dysfunctional countries of the Eurozone.

And that is where the whole thing becomes problematic. To start with the largest numbers – the U.S. government has been ramping up debt both from direct borrowing and promises for services to be rendered in the future essentially since the inauguration of John F. Kennedy in the 1960s, which coincides with the years of my career as a geologist and a financial analyst. Since my first employment in 1962 to today, I have been directly involved in the gold and precious metals industry.

Because there is not likely to be sufficient future income, these debts are not repayable. Either there will be formal defaults, which I doubt, or there will be effective defaults. Effective defaults indicate the process where debts are repaid by printing more money, which in effect becomes devalued and significantly loses its purchasing power. This is otherwise known as inflation.

I once again quote John Williams of Shadow Government Statistics, who sees the U.S.'s financial numbers as they are, rather than how the U.S. government wants us to see it. In a report on January 17th of this year, Mr. Williams wrote: "Since 2007, the international economy has undergone many tectonic shifts. Power relationships have been reordered and we are all struggling to recover from the greatest hit to the world's economic being since the 1930s. Mr. Bernanke's QE3 is a witness to how far he believed that the problem has gone."

In the past five or six years, developing and emerging countries have provided almost 70% of all world economic growth. In the meanwhile, industrialized and developed nations have been stumbling (with the possible exception of Germany).

In addition, developing and emerging nations have also taken over innovations of economic ideas, new models of production, investment and even foreign aid, i.e., China and Africa.

The old institutions have been straining at their seams to keep up with the new, dynamic order. We are grappling today with this continuing problem. As investors, we are searching for ideas from those most progressive and politically accepted developing and emerging countries.

I try to know what is knowable. Studies have been carried out to try and determine what people in general expect long-term inflation to be. A University of Michigan consumer survey found that people place inordinate weight on recent inflation when forming inflation expectations. With this backward-looking tendency, the manipulation of inflation expectations seems simple when we see the low-balled inflation results put out by the Fed and the U.S. administration. The five-year outlook based on backward-looking analyses takes in some low-ball numbers, and people who do their own shopping could realize that the reported inflation statistics do not reflect their actual cost increases on a day-to-day basis. However, when looking at the official “contrived” inflation rates, things do not look terribly difficult for the future and that is what makes it into the newspapers, and this even fools accomplished economists.

As is well known by many, we have been saying for some time now that the runaway global debt increases and massive money printing – currency war schemes – will eventually lead to an unknown level of price inflation. As a result, our entire corporate investment philosophy is tied to hard assets like gold, silver, oil & gas, mining of commodities, ownership of land, and real estate and agriculture.

The lone reason for this view hangs on many indicators, but one in particular often goes overlooked by many mainstream investment analysts. The key indicator for me is when we achieve negative “real” interest rates, but especially when it occurs almost on a worldwide basis. A further problem arises when the central bankers of the world are required to tell lies about the magnitude of the actual inflation number, as is currently the case.

In my view, the real interest rate is simply the nominal rate of interest minus the real rate of inflation. For example, in today’s U.S., the nominal rate of interest is somewhere between 2% and 4%, and the rate of CPI inflation is said to be around 2% as well. However, if you dial into John Williams of Shadow Government Statistics, you will learn that the U.S. inflation rate, as compared to many previous years, is really around 5% or 6%. This makes the nominal rate minus the inflation rate actually a calculation of negative real interest rates.

History tells us – and the Fed knows this – that when real interest rates are at zero or below, it signifies a period of negative real interest rates. Virtually every time in history that this phenomenon has occurred, most countries’ currencies lose purchasing power, and investors require higher rates of interest or an increase in the price of underlying hard assets. Historically, and central bankers know this as well, negative real interest rates provides incentive to move capital (any currency) to gold, silver or other hard assets such as land, resources, etc.

It is important to remember that interest rate fluctuations in and of themselves are not really important to gold and other hard assets, it is how the real rate interacts with the inflation rate. The problem is that central bankers know this better than most, and they have control over the published CPI. And how the CPI is calculated has been significantly changed, such that Americans do not become concerned about negative real interest rates. The low interest rate promoted by the Fed and other central banks is designed to ease the government’s pain of paying interest on a debt level they cannot reduce or even consider not increasing. The deleveraging of debt is painful for all of the U.S., both personally and at the corporate level. But, for a nation, it could mean revolution, and for its politicians, the risk of not being re-elected.

Best-selling author John Mauldin has told us that economic theory is precisely the fickle nature of confidence, which requires its dependence on the public's expectation of yet unknown future events. This simple statement is why it is so difficult to predict the timing of any debt crisis, especially the one the U.S. is currently facing. High debt levels lead to "multiple equilibria," in which the debt level may be sustainable, or then again, maybe not. The movement of overall confidence is not easy to ascertain and, as such, what we do have in the history of almost all financial crises: "is that when an accident is waiting to happen, it eventually does." When countries, people or companies become too deeply indebted, they must either have something hidden away or they are headed for trouble. When debt-fueled asset price explosions seem too good to be true, they probably are. But, the exact timing can be difficult to guess, and a crisis that seems imminent can sometimes take years to eventually evolve. The current one is doing just that.

In 1980, I was around when the Fed stepped hard on the monetary brakes. The initial result was a severe recession. The markets fell, and commodities went into disrepute. There was a sharp decline in inflation. But, in late 1982, the Fed changed its mind and dramatically increased monetary growth. The economy picked up after that and we embarked on the longest post-WWII expansion. Inflation had lasted from the 1960s to the early 1980s. This was not the first inflationary period, nor the last. The days of the Holy Roman Empire, the Weimar Republic and, more recently, the days of my early career in the 1970s were other times when governments built their economies on quicksand and were then unable to fix the problem. And that is what the debts and deficits of today are all about, and the attempt to fix it always seems to first lead to the "hair of the dog" principle. And that usually just increases the debts and deficits and drives the economy lower and lower. Using the "hair of the dog" principle always makes the problem of inflation worse and worse, and within the next two to five years we will feel it – just enough time to keep the Obamas in the White House for more of the same, if Michelle Obama runs for the job, as I suspect.

I have been known to be a contrarian in most of the things that I have accomplished in my career, beginning with the first mine (Camflo) for which I raised the financing for production in 1964. I was told you cannot find gold in syenite in Val D'Or; but we did. I went down in a bucket with Brian Meikle to see and feel the ore body and took samples. Brian was right, and we put up the funds to achieve production – a very profitable investment.

Camflo went on to be Barrick Gold's first acquisition. Peter Munk got the mine, along with Brian and Bob Smith, and they built Goldstrike, probably the best gold mine in North America. If my original syndicate that put up the financing had kept the four million shares we received, basically at no cost, their worth at Barrick's share price today would be many billions of dollars. From this I learned the lesson to be a patient value investor. I have learned that market prices may not accurately reflect what a company is truly worth. The efficient market hypothesis is a bogus theory – share prices simply reflect the prices at which buyers and sellers conclude a transaction, mostly without any understanding of value.

The prices of mining companies are particularly prone to the mistake of market efficiency. A known mineral resource that is not yet producing does not really become attractive to the traditional investor until it has proven its ability or produce and has cash flow.

Throughout my career I have learned that the only way to analyze the critical factor and to evaluate risk is to conduct “personal tire kicking” fundamental research. Value investing on exploration properties in which we have invested $5 billion since 1984 through CMP and Canada Dominion requires understanding the geology of ore bodies and especially the culture and character of people who work on them. We attempt to understand potential ore deposits in the context of the potential value rather than in the context of the stock market, and this requires thorough fundamental research.

Last spring, in a television interview, Iran’s President Hassan Rouhani explained how he used his position as the country’s chief nuclear negotiator in 2003 to facilitate its nuclear weapons program. Mr. Rouhani boasted that the Iranians expanded uranium enrichment massively at Natanz, and constructed the nuclear reactor at Bushehr and the heavy water plant at Arak, all under the cover of negotiations.

In a recent testimony before the U.S. Senate Select Committee on Intelligence, Director of National Intelligence James Clapper said that Iran has already reached the breakout point where it can assemble nuclear weapons at will. In his words, Iran's "technical advancements strengthen our assessment that [it] has the scientific, technical, and industrial capacity to eventually produce nuclear weapons."

President Obama and his advisors claim that the U.S. has the intelligence capability to determine if and when the Iranians move from breakout capacity to actual bomb making. But, the U.S.’s own Defense Science Board rejects that conclusion. According to the board, the U.S. does not have such capabilities.

So, given Mr. Rouhani's previous subterfuge, there is every reason to assume that Iran is using its current negotiations to move from breakout capacity to a nuclear arsenal.

This state of affairs has grave implications, not only for Israel but also for the world. As is now self-evident, Israel has the capacity to effectively strike Iran's nuclear installations in advance of an Iranian attack.

Through deeds and words, the White House has made clear repeatedly that it prefers a nuclear-armed Iran to an Israeli strike to prevent Iran from becoming a nuclear power. As it has done several times over the past six years, the Obama administration can be expected to continue to use the many means it has at its disposal to prevent Israel from launching such an attack.

Moreover, with each passing day, Iran's nuclear sites become more and more difficult to attack successfully. Iran's technological capabilities have vastly expanded over the past decade. Today, it can replace damaged or destroyed centrifuges much faster than it could in the past.

Israel would tell you that with President Obama’s full bore assault on Israel's right to defensible borders and to their historic heartland, they have devoted themselves to a fruitless and irrelevant discussion of how much of their land and their security they need to give up to appease the Palestinians who – in all likelihood - will never, ever be appeased.

The Israeli leaders continue to hope that a proper mix of concessions to the PLO will convince President Obama to stand by his empty pledge to prevent Iran from becoming a nuclear power. But, President Obama is not likely to do so.

Iran either has a bomb already or is about to get one. And, having been abandoned by the White House, Israel faces this threat alone and is preparing to somehow diminish the Iranian threat it faces. Watch for the price of gold to rise.

Something like 10% of the entire U.S. workforce is now temporary. Companies can't afford full-time workers; the government has made it too expensive. That sends a big signal that there never was a real U.S. economic recovery. The U.S. just has a smaller labour force now.

Statistics say that 47% of Americans have full-time jobs. But, actually fewer people have full-time jobs. What the U.S. has is part-time jobs replacing full-time jobs that are being lost.

Some Americans have two jobs. The same guy working two places counts as two jobs. But it is still just one guy.

The economy is shrinking. There are more and more people on food stamps, welfare and disability. So, all the anecdotal evidence says we are still in a recession. It is just the Obama government's phony numbers that say otherwise. It is a phony recovery that will fade if Janet Yellen stops the stimulus, which she has said will not happen. And, she intends to keep interest rates very low as well.

The analogy that goes with the U.S. plan is that the economy is a bicycle, and quantitative easing or money printing is the training wheels. The truth is that quantitative easing is not the training wheels; they are the only wheels the U.S. has. The economy is rolling on quantitative easing.

To take the analogy further, the bicycle is heading toward a cliff. If we do not remove the wheels, we will go over the cliff. Either way, we are aiming for a fall. But it is far better to fall now, than to go over the cliff and drop a great distance to your death.

The U.S. politicians are just hoping for a miracle as they increase debt and the supply of money in the form of the world’s reserve currency.

It is what Bernie Madoff said when people asked him, "Why did you keep doing it?" He said, "Well, I was hoping for a miracle. I was hoping it would all work itself out."

Everything appears fine, as long as the politicians can get through their term. Later, it will be someone else's problem. Some believe, like Bernie Madoff, they can postpone it for 10 or 20 more years.

So that is why the administration will come up with an excuse for not tapering – inflation is too low, interest rates are shooting up too fast, economic weakness in Europe or China, etc. They, as politicians do, will look for some external factor to justify the U.S.'s financial problems.

But, if they were to do the right thing, they would slam on the breaks, start working out these problems, and begin a major infrastructure program – building bridges, proper highways, etc. – to create jobs.

But the U.S. does not seem to have interest in that. It is only interested in that which is politically expedient.

The final result is that gold and other hard assets are going to spike in price. We have had so much speculative liquidation of gold, which speculators have bought, in the last few years that there is not too much more for sale. The Chinese banks are still buying gold. When the market turns around, as it will, the people who sold gold will want it back again because the prices are rising again. When people realize that we aren't in a recovery and the Fed won't stop easing, and when people understand why gold has been going up for the last 10 years, they will want to buy it back.

But where is going to come from?

It is likely that the gold being bought will never be sold.

There will be a huge rush to buy gold when the momentum becomes obvious. There will not be sufficient production, and the supply will have been bought up and taken off the market.

I think we should be getting ready for a spectacular, parabolic rise in the price of gold, as well as hard assets like most commodities, real estate and agricultural land.

The year 2013 was a great one for stocks, which rose for no real reason other than stimulus. Our view is that 2014 will not be as attractive, both for equity valuations and yield-providing securities.

Well-known investment guru Seth Klarman, whose views I respect greatly, recently said at an investment conference that he "simply does not see a lot of compelling reasonable investment opportunities currently. The ones we find, we pull the trigger and purchase."

Mr. Klarman also said something we have said many times before: “We think inflation is likely and view gold at these levels as the best hedge against a worst case environment.”

With the stock market in hold-down, we at Dundee can say that we were cautious and awaiting the day when we could, once again, get excited about traditional investing in companies for excellent profit. That day has come.

Put simply, there is a market breakdown ahead and there will be a tremendous opportunity to buy undervalued securities again.

We lived through these kinds of days before we sold our investment management business – Dynamic Funds. We look forward to the future. As the company’s leader, I am very excited about once again returning to my business roots, which started in 1967 as a partnership with Austin Beutel and Seymour Schulich in Beutel, Goodman & Company, and ended with my sons, David and Jonathan, as we built Dynamic Funds and Goodman & Company Investment Counsel. The whole idea of where we are going is making me feel a lot younger and bullish about the future of our company. I am excited about the opportunity to re-establish our investment management business in partnership with my sons.

The fact that we expect volatility to return to the stock market as a result of heightened tension, U.S. political discord and substantial investor concern pertaining to stock market levels, leaves me seeing my unrest as an opportunity to become a bullish buyer as the world gets frightened and sells at any price. I am reminded of my early days at Beutel Goodman, when we were given the same opportunity in the 1973-1980 period. As I mentioned earlier, coincidentally, 1973-1974 is when Warren Buffett took advantage of a bear market and built a goodly portion of his current portfolio.

The stock market is heading in our favour. I remain short-term bearish on stocks, but am looking for a time to buy soon. I am very bullish on gold, which I expect to see at much higher prices in the next year.

To outside investors today, I would say there are too many moving pieces in the current global investment environment. They should revisit their current portfolio to allow the potential early periods of increased market volatility to get behind us, and give the asset classes and sectors that will deliver a risk-adjusted valuation the time to emerge through 2014.

The most recent global events have created a significant macro concern. It appears like a new cold war is heating up. Vladimir Putin, the richest and likely the smartest politician in the world, has made his intention clear. He is continuing to fight a cold war with Europe and the U.S. In particular, his aim is much like that of President Xi of China. They wish to eliminate the U.S.’s advantage of having the U.S. dollar as the world’s reserve currency.

As I have mentioned, China is the biggest buyer and producer of gold in the world. Russia too produces gold. Russia also controls over 25% of Europe's natural gas imports, giving it a veritable monopoly, with the power to raise prices or even cut off supplies in the dead of winter. Just as an aside, Ukraine gets two-thirds of its natural gas supplies from Russia. Therefore, Ukraine is most affected, but just about every major European country is vulnerable to Mr. Putin's natural gas supply. The U.S. will have to do a lot of fracking and spend a lot of money to create liquefied natural gas to meet Europe's requirements in order to loosen Mr. Putin's stronghold over supplies to Europe.

The fact is the people and politicians of countries around the world, and particularly Russia and China, are tired of the current U.S. government. Since the likelihood of a military conflict is remote, the best that the strategic partnership of Russia and China can do to take down the U.S. is through the elimination of the U.S. dollar as the reserve currency of the world.

As we noted our *Annual Report* last year, the IMF – of which all the countries of the world are members – is completely set up to replace the U.S. dollar's reserve currency status. It has been so since 2009, when it created Special Drawing Rights (SDRs). All that is left is for the SDRs to achieve some backing and the agreement that they will replace the U.S. dollar as the reserve currency. Both China and Russia have stated that they would accept that event. This would provide the U.S. with tremendous difficulty, being that its debt is extremely high, as is its annual deficit. Without being able to sell bonds to the world, the U.S. is essentially bankrupt. That is unless you really believe Americans have 8,000 tons of gold, which they say they have but that no one has seen since 1942.

I was taught by some very smart investors that it is important to make sure we own the one asset that can help save me and my family, no matter how bad things get in the global economy. And I know that there is really no telling exactly how bad things can get as a likely financial crisis approaches – perhaps one with riots in the streets, bank runs and periods of unprecedented financial mayhem.

The fact is, the U.S. cannot afford its debt position and it cannot stop printing money. For the U.S., inflation is not a risk, it is a necessity. When the currency crisis comes to the critical state, it will happen very quickly. If the U.S. government suddenly finds itself unable to sell bonds at a reasonable price, the U.S. dollar will collapse and become nearly worthless on an overnight basis. A currency collapse develops gradually and then suddenly, it happens.

A collapse is a possibility because both Americans and foreign investors are clearly losing faith in the U.S. dollar. Over the past few years, it has been a progressive and steady decline. But there will be no announcement when the final collapse occurs; it will be devastating and swift.

The global economy is going to disappoint in 2014. First in line is Asia. Look anywhere on that continent, and you will see economic slowdowns looming. China, the biggest economic hub in the region and the second biggest in the global economy, is outright slowing down. In February, the manufacturing activity in the country dropped to a seven-month low. The HSBC Flash China

Manufacturing Purchasing Managers' Index (PMI) registered at 48.3 in February, compared to 49.5 in January (source: *Markit*, February 20, 2014.) Any PMI reading below 50 suggests contraction in the manufacturing sector.

Other major economic hubs in Asia, such as Japan and India, also show the region is in trouble. The Eurozone, the biggest economic hub in the global economy when looked at as a whole, continues to show signs of stress. Countries like Spain and Greece are in a deep economic slowdown. We continue to see economic data that suggest Germany's economy, the biggest in the region, is also under stress. In February, manufacturing output in the German economy declined to a three-month low.

In South America, the economic slowdown is gaining strength. In February, manufacturing production growth in Brazil was the slowest since September 2013. Manufacturing employment also declined in the Brazilian economy, with businesses saying they are uncertain about the economic outlook.

It is too early to see what Fed Chair Janet Yellen has in store for the U.S.'s stimulus position. I am cautious about the U.S.'s current stock market position, because of its debt, both personal and as a country, as well as the fact that there are still many unemployed or underemployed people, and almost 50 million Americans are living on food stamp money.

The many good company stocks almost worldwide are no longer what I would call cheap. There are some that are favourably valued for buying. However, the fact is that most good stocks globally are selling at an almost 50% premium over emerging country stocks. Some emerging countries – like China and Korea – are in a downward mode, while others' ongoing earnings growth appears to be stagnating. With price values already at a peak in developed markets and economic improvements not really taking place, growth in corporate earnings on an overall global basis is likely to remain in a sluggish and stagnated state.

Give the points noted above, and the fact that the attraction of yield is also waning as higher interest rates are expected on a worldwide basis, we are left in a defensive mode on stocks in general. The cyclical recovery that seems to be underway today will likely falter. Indeed, as CLSA recently said, "Even though the US Fed has been successful in keeping a tight lid on the ten year bond yield at around 3%, bond yields will eventually move higher." Much higher, I would say, and this would keep yield strategies that have worked so well recently under pressure. It is likely why dividend-yielding equities have moved to lower prices recently.

Despite what you may hear, we would currently (but not forever) stay away from direct investment in most emerging markets. And Europe is not growing; period. Recent signs of marginally better economic growth came entirely as a result of a drop in inflation. The EU has done nothing to fix its deficit spending and is living on access to cheap money; mostly that being printed.

With shrinking U.S. deficits in 2014 and the Fed tapering its bond buying, EU interest rates will come under pressure, especially once U.S. interest rates start to move up.

Dick Young's historic bulletin found its way to my desk recently. Listing the following, he said, "Anyone who believes America is on the right track needs to have their head examined."

- Global threats are multiplying
- America's national credit card is about to be chopped in half
- Entitlement spending is through the roof
- Inflation is destroying wealth and crushing savers
- Gas prices are at a permanent high
- Manipulation of stocks and markets is rampant
- The U.S. dollar is already an international joke

My philosophy, learned over many years of investment management, is that I must protect my account against the risk of loss before even looking for items that will maximize returns. I am what one calls a fundamental value investor, focused on companies that are trading at a discount to their intrinsic value, which I identify by determining the discounted present value of their future cash inflows. At this time, while I am bearish about the current state of the capital markets, I am bullish about our company's future returns to shareholders. I include here a recent report prepared by GMP Securities, which has been following our company's affairs for many years.

Note to our shareholders: While we have included the report about our company prepared by GMP Securities for their own purposes, we do not confirm or deny any of their calculations or their interpretation of Dundee Corporation in totality. The report was prepared from public information that is available for all shareholders. We did not have any discussion with them about views or interpretation.

____

Ned Goodman
President & Chief Executive Officer
Dundee Corporation

GMP Securities
Griffiths McBurney

Stephen Boland, CFA
sboland@gmpsecurities.com
416-941-0897

Associate: Paul Easterbrook, CPA, CA
peasterbrook@gmpsecurities.com
416-943-6146

May 15, 2014

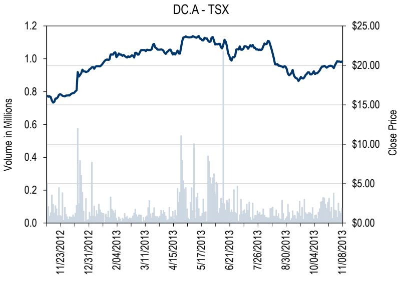
Dundee Corporation[4] (DC.A-T) — BUY

Last: $16.15 — Target: $23.75↓

WHAT'S CHANGED	NEW	OLD
Rating	NC	BUY
Target	$23.75↓	$25.50

SHARE DATA	
Shares o/s (mm)	53.5
52-week high/low	$23.98/$15.41
Market capitalization (mm)	$869.1
Current NAV (mm)	$26.94
Dividend Yield	Nil
Total Projected Return	47.1%

Current NAV	Per Share
BNS	$0.00
Dundee REIT (Dream Office REIT)	$2.66
Dundee International REIT (Dream Global)	$1.76
Dundee Energy	$0.54
Dundee Prec. Metals	$2.14
Dundee Capital Markets	$0.90
Ryan Gold	$0.05
Union Group International	$0.97
Android Industries	$0.37
United Hydrocarbon	$2.85
Corporate Investments	$10.25
DREAM	$5.99
Capital and Other Assets	$3.96
Net Cash (debt)	($5.50)
NAVPS	**$26.94**
Forward NAV	**$29.64**
Discount to NAV	40.1%



Q1/14: Discount remains wide, BUY signal

Current NAV of $26.94

The total revised current DC NAV is $26.94. During the quarter, DC.A's NAV decreased from our $28.96 Q4/13 estimate. The sequential decrease in the NAV is due to a decrease in the market value of a number of investments in the quarter, most notably DPM and certain Available For Sale (AFS) securities. We have adjusted our valuation metric on the United Hydrocarbon holding, which decreased our NAV by ~$0.50 on a per share basis compared to Q4/13. The discount is now at 40.1%. When the discount approaches 40%, this has traditionally been a buying signal.

Changes in NAV

Compared to Q4/13, where there were no material changes to the holdings, Q1/14 saw additions through the acquisition of 25% of Android Industries and increased investment in Union Group to bring the ownership up to 40%. Subsequent to Q1/14, DC announced the acquisition of the remaining shares of 360 Vox that it did not already own. We have included the effect of this transaction in our current NAV under Capital and Other assets line item as Vox would be consolidated into DC, going forward.

DC was awarded $20.0 million treasury shares, valued at $10.0 million, from UHI during the quarter as a discovery bonus from successful drilling results. This increased ownership in UHI from 29% in Q4/13 to 40% as at Q1/14. Lastly, DC drew down ~$65.7 million on its credit facility to fund the investments in Android and Union Group. Compared to Q4/13, the increased debt lowered our NAV value by ~$1.25 per share.

Value for United Hydrocarbon

Our valuation for UHI has changed slightly compared to Q4/13, which has decreased our NAV calculation by ~$0.50 q/q. We now carry the investment as a blend between advanced debt to UHI as well as an estimate of the equity investment based on the most current trade data for UHI shares.

Discount remains wide; maintain BUY

We apply a 20% discount to our forward NAV of $29.64, which yields a target price of $23.75, a decrease from $25.50 previously. The stock continues to correct despite the wider than normal discount. In the past, there were clear catalysts to narrow that discount (spin-out of DREAM, dutch auction), however it is not clear what that catalyst may be at this time. DC has ample debt room to buy back shares but limited cash; however, we believe there is the potential some of the liquid holdings could be sold to raise cash in the near term. Despite this, we maintain our BUY recommendation based on our expectation of the discount reverting to a normal 30% to 35% range.

GMP Securities Griffiths McBurney

Stephen Boland, CFA
sboland@gmpsecurities.com
416-941-0897

Associate: Paul Easterbrook
peasterbrook@gmpsecurities.com
416-943-6146

Q1/14 – INCREASED DISCLOSURE ON INVESTMENT HOLDINGS

DC has increased disclosure regarding investment holdings. DC presented a table in the MD&A breaking out the top five investment holdings as at the end of March 31, 2014. Within our NAV calculation, we have accounted for these holdings separately and backed these values out of the publicly traded securities balance to improve transparency in our calculation and ensure that fluidity remains as was previously available when the DREAM positions were equity accounted. Exhibit 1 presents the increased disclosure provided.

Exhibit 1 – Top five investment holdings

As at March 31, 2014	Trade Symbol		Market Value
DREAM Unlimited Corp.	DRM.CN	$	326,275
Real estate investment, development and management company			
Dundee Real Estate Investment Trust	D.UN.CN		141,595
Real estate investment trust focused on high-quality business and office assets			
Dundee International Real Estate Investment Trust	DI.UN.CN		92,700
Dundee International Real Estate Investment Trust - Sub-participating loan	Debt		42,628
Real estate investment trust focused on commercial real estate outside Canada			
Pan African Minerals Ltd.	Private		45,000
Minerals development company focused on project in West Africa			
Participating loan to Edgewater Casino Resort Development	Debt		37,500
Real estate development			
		$	685,698

Source: Company Reports

A recent release by the IMF quoted its Managing Director, Christine Lagarde, urging worldwide banking officials to take more aggressive steps to spur growth. She said, “The global economy is recovering from the recessions but the pace is still too slow.” She went on to say that the “modest growth can turn into a trap”, a trap that will be “difficult for economies to escape.” The release’s headline read: “The global economy is turning the corner of the Great Recession, though overall growth remains too slow and weak.” Ms. Lagarde says, unfortunately, that the U.S. expansion is likely the strongest among many advanced economies. Many economists “hope” that the U.S. will grow by 2% or 3%, while China grows by 7.5% to 8.0%.

Ms. Lagarde advocated that the central bankers of the world should be using “unconventional measures to jolt the economy,” while expecting that “geopolitical tensions… could cloud the global economic outlook.” There could be “broader spillover implications,” and she called for the U.S. and Germany to start infrastructure investment to increase output and jobs. At the same time, she said, “countries should take bolder steps to reduce high unemployment, work off massive debt and complete financial reforms to prevent the type of crisis that upended the global financial system in 2008.” In short, she is asking for more money printing in keeping with the Botox economic philosophy. In any instance, she definitely does not sound bullish for the global economy. It is time to be careful and expect an inflationary environment to slowly manifest itself on a global basis.

We live in a business world today where there are powerful drivers of change on a fairly continuous basis. As a long-term security analyst and investment portfolio manager, I have learned that we cannot only think about reacting to change because it will soon be too late. You must always be prepared to anticipate and understand change, and use it as an opportunity to thrive and survive. The sale of our mutual fund company was an example. That decision had both micro and macro reasoning. The micro reason was that the Canadian banking community and index ETFs were going to hurt our growth and the regulatory system would not benefit independently operated mutual funds like ours. The macro reason was a stock market and economic call to alleviate discomfort from an investment perspective.

Today, with the world out of balance, the business environment still does not offer the prospect of a leisurely stroll under a sunny view of economics and comfortable global politics, both of which have become increasingly difficult to understand and/or predict. As a company seeking success, we tend to reach for the future and try to shape our business thrust to seize opportunity rather than dwell on the many existing anxieties.

We are strongly attuned to the necessity of being prepared for tomorrow’s real opportunity; constantly searching for the correct strategies. We are in the process of searching for models of the key drivers of our future business environment, once again looking with both macro and micro levels of understanding.

The world is out of balance, with large growth in the number of consumers coming from re-emerging economies, especially China and South Korea. Two- to fourfold improvement in standards of living is expected in those countries and others like them by 2020, while the expectation for Europe and North America is flat to slightly down.

The U.S., so long the dominant power, is watching nervously in its rear view mirror as China catches up, poised to reject the U.S. dollar as the reserve currency of the world.

In the midst of life, the U.S. finds self in a deep do-do debt position. Americans must borrow to pay for their education, their consumer durables and for their houses. Importantly, as nations we borrow money because the taxes we are willing to pay rarely match the public spending we wish to see.

The Botox economy, as fostered by the Fed, has created a stock market with excess confidence and a bull market that was truly an illusion brought about by printing money – money that was reserve currency for the world.

Investors who are overconfident usually labour under the belief that they have more knowledge and more ability than the average investor. This effect is quite serious, because the danger of overconfidence for the wrong reasons is what increases trading activity, leaving investors to think they are correct. Overconfidence usually leads us into trouble.

The current crisis pits old against young, rich against poor, taxpayers against the public sector, and countries against each other. All of this will lead to a new world order.

It was no surprise to us when, in 2011, China became the number one buyer of gold in the world. And this continues today.

For many people in the gold market, this was a big shock – India has always been the world's leading gold buyer. In India, people traditionally save and display their wealth in gold. Their entire financial culture is based on gold.

Historically, silver has played the same role in China. But not anymore; gold is now their target.

China is also producing the most gold in the world each year. And every single ounce that is produced in China, whether dug out of the ground by the government or a foreign company, must by law be sold directly back to the government.

And here is the main reason. I believe with 100% certainty that the Chinese are now clearly on a path to accumulate so much gold that, one day soon, they will be able to restore the convertibility of their currency into a precious metal, just as they were able to do a century ago when the country was on the silver standard.

Back then, of course, China was a complete mess, looted and humiliated repeatedly by Russia, Japan, the Britain and the U.S. But, today it is a very different story.

Now, China is one of the fastest-growing economies on earth, with the largest cash reserves on the planet. And, as befits a first-rate power, China's currency is on the path to being backed by gold.

China desperately wants to return to its status as one of the world's great powers, and it recognizes the enormous power of having a dominant world currency.

The Chinese know that in a time when nearly all governments around the globe are printing massive amounts of currency, backed by nothing but an empty promise, China can gain a huge advantage by backing its currency with a precious metal.

A century ago, China used silver to back its currency. Today, the Chinese have chosen gold. It is why they are buying up the world's gold supply.

As the great financial historian Richard Russell wrote: "China wants the renminbi to be backed with a huge percentage of gold; thereby, making the renminbi the world's best and most trusted currency."

Christopher Potter, President of Northern Border Capital Management, summed up the situation in an analysis for the Lehrman Institute: “First, the scale of China's gold initiative is unprecedented in world history. This alone should make us take notice. Second, China is signaling that the currency wars of the past decade are changing. Soon, the battle will be influenced by gold. Here in the West, we cling to the notion that our experiment with floating exchange rates and unreserved currencies will somehow save the day… China suffers from no such delusion. It is voting with its wallet that the experiment has failed. It is preparing for the demise of the U.S. dollar.”

Famous American author and investor Jim Rogers, who has moved to Singapore and invests only in Chinese companies, said: “When the average Joe discusses Chinese social policy, the thing that always gets mentioned first is the one child policy...”

Since 1979, China has restricted Chinese couples to having only one child. There are exceptions to this policy, but, all told, the program is estimated to have stymied somewhere around 200 million births. It has also been blamed for horrors such as forced abortions and female infanticide.

But, according to President Xi, the one child policy may be going the way of the dodo.

A demographic time bomb has been ticking for the Chinese for a while now. If they keep up current policy, the number of 65-pluses would *double* by the 2030s. By 2050, there would be less than 1.5 workers for every retired person in China, according to the Brookings Institution.

Here are a couple more jaw-dropping facts about China's desperate need to pop out some more babies. Texas-based global intelligence company Stratfor Forecasting Inc. states:

- **China’s working age population peaked last year, shrinking by 3.45 million** (or -0.6% year-on-year), according to the National Bureau of Statistics, to 937.27 million. That represents a major demographic turning point, not just for China, but also for Asia and the world. The turning point has come **three years ahead of schedule**, as most demographers had put China’s peak at 2015.

- **More than 13,600 primary schools closed nationwide in 2012.** The ministry looked to China's dramatically shifting demographic profile to explain the widespread closures, noting that between 2011 and 2012 the number of students in primary and secondary schools fell from nearly 150 million to 145 million. It also confirmed that between 2002 and 2012, the number of students enrolled in primary schools dropped by nearly 20%. The ministry's report comes one day after an article in *People's Daily*, the government newspaper, warned of **China's impending social security crisis as the number of elderly is expected to rise from 194 million in 2012 to 300 million by 2025.**

- **Women are bearing only 0.71 girls over their lifetime, well below the replacement figure of just over unity.** In 2010, there were 51 million more men than woman in the country. The sex ratio among newborns is 120 boys for every 100 girls, the highest in the world. At this rate, there will not be enough brides for as many as one-fifth of today's baby boys when they get to marrying age, heightening the risk of social tensions.

Have fun building a new consumer economy on *that* brittle foundation.

If you really want to build a consumer economy, the one major piece is rather simple: you need people to buy things!

To combat this demographic imbalance, the Chinese have started to relax the one child policy, now allowing parents to have two children if either parent was an only child themselves. But, they will need to relax this even further to avoid cataclysmic population meltdown.

Also importantly, these new people will need places to live – preferably in concentrated urban economic areas. That is why the Chinese are accelerating Hukou (residents) reform. This will make it much easier to move from rural China to the bustling economic hubs like Hong Kong and Shanghai to drive up consumption.

Those are the changes that have Jim Rogers excited. He is banking *big* on the new Chinese consumer economy.

Sex and the Botox Bull Market

It is the morning of March 31, 2014, and I am awake and listening to the business news on BNN TV. The announcer is interviewing an analyst from Wall Street who is supposedly famous for his market calls. He is pushing for bank stocks to join the so-called bull market prevailing. He must have mentioned "bull market" at least a dozen times, while pushing the purchase of U.S. banking stocks. I was again reminded of the comment by my idol of investment management, Warren Buffett: "A bull market is like sex. It really only begins to feel good when it is almost over."

Two weeks prior to this, on March 13, 2014, I received a memo from Seth Klarman, who competes with Warren Buffett as one of my favourite investors on the planet. Mr. Klarman said, "In the face of mixed economic data and at a critical inflection point in Federal Reserve policy, the stock market, heading into 2014 resembles a Rorschach test. What investors see in the inkblots says considerably more about them than it does about the market. If you were born bullish, if you've never met a market you did not like, if you have a consistent short memory, then stocks probably look attractive, even compelling.

"But if you have the worry gene, if you're more focused on downside than upside, if you're more interested in return of capital than return on capital, if you have a sense of market history, then there is more than enough to be concerned about."

A skeptic would have to be blind not to see a bubble inflating in junk bond issuance, credit quality and yields, not to mention the nosebleed stock market valuations of fashionable companies like Netflix, Tesla and Facebook.

Both Mr. Klarman and I see that there is a growing gap between risk and potential return almost everywhere we look.

To quote Mr. Klarman once again, "Whether you see today's investment glass as half full or half empty depends on your age and personality type as well as your lifetime experiences in the market and how you interpret them." It is my assessment, as it is Mr. Klarman's, that the Fed has provided more stimulus than is safe, and that plus low interest rates and suppression of volatility has triggered a bull market of "speculative froth." All of this is a direct result of the Botox economy created by Dr. Bernanke and his money-printing machine.

In Mr. Klarman's view, and again I find it easy to agree, "Europe isn't fixed." But, as he says, "You wouldn't be able to tell that from investor sentiment." I can only appreciate him more when he wrote, "Only in a bull market could an online 'currency' dubbed Bitcoin surge 100-fold in one year, as it did in 2013." He goes on, "Bitcoin is another band wagon we are happy to let pass us by. In paper currencies, dollars and yen can be printed in essentially unlimited volumes and just as with all currencies are only worth what recipients on any given day will exchange in goods and services, then what makes them any better that the 'crypto' kind of money?" He added, "Gold at least has been regarded as 'money' for thousands of years and is a relatively stable and widely accepted store of value and medium of exchange. It's a well-known monetary 'brand.' It doesn't exist only in (or at all) space and it cannot be printed on the whim of authorities."

Mr. Klarman ended his views with the following: "Someday, the Fed's show will be off the air and a new programming will take its place. And people will debate just how good it really was. Someday."

It's the tail end of sex and the bull market, enjoy it.

I am writing this report amidst the global and Mid-East chaos, and the Russia/Ukraine fiasco and violence. There is problematic economic and financial news emanating from the U.S., Europe and the U.K. Our world is screwy and without any certainty or reason for optimism or confidence among investors, yet the stock markets of the world appear to be blind to the news of the day. I have never been more concerned about the future for overall investments at any time in my entire investing career of over 50 years. While I remain an optimist by nature, there are times when rationality takes over my psyche and challenges my optimism. Nonetheless, I remain positive toward investments that retain inflation protection like infrastructure and real estate and other hard assets, such as gold and commodities.

Let me tell you a story I first heard in 1967:

“Tell me, Mr. Mozart,” begged a music student, “how can I become a composer?”

“I don’t know,” replied the man of genius.

“But you were writing symphonies when you were eight years old.”

“True, but I was not asking how.”

Successful investing requires a certain flair, and there are many avenues to success or failure. Better information and rigorous method are helpful in reducing the guesswork in investment decisions. Even so, some investors, like some race horses, are better than others.

The true investment geniuses may be as inarticulate as Mozart in explaining how they do it. However, they seem to be in agreement that most investors fall short of success because of psychological obstacles built into the game. Having observed many investors, I see them advising studying the errors of others, then analyzing one’s self to avoid such errors, and finally profiting by doing right, while the others continue to do wrong. This sounds like Freud, and it is.

Extensive analysis in recent years of stock price movements yields the not-too-startling conclusion that individual stock market movements and trading formulas add up to an average performance. Furthermore, very few mutual funds, for all their supposed superior knowledge, have had a consistently above-average performance. The implication is that trading selected stocks is of no use to the investor in achieving an above-average reward.

However, the positive side of these findings is that half the investments will perform better than average whether they are for the long or short term. Every stock trade is advantageous to one side of the transaction and disadvantageous to the other. Moreover, every trade is the result of two human motivations, one superior and one inferior. The application of intelligence to analyze such motivations can certainly lead the investor toward the superior and away from the inferior decision.

The doctrine of the “random walk” implies that at any time the price of a stock fully represents all that is known about the stock, and that since additional knowledge will occur randomly, future price movements will also be random. Of course, what is called knowledge here is not knowledge at all, but is really a composite of investor beliefs and expectations. That beliefs and expectations are subjective and fallible is clearly demonstrated by the wide price fluctuations of stocks whose intrinsic value based on discounted present value calculations changes only slowly. The subjective nature of investor “knowledge” means that it is held with various degrees of completeness, belief and comprehension by different investors, so that its effect on a particular stock is usually gradual, not instantaneous. One investor’s market “vote” influences the others' decisions. This leaves room for the analysis of technical as well as fundamental factors in making investments.

Most likely there is a small group of traders who, through superior knowledge, superior discipline and a superior strategy, consistently take the right side of a trade more often than the wrong and profit handsomely, with only a minor adverse effect on the rest of the investment universe. Only the exceptional individual can join these elite, but there is plenty of scope for any of us to move some distance in their direction and away from the herd of random walkers.

There is one book written by three wise men that will help an investor improve his or her performance through better understanding of the psychology of investing. I recommend its reading, and this recommendation applies both to the amateur and the professional.

The book is *Why Most Investors Are Mostly Wrong Most of the Time* by William X. Scheinman.

Mr. Scheinman's view is that most investors lose because they try to apply rational measures, fundamental and technical, to an irrational market of human emotions. He convincingly demonstrates the uselessness of most investment advice, or at least its application by average investors. The published "experts" tend to be consistently wrong. Mutual fund performance is usually inconsistent.

As he sees it, the unsophisticated investor is mainly governed by hope of profit and fear of loss, especially the latter, and consequently does the wrong thing at the wrong time. To improve his or her performance, the investor must not only pick the right stocks, but must correctly time purchases and sales by anticipating the actions of others. By knowing himself or herself, he or she can better interpret market psychology. While individual action is impossible to predict, the action of the crowd can often be anticipated. But hope and fear are not really good investment strategies!

Mr. Scheinman warns that such analysis is a tool, not a sure-fire formula for success. He quotes the late Sam Steadman on technical aids: "When you go hunting, you take your hound dog along, but you don't give the dog a gun."

While not all of Mr. Scheinman's elaboration on his main theme through a number of chapters is strictly relevant, his observations on portfolio management and performance measurement are excellent, and could stand alone.

The U.S. is confronting unprecedented uncertainties. The current forced deficits have no precedent other than perhaps the days prior to 1929. The deficits have been easy to finance so far because private credit demand lapsed in 2009, but at some point they will be reason for alarm once again, as in 1929.

Companies will become alarmed by a rising cost of capital as the U.S. gives up its zero interest-rate policy.

Only one thing is certain at this point – the U.S. is on a fiscal trajectory that will ultimately be unsustainable. The path that Washington treads to discover its non-sustainability will shape the business environment and stock market pricing.

There is very little room for the U.S. to manoeuver. The fiscal imbalance that the government faces, including unfunded liabilities related to Obamacare program expenditures, have affected balance sheets in the U.S. and around the world.

The U.S. has painted itself into a corner; whereby, tax increases are an absolute necessity in order to stabilize its increasing debt burdens.

While a government that needs electoral support almost never raises taxes, the U.S. government has few options left. Broad tax increases affecting the entire population will be required, and will likely be related to consumption rather than savings and investment. The U.S. economy needs capital to fund retiree consumption and health benefits. In addition, the government has to be concerned about the adoption of new technologies to compete with growing re-emerging markets, and certainly to fund public infrastructure projects, because they are needed, as are the jobs involved.

That is the U.S.'s problem. It is without a doubt, however, that one of the long-term effects of global recessionary events is the very large and sharp increase in government debt and deficits on a worldwide basis – in some countries more than others.

According to the IMF, global public deficits were expected to reach more than 10% of U.S. GDP. It forecasts large and unsustainable deficits will more than double U.S. all-government debt from 62% of GDP in 2007 to more than 110% in 2015. Given the poor savings rate in the U.S., much of the rising debt is being provided by Asia and the Middle East, as well as the massive printing of U.S. dollars.

By 2015, the U.S., along with many other countries, will be severely constrained in their ability to manage the economy as they seek exit strategies from the severe problems they face. There will be no big line up to see who wants to be President of the U.S. in 2016. There is no other solution than for the Fed to print massive amounts of US dollars, such that leaders of countries like China and Russia will be prompted to push for its elimination as the global reserve currency.

This would mean that the program announced by the IMF in 2009 to replace the dollar with SDRs as the world's reserve currency should soon be publicly talked about once again. Both China and Russia have talked in favour of stripping the U.S. dollar of its reserve currency status. There is very little that the U.S. has to offer from its present and likely future position that could undo that likelihood.

As investors, we should be aware of that major change to what *The Economist* called the "Wobbly World."

In order to better describe how we see our business as investors on a forward basis, I would like to quote Charles Munger, Vice-Chairman of Berkshire Hathaway Corp., from his article entitled, *A Lesson on Elementary Worldly Wisdom as It Relates to Investment Management and Business.*" Mr. Munger wrote: "Most investment managers are in a game where the clients expect them to know a lot about a lot of things. We didn't have any clients who could fire us at Berkshire Hathaway. So we didn't have to be governed by any such construct. And we came to this notion of finding a mispriced bet and loading up when we were very confident that we were right. So we're way less diversified. And I think our system is miles better."

In investment management today, everybody wants not only to win, but to have a yearly outcome path that never diverges very much from a standard path except on the upside. Well, that is a very artificial, crazy construct. That is the equivalent in investment management to the custom of binding the feet of Chinese women. It is the equivalent of what Nietzsche meant when he criticized the man who had a lame leg and was proud of it.

Mr. Munger wrote: "That is really hobbling yourself. Now, investment managers would say, 'We have to be that way. That's how we're measured.' And they may be right in terms of the way the business is now constructed. But from the viewpoint of a rational consumer, the whole system is 'bonkers' and draws a lot of talented people into socially useless activity. "

"You're much more likely to do well if you start out to do something feasible instead of something that isn't feasible. Isn't that perfectly obvious?

The Berkshire system is not 'bonkers'. It is so damned elementary that even bright people are going to have limited, really valuable insights in a very competitive world when they are fighting against other very bright, hardworking people.

It makes sense to load up on the very few good insights you have instead of pretending to know everything about everything at all times.

"How many of us have 56 brilliant ideas in which we have equal confidence? Raise your hands, please. How many of us have two or three insights that we have some confidence in? I rest my case.

"Berkshire Hathaway's system has adapted to the nature of the investment problem as it really is."

He goes on to say: "So how do you get into these better and great businesses? [One method] is what I'd call the method of finding them small, get 'em when they're little. For example, buy Wal-Mart when Sam Walton first goes public or even before that and help him build the company."

Mr. Munger continued, "It's a very beguiling idea. If I were a young man, I might actually go into it. But it doesn't work for Berkshire Hathaway anymore because we've got too much money. We can't find anything that fits our size parameter that way." (But fortunately, it does fit our Dundee size very well).

"But," wrote Mr. Munger, "I regard finding them small as a perfectly intelligent approach for somebody to try with discipline." (And that's part of the Dundee business plan).

“However, averaged out, betting on the quality of a business is better than betting on the quality of management,” added Mr. Munger. “In other words, if you have to choose one, bet on the business momentum, not the brilliance of the manager. But, very rarely, you find a manager who’s so good that you’re wise to follow him into what looks like a mediocre business.”

Our Dundee entry into the agricultural business is a perfect example. The assets acquired by Dundee Agriculture and Union Group in Uruguay are fantastic, but, in at least one instance, at our Blue Goose Capital Corp. (Blue Goose) facility, we have been let down by management and have had to make some changes. The concept of being in the business of owning agricultural land, producing organic beef and fish through absolutely clean farming, raising organic range-fed chickens and fresh vegetables close to the source of the purchaser is a great business, which we intend to pursue with vigour and a new management team.

DUNDEE AGRICULTURAL CORPORATION

We continue to strive to create significant value in agriculture. We are doing this mainly through our investment in three companies. The first is Blue Goose, a rapidly growing producer and marketer of “clean” beef, chicken, and fish. The second company is AgriMarine Holdings Inc. (AgriMarine), a formerly distressed fish tank technology and fish farming company that has been rehabilitated and is now focused on tripling its production capacity. The third company is Xylitol Canada Inc., a marketer of a natural sweetener known as xylitol. Its management is taking steps to backward integrate into producing xylitol. In the process, the company aims to lower the industry’s cost curve.

A full review of Urban Barns Foods is omitted from this write-up on Dundee Agricultural Corporation because the company is still at a “proof of concept” stage. Rick Groome, CEO, has yet to secure a long-term customer contract that will ensure Urban Barns Foods is economically viable. Moreover, our investment amounts to only US$1.3 million. Also omitted is Union Agriculture Group, because our shareholding was converted into shares of Union Group International Holdings.

These investments have been made by Dundee Agricultural Corporation, a wholly owned private subsidiary of Dundee Corporation. Our team diligently seeks out opportunities across Canada, and globally, throughout the entire agricultural value chain. Where there is under-investment, a high rate of demand growth, and/or under-supply, we tend to find the best potential for sustainable returns.

It might be hard to imagine something as simple as food being appealing to investors, but we are seeing opportunities in the agriculture sector. Consumers in North America, as well as those in other parts of the world, are increasingly turning to healthier foods. Demand for organic food products, for example, is growing at an annual rate of 13% in the U.S., according to SPINS, a consulting firm.

Blue Goose, our largest investment in the agriculture sector, has had success in addressing this consumer trend. In 2013, the company succeeded in rolling out its Blue Goose-branded organic and natural beef, chicken and fish products in over 700 Loblaw, Sobeys, Costco and Whole

Foods stores across Canada; up from a handful of stores just two years earlier. This was no small feat. Blue Goose achieved another major milestone when it obtained federal registration for its abattoir in British Columbia. This permits the company to capitalize on its herd of close to 12,000 cattle by selling carcasses across Canada. Take a trip to the meat counter at Whole Foods in Vancouver or visit the meat and chicken counters at Loblaw in Toronto to understand the potential of the Blue Goose opportunity.

In fish farming, there is growing pressure from governments around the world to replace open-cage fish nets with fish rearing systems that are more environmentally friendly. In March 2013, the Standing Committee on Fisheries and Oceans submitted a lengthy report to the Government of Canada. It concluded that the government must take legislative steps to encourage fish farmers to transition to technologies that eliminate discharges into the environment, eliminate fish escapes, and minimize sea lice. Some provincial governments have already taken a first step. British Columbia and Nova Scotia, for example, have placed a moratorium on issuing new licenses to raise fish in open-cage nets. With this backdrop, only operators who install closed-containment fish tanks or land-based tanks with a closed-loop recirculating system will be able to obtain licenses to grow their production capacity.

AgriMarine, our second largest investment in the agriculture sector, already has the necessary technology to grow at a time when most of its competitors cannot. Its engineers developed the AgriMarine System™, a patented fish rearing system comprising a closed-containment tank with supporting oxygenation and other equipment. It took over five years to develop, and AgriMarine is now benefiting. On the site of West Coast Fishculture (Lois Lake) Ltd., a company that AgriMarine acquired in November 2013, new fish tanks are being commissioned. Salmon and steelhead trout production will thereby increase from 900 to 3,000 metric tonnes per annum over the next five years. Competitors in Norway have developed similar fish tank technologies, but to date they remain unproven.

Xylitol Canada, a smaller agricultural sector investment, is actively negotiating terms to facilitate the erection of a new plant that will produce xylitol, a natural sweetener. Should management succeed in signing attractive feedstock and off-take agreements with strategic partners, this plant could lower the cost of xylitol by up to 35% below today's spot market rate. Pilot plant tests were completed in 2013, and now the company is focused on scaling up to commercial volume using proprietary technology.

The fact that the worldwide supply and demand equation is poised to remain tight for decades to come only adds to the appeal of holding hard agricultural sector assets. With the number of people on our planet continuing to grow, a growing middle-class in Asia that is consuming relatively more protein in its diet, and governments pushing for biofuel production, the overall demand for food is predictably rising. Meanwhile, it is becoming increasingly difficult for nations to increase the food supply. This is because of urbanization and available water limiting increases in arable land, the slowing of crop yield improvements from new seeds & technologies, and the ever-present challenge of trade barriers.

In her classic book, *Atlas Shrugged*, Ayn Rand wrote: "When you spend money in payment for your effort, you do so only on the conviction that you will exchange it for the effort of others. It is not the moochers or the looters who give value to money. Not an ocean of fears nor all the guns in the world can transform those pieces of paper in your wallet into the bread you will need to survive tomorrow. Those pieces of paper, which should have been gold, are a token of honor – your claim upon the energy of the man who produces. Your wallet is your statement of hope that somewhere in the world around you are men who will not default on that moral principle which is the root of money." Ayn Rand would not believe that today, when you own gold, you are fighting every central bank in the world.

When China's then President Hu Jintao visited the U.S. on January 16, 2011, he said, "The current international currency system is the product of the past." He added later, "The monetary policy of the U.S. has a major impact on global liquidity and capital flows and therefore, the liquidity of the U.S. dollar should be kept at a reasonable and stable level." He then commented on the 2008 financial crisis, saying that "its root cause lies in the serious defects of the existing financial system", and that "global institutions had failed to fully reflect the changing status of developing countries in the world economy and finance". China's current President, Xi Jinping, has repeated those words, as has Mr. Putin of Russia.

Mr. Hu went on to suggest that what China and most of the G20 want is a reliable, disciplined and apolitical unit of account for global trade. Let us not forget that he is the leader of the country with the largest holding of global forex reserves and effectively speaks for China and another 43 countries in the G20 that have accumulated in excess of $5.4 trillion in forex reserves, $3.0 trillion of which are held in U.S. dollars and over $1.5 billion in euros.

With the above in mind, let me describe how the IMF sees itself as described in its 2009 *Annual Report*. The IMF endorsed the following broad priorities for the period ahead, and its views have remained unchanged since that time:

1. Reassessing the institution's mandate to encompass the full range of macroeconomic and financial sector policies on global stability.
2. Continuing to strengthen its financing capacity, to help members cope with balance of payment problems, including financial volatility, and reduce the perceived need for excessive reserve accumulation.
3. Sharpening multilateral surveillance and better integrating it into bilateral surveillance and undertaking further strengthening of cross-country, regional, and multilateral surveillance.
4. Reforming fund governance to increase the institution's legitimacy and effectiveness.

The IMF's *Annual Report* states: "In line with the IMF's endorsement of objectives laid out by G20 leaders in April 2009, the IMF moved swiftly on several fronts to ensure that resources available to it would remain sufficient to meet those goals."

There are almost 200 member countries in the IMF, including China, Russia, United Arab Emirates, Saudi Arabia, Brazil, India, Japan, Germany, France, the U.S., the U.K. and Canada.

China is the largest gold producing nation in the world, and today it is also the largest importer. It is building its own serious gold reserve pool, which is likely understated to be only a small part of their total reserves.

There is no gold bubble – yet. As Ayn Rand made it clear, gold is money, and money is scarce. Massive amounts of it are being printed by countries that are creating mountains of debt – debt that is not repayable under our current global monetary system. There has to be a change to a new and more respected fiat currency that has acceptable backing, such that it can be used to settle accounts between nations that are trading in our world of globalization. It has to happen before we fall into a new global financial "crisis of credibility" of all currencies.

Quantitative easing by the U.S. – on two occasions, with the last QE2 set to end in June of 2014 – has led to significant debasement of the U.S. dollar, and that the world is currently in a "beggar thy neighbour" currency regime. It makes one wonder just how long it will be before the IMF becomes the only central banker to the world and its SDRs become the globally acceptable currency of exchange between all of its members.

I can add one more "what if?" The IMF currently exchanges SDRs on some valued basis for all the gold held by its member nations at some price that would be attractive (a SDR today is worth approximately 70% of a U.S. dollar and gold trades at US$1,500). The extent of the U.S. gold hoard is currently of unknown worth, and if it can be traded for SDRs at today's price or more, the U.S.'s balance sheet would look a lot stronger. That is, if the Americans still have gold.

It is clear that the IMF is being anointed as the Global Central Bank and, just as the U.S. dollar has fueled the global economy for over 50 years, hopefully the IMF and its SDRs will take over the function of fueling the global economy in the future. This has to happen so that the U.S. and the world can pre-empt the negativity that will come with the collapse of the U.S. dollar as a reserve currency.

If a combination of SDRs backed by gold debases the U.S. dollar by 50%, the U.S. can repay $60 trillion of debt and even more at a higher gold price.

Let me add some other thoughts to the above very theoretical, but real, thesis.

In my view, the IMF itself today is engaged in quantitative easing:

- It has created SDRs, which are backed by nothing, and has already issued the equivalent of $313 billion to needy nations
- It has sold 400 tons of gold, but only to IMF member nations; more has been put into the real market
- China has recently doubled its gold reserves and is encouraging its citizens to save by buying gold
- Certain concerned large gold ETF holders have asked to have their gold delivered in bullion
- Quantitative easing is not working and has a distinct risk of being inflationary and maybe even hyperinflationary

- There are rumours that the U.S. is planning to print a new currency so as not to confuse the market when the dollar ceases to be a reserve currency
- Since most nations would prefer to devalue their currency rather than opt for other choices, the use of the SDR as a reserve currency means that all devaluations can occur at the same time
- In any instance, without a new reserve currency most currencies will fall into a crisis and a global SDR currency will be brought on at any rate
- The Toronto G20 meeting included discussions about "one world economy"
- How many times have we heard or read the following terms:
  - "New world order"
  - "Enlightened sovereignty"
  - "Unity in diversity"
  - "One world economy"

Once again Jim Rogers tells us, and I wholeheartedly agree, that the most important economic development of the next 20 years will be the year China turns its economy around and delivers investors the double-digit gains they were so used to when China started adopting free market principles 30-years ago.

In 2003, just before the U.S. economy and stock market went into crash mode, renowned German author Gabor Steingart had an interview with economic Nobel Prize winner Paul A. Samuelson. They spoke about globalization, rising unemployment, shrinking wealth and Mr. Samuelson's life in the age of globalization. Mr. Samuelson was 93 years old at the time, and his responses to the impact of globalization were as follows:

"Globalization leads to a win-win situation for the people in China. That's true for both the poor and wealthier people in China. In the U.S., the development appears to be quite different. Highly specialized and professional members of the workforce will profit, while the run-of-the-mill working class people will be losers. It is a win and lose situation."

According to Mr. Samuelson, "We are probably at the beginning rather than the end of the Chinese story. They have more than a billion people. Only a fraction of them are competitive right now. But I don't think the others have dumber DNA. They will also come into this." So China can thumb its nose at us 100 times. If you come back in 25 years, China will not necessarily be equal to the U.S. in a per capita degree of affluence, but it will be way bigger than the U.S. in the total. That is of course what counts in geopolitics. "China is like an 800 pound gorilla already standing in the living room," Mr. Samuelson said. "But even if it takes a long time, the risk of China should be a real turning point in world history." What will be its biggest impact for the West? According to the 93-year-old Mr. Samuelson, the impact will be negative for labour markets in the U.S. and unions will disappear.

He said, "China views these developments through the prism of its domestic and international priorities." Mr. Samuelson added, "The Communist Party's top leaders see its core responsibilities as keeping the Communist Party in power, maintaining the territorial integrity of the country, sustaining robust economic growth by transforming the country's security, and preserving global and regional stability so as not to derail the economic power agenda. China will likely pursue a more modern military and more robustly assert their foreign policy interests, while enhancing their status as a great power."

On February 24, 2014 the S&P 500 Index reached a new all-time high. There was panic buying as soon as the markets opened that day. Looking at this, I could not help but ask if investors have completely lost touch with reality. It seems the fundamentals that drive stock prices higher – i.e., corporate earnings – have been ignored.

As investors are driving key stock indices higher, the state of the global economy is becoming worrisome. This cannot be stressed enough: the U.S. economy is not immune to a disturbance in the global economy. And that this is not all – if the global economy sees an economic slowdown, the companies on U.S. key stock indices suffer as well.

I have learned that you do not make money when everyone is running to buy stocks. You buy when everyone is selling; you buy when no one wants to buy.

And the Fed has set up the machinery for fueling and being ready for hyperinflation.

In combination with money supply growth still impaired versus extreme "easing" by the Fed, with commercial and consumer lending not growing, and with signals of increasing nervousness among bank depositors, the Fed's announcement of continuing QE3 in September 2012 was a strong indication of an ongoing and deteriorating bank-solvency crisis. The Fed's quantitative easing actions are intended to provide liquidity to – as well as to help maintain the solvency of – the banking system. Nonetheless, the Fed uses the ongoing economic weakness seen by the public as political cover for its easing actions, particularly as those efforts relate to helping politically unpopular big banks.

As set up, QE3 formally enables the Fed to purchase and monetize U.S. Treasury debt at will, although there was nothing in place to prevent such actions before QE3. With QE2, the Fed effectively purchased and monetized the net issuance of the U.S. Treasury for a number of months, monetizing enough debt to trigger some money supply growth, weakness in the U.S. dollar, higher oil prices and consumer inflation.

When the Treasury borrows money from the public, the borrowed money comes from checking accounts held by the public. With offsetting checks or payments then made back to the public by the Treasury, there is an effective wash in terms of money creation. When the money is borrowed from the Fed, however, directly or through the banking system, the borrowed money effectively is new and without offset in the public bank accounts, so the total money in the system increases as the Treasury payments are made to the public; hence the term "monetization."

As the dollar comes under heavy selling pressure, and as domestic and global investors increasingly shun U.S. Treasuries, the Fed's monetization of Treasuries likely will be used to keep the Treasury market liquid, also helping to fuel what then will be nascent "hyperinflation."

Because I am so negative about the U.S. stock market, I am obviously attracted by many magazine articles quoting famous people whose views align with mine. In a recent issue, *Forbes Magazine* quotes an old hero of mine, Nobel Laureate Robert Shiller, from his previous market calls. Mr. Shiller is a professor of economics at Yale and developer of the Shiller Ratio. His ratio divides the price of the S&P 500 Index by the earnings number. His ratio is currently "hovering around" 25, or 49% above its historical average.

To quote Mr. Shiller, "That does not mean a crash is imminent – crashes never come on schedule. It just means, as I have said earlier in this report, that 'over the next decade or so, stocks are highly likely to disappoint'. They might spurt ahead and then crash, or crash and then poorly recover or just drift slowly down."

James Montier of GMO LLC, another person whose views I respect, says, "It doesn't necessarily predict the market's path, only where it is likely to end up."

But, in fact, the Shiller Ratio sank into buy territory in the depths of the 2009 bear market and stocks have more than doubled since then. His ratio is now a "screaming sell" and an astute investor should go to at least a position of cash in their portfolio.

This means that we are definitely starting our newly allowed entry into investment management at a very good time, or – to pat myself on the back – our sale of Dynamic in 2011 was good and our re-entry to investment management in today's market is even better.

So, what is next as we watch the U.S. dollar ticking like a time bomb with an unknown timing? We regard the U.S. dollar as the "stock price" of the U.S. government, since there is nothing else but the faith and credit of the U.S. government standing behind the dollar's value. The U.S. government's stock price has been plunging downward, and has been going down since July of last year. It is very likely still "too soon to taper" and it might remain so for some time. Smart money is shorting the U.S. dollar.

On March 10, 2011, Richard Fisher, then President and CEO of the Federal Reserve Board of Dallas, Texas, said, "Throughout history, feckless governments have dodged their fiscal responsibility by turning to their monetary authority to devalue the currency, monetize the debt and inflate their way out of structured deficits."

So, here we are, a full three years later, and Mr. Fisher's comments are being vindicated on a daily basis. The Fed's balance sheet has blown up, and done so by acquiring some less-than-good collateral assets – student loans and mortgage-backed securities. Since 2008, the Fed's assets have more than tripled and there is more to come according to Ben Bernanke and Janet Yellen.

When he introduced QE3, Ben Bernanke said it is open ended and that there was no end date to his program of purchasing existing government debt with newly created "money." He said it was "to support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandates." The Feb committee agreed "to increase policy accommodation by purchasing aging mortgage-backed securities at a pace of $40 billion per month" (yes, billions; yes, per month).

The committee will also continue its program (announced in June 2012) to extend the average maturity of its holdings of securities through the end of the year. Also, it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities back into the latter. "These actions, which together have increased the committee holdings of longer term securities by about $85 billion each month through the end of the year (2013) but put downward pressure on longer term interest rates, support mortgage markets and help make broader financial conditions more accommodative," said Mr. Bernanke. "If the outlook for the labor market does not improve substantially, the committee will continue its purchases of aging mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved."

Mr. Bernanke also said, "The committee currently anticipates that exceptionally low levels for the federal funds rate are likely to be warranted at least through mid-2015." Or, almost throughout President Obama's entire term, which ends in November 2016.

Human beings desperately want to understand the environment around them, along with believing their knowledge as being truthful. The "mainstream" effect gives them the sense that they are part of a good group and the illusion of being informed makes them comfortable.

The U.S. stock market is overvalued. Virtually every reliable measure of stock market valuation is within the highest 1% of prior observations since the bubble of the late 1990s. These include especially a value based on the discounted present value calculation of future cash flow.

In the end, investing is all about owning long-term businesses that can grow and earn profits and pay dividends on a regular basis. I am a long-term optimist as an investor. Today, we have to look worldwide for these kinds of businesses, but they are there. Personally, I was counting the days before my "non-compete" as an investment advisor ended.

As a symptom of a failing political system, a government shutdown should have been savaging the markets and the U.S. dollar. Thank goodness for the President's working group of "Plunger Protection" on financial markets! Post-shutdown selling of stocks and the U.S. dollar and buying of gold was averted, despite early selling of stocks and the dollar as the risk of a shutdown moved to a virtual certainty.

Created under President Ronald Reagan in the wake of the 1987 stock-market crash, the Plunger Protection Team (PPT), as some called it, was intended as a vehicle of market stability, a group assigned the responsibility of maintaining orderly financial markets. Headed by the U.S. Treasury Secretary and the Chairman of the Fed, the PPT has intervened largely to prop up the stock market, as seen with the S&P's downgrade of U.S. Treasury securities in 2011. Former Fed Chairman Alan Greenspan also indicated that the PPT took actions to buy the U.S. dollar and to sell gold and oil during the Iraqi crises.

What happened overnight with the shutdown was a circumstance that had to be watched by the PPT. Supportive actions for stocks and the U.S. dollar, as well as continued selling of gold, are extremely useful, but market fundamentals eventually will prevail.

I have been a stock market professional investment advisor since October 1962, and, during most of that time, I have been a successful investor to the point where some who really do not know call me a “billionaire.” The closest I’ll ever get to deserving of that tag is because of my family – a family that includes a long-time wife, four very talented and loving sons and their respective partners, and fifteen grandchildren whose love and closeness is not calculable in dollar terms.

But even with all that, I still have the problem of understanding the perception of risk portrayed by most professional mutual fund investors who remain fully invested in a very scary investment environment. They do not seem to understand that they are overseeing real money that has been collected over a lifetime in order for its owners to be able to retire comfortably. After 50-plus years of investing, I am comfortable that no matter which way the markets turn, I know how to keep my wealth and perhaps even increase it.

Most of the investment advisory industry seems to have forgotten that there is a greater danger of poor performance by not owning certain stocks or even the danger of a large stock market selloff. The greater danger faces their clients, many of whom are likely closer to my age bracket than theirs. The most important risk of investment for this class of people is that they may, in fact, outlive their money.

For me, that is the single greatest risk today. This thought brings me right back to a theme you may have heard from me before. Yes, inflation, as calculated by the governmental bodies, remains at historically low levels. From someone who learned this business in the 1970s and 1980s, you learn that inflation can change rapidly.

For the last 100 years, inflation in the U.S. averaged around 3.25% and – to put that into real terms – that means something costing $100 in 1913-1914 would cost $2,375 today. An inflation rate of 3.25% reduces purchasing power by 50% in less than 25 years, and we all expect to live longer and longer. Personally, I have informed my board and children that I am relying on the Hebraic syndrome, where the word “retire” does not have a descriptive word.

We at Dundee Goodman maintain the same view that we have had for many months on the U.S. economic position. The government officials and the media present the view that the situation appears to be improving. The stock market has essentially recovered; real estate – by virtue of mass purchases on total debt – appears to be in a rebound. Unemployment has stopped increasing because of “drop outs.” But, it is still all a Russian Potemkin village made to look good while the reality is that the U.S. economy is in a much more dangerous and precarious place today than it was five years ago.

The U.S. economy is continuing to weaken if viewed in the context of normal economic times. Unusual inflation usage has accounted for 74% of the headline growth number, net of manufacturing and mining, including gas and oil production, which accounted for the balance of the monthly gains. "Hedonic quality adjustments have understated the inflation used in calculating some components of U.S. industrial production, overstating inflation-adjusted growth that was reported in the newspaper headlines related to industrial production," said Dr. John Williams, economist.

If the U.S. follows in Britain's footsteps, when the dollar loses its reserve currency status and much of its value, we will see a reduction in American living standards relative to those of the emerging markets' new middle class. It is likely that when that happens, the next turn in American life will be away from their history of innovation, entrepreneurship and an open enterprise economy, and more like the road President Obama is on – toward a socialistic welfare state that is dominated by government spending and state control. This is the road Britain took, and would be similar to the decline of practically every empire from Rome to China.

The world today is wrapped up in a spider's web of debt. All things financial or monetary are liable to get caught up in that web. Any investment decision must consider the excess debt and deficits being created daily and paid for by printing more currency, be it the dollar, the euro, the pound, the yen, the RMB, the rouble or whatever. We have reached the point where nobody can define what money really is and yet the use of money is the one item that we all need to live, to work, to run our businesses, to give a gift… for virtually everything.

Quoting Sigmund Freud in his 1998 book called *Zen and the Brain: Toward an Understanding of Meditation and Consciousness*, American neurologist and author James Austin wrote: "Illusions commend themselves to us because they save us pain and allow us to enjoy pleasure instead. We must therefore accept it without complaint when they sometimes collide with a bit of reality against which they are dashed to pieces."

The financial crisis of 2007-2008 was, in fact, the ultimate reality on which the phony pleasures of the "Greenspan and Bernanke stock markets" of "Great Moderation" were ultimately smashed, along with the "Goldilocks economy." Today, economic soothsayers seemed to have grasped and accepted "the Botox financial glamour" and the "Botox economy." Botox is the toxin commonly used to improve a person's appearance. However, the toxin's effect is only temporary and sometimes has significant negative side effects. As the current global financial and excess global debt crisis continues to roll along, it is doing so with much financial Botox. Today, people are talking about the "Bernanke Flood," as the Fed and other global central banks, supported by their governments, are covering up their previously unresolved and assuredly very serious financial problems.

In his book entitled *Anatomy of the Bear*, Russell Napier focused on the price of copper as the lead indicator that the forces of deflation were abating and, thus, that equity prices would rise. So, let's watch copper to gain some indication of when the deflationary forces end or when the inflationary trends are led by higher copper prices. At this time, a decline in the copper price would very likely auger another deflationary shock.

According to Mr. Napier, today we may be in a situation more akin to 1998. Inflation is near 1% and the copper price continues to decline. The year-over-year price decline for copper of a fairly modest 7% may not be big enough to signal by itself that U.S. inflation is dropping. We have seen, however, that the Fed's last extensions of monetary policy have pushed inflation expectations higher, when actual inflation has declined.

We are living through a global deflationary shock, which has reduced equity valuations from very high to very low levels. However, somewhere in the world there is a catalyst for a sudden change in inflationary expectations in the developed world. And it can happen very quickly.

Copper prices have been unchanged between US$3 and US$4 a pound since June 2011, and today are around US$3 a pound, having achieved a low of $1.60 a pound in March 2009 – coinciding with stock market index lows. Meanwhile, copper warehouse levels remain low.

On the other hand, cities in a general way are the centres of wealth creation, innovation and invention.

According to Harvard's Niall Ferguson, "If you double the size of a city from 50,000 to 100,000, a million to two million, five million to ten million… systematically you get a roughly 15% increase in productivity, patents, the number of research institutions, wages and you get systematically a 15% savings in the length of roads and general infrastructure."

Two of my favourite economists are Milton Friedman and Ludwig von Mises, both of them are no longer with us. They were close in their thinking. October will mark the 41st anniversary of Ludwig von Mises's death, when the world was going through a similar crisis. The origin of that crisis was related to the same kind of over-indebtedness and bursting bubbles on a global basis.

If Ludwig von Mises was here today, he would tell us that many of his predictions have become reality, with the sovereign world debt approaching $50 trillion in total, in a world where all central bankers are busily trying to arrange the elimination or disposal of these debts, mostly by printing paper currency.

Obvious examples of the central bankers' actions include quantitative easing programs by the Fed, the Bank of England, the Bank of Japan, the European Central Bank and others. In this continuous run of governments issuing fiat money via sovereign debt in order to cover those always consistent deficits, some economists and I are questioning more and more how long this can be sustained – without a new crisis brewing.

What would Ludwig von Mises's and Milton Friedman's views be on this current crisis? The answer can be found in any one of their writings – for Mr. von Mises see *The Theory of Money and Credit*, and for Mr. Friedman see *Money Mischief: Episodes in Monetary History*. They each unequivocally condemn artificial printing of money, which Mr. von Mises sees as a form of drug administered by government to citizens. Mr. Friedman felt that fiat money creates a massive, distorting effect on the system of prices. They both say that the redistribution of income most importantly takes away the ability to control the loss in the purchasing power that the future increase in prices will generate.

Most economists believe that even just a little bit of inflation can contribute to economic recovery; but, as Milton Friedman said, "if you are increasing the quantity of money, and you are not increasing the quantity of things which can be bought with money, you are only increasing the prices which are paid for them. And in time, if the increase in money continues, the whole system becomes a system without any meaning and really without any possible method of dealing with it."

Others feel that increasing inflation creates a false expectation that the consolidation of public finances may be postponed, without taking into account that such action will contribute even more to making the economic system unsustainable. However, sooner or later, this will collapse through the abandonment of the individuals' trust in a currency that has no value.

From this perspective, Mr. von Mises's position that inflation is an illusion imposed is not so far from the idea that government bonds are not net wealth, since future generations will have to bear their burden. Inflation and public debt, then, are two sides of the same coin, because they create substantial intergenerational redistributive effects that policy makers cannot evaluate ex-ante, or even care about. In Mr. Friedman's opinion, "The single most important and most thoroughly documented, yet obstinately rejected, proposition is that inflation is always and everywhere a monetary phenomenon."

Views similar to those of Milton Friedman and Ludwig von Mises have been held by other scholars and men of affairs going back hundreds, if not thousands, of years. Yet, it has not prevented governmental authorities from yielding to the temptation to mulct their subjects by debasing their money – taxation without representation – while vigorously denying that they are doing anything of the kind and attributing the resulting inflation to all sorts of other devils incarnate.

In the last 100 years, we have lived through two currency wars – Currency War I and Currency War II, which lasted through the late 1960 and the 1970s. In 1971, when President Nixon saw that the U.S. was losing its gold with countries like France cashing their U.S. dollars and asking for gold at $35 an ounce, he passed a U.S. law – under the same legality that President Roosevelt confiscated gold – that said one could not convert dollars to gold.

We are, as asset managers, very concerned about being able to recognize when a company is going through a scene-changing event, either because of their own doing or a change in their industry or economic policy. The early recognition of these kinds of changes creates excellent buying opportunities or safety for the sale.

Today, we are in a global currency war not unlike that of the 1920-1930s. At that time, in order to regain control, President Roosevelt confiscated all privately owned gold at $20.67 an ounce. Soon after, he raised its price to $35.00 and then used it to back the U.S. dollar, making the dollar the global reserve currency. But that position is today on its way out.

According to the latest McKinsey report, the U.S. faces a fiscal drag from planned deficit reduction unlike any previously encountered. Historically, economic recoveries have occurred when deficits were reduced from 4.5% to a sustainable level of 2.5% of GDP. The current reduction of the deficit is very far from that historical ballpark. This reduction will cause or is causing significant fiscal drag on the U.S.'s economic growth, and will make the unemployment problem more difficult to relieve.

The U.S. needs 3.5% to 4.0% GDP growth to merely meet its need to provide jobs for new entrants to the workforce, let alone the over 11 million people currently unemployed. Obviously, the problem of deficits will continue, as it will be impossible to trigger growth without incurring further deficits.

Balance sheet recessions, which are what the U.S. has, prolong deficits, with money being spent on needed and future profitable infrastructure projects that have not even been considered yet.

Competition is the ultimate source of efficiency, and as the world gets richer, the lash of competition reaches more and more people. The poor farmer of yesterday did not have much, but he had what he had, which was what his parents had had before him. The modern worker, whether owner, boss, or employee, has much more, but everything he or she has is unsure and may be lost. As countries make the transition from traditional poverty to modern wealth, many people have the worst of both. They do not yet have much, but what they have is precarious, vulnerable to change and competition.

With unprecedented increases worldwide in production and wealth, is there any danger that we might run out of natural resources? If the whole world is wealthy, will there be enough oil or clean water? Will we inhabit a polluted landscape that is able to sustain less and less life, not more?

Forty years ago, when the world population was exploding, with growth over 2% a year and no end in sight, there may have been some grounds for fearing that the planet could not provide the raw materials necessary for everyone to be rich. But now that we are approaching a peak population of well under 10 billion toward the middle of this century, to be followed probably by an indefinite period of declining world population, these fears are increasingly recognized as groundless.

The fear of deflation, however, is actually keeping bond yields lower than they would be if and when an economic recovery actually takes place and the Fed decides to raise interest rates from zero.

The great uncertainty about the U.S. dollar centres on when investors will demand higher bond yields to compensate for the inflation risk posed by the U.S.'s large fiscal deficits, actual debt and increased printing of paper dollars.

With rising fiscal deficits and the hidden leverage that was pumped into the global economy through massive financial engineering by the U.S., the U.K., the Eurozone and Japan following the 2008 financial crisis, a global credit bubble was generated that can only be financed by lower and lower interest rates.

We have a global economy without a global monetary policy, global financial regulations or a global financial system.

As previously noted, as the dollar comes under heavy selling pressure, and as domestic and global investors increasingly shun U.S. Treasuries, the Fed's monetization of Treasuries likely will be used to keep the Treasury market liquid, also helping to fuel what then will be a nascent "hyperinflation."

The economic world is completely out of balance and now it is all about China and the U.S. Yes Matilda, there is a currency war going on, and the U.S. dollar with its global reserve currency status is the reason. The U.S. is over-indebted and, with planned future deficits, is set to become even more so. This has been going on since before 2008, while China has been enjoying the greatest economic boom since the Industrial Revolution in England and the U.S.'s growth since the mid-1800s. China has developed companies and industries for agriculture, energy, power and auto manufacturing, all the while accumulating gold bullion at a faster rate than any other country in the world. Its population of over 1 billion people has developed an entrepreneurial spirit like the early U.S. settlers and post-war immigrants.

The economic future of the world is all about China and its growth of wealth.

It is April 3, 2014, and an article in the *Globe & Mail* by David Milstead is entitled "Dundee's Complexity May Hide a Bargain." He says, "So what are we to make of the shares of Dundee Corporation, which touched their low last week, off more than 35% from their high, and are tracking at a historic discount? What could make investors pessimistic about a company with a lengthy track record of investment in natural gas, mining, and the Canadian capital markets and real estate sectors?" He goes on with his story about the company, saying that our recent announcement of a significant discovery by our subsidiary in Chad, United Hydrocarbons, has added $3.35 in value per Dundee share.

But, nowhere does he note that we gave all shareholders a tax-free dividend of a share of DREAM Unlimited, which on April 3rd traded at $17.07 per share, up from the prior week's low of $15.41. If you deduct that from the $36 per share that Dundee traded at last year, you find that our price should be around $20 per share, even though we still own 20% of DREAM, and without the $3.35 that Mr. Milstead calculated for United Hydrocarbon's discovery. If he had added the $3.35 that he has used for United Hydrocarbon and removed the average $16 that DREAM was trading at, he would have found that the stock was actually trading quite well in spite of his concerns about our "complicated company."

I refer back to Martin Jacques and his 2009 book entitled *When China Rules the World*, where he outlines the fact that we are today living in the World of China, and investing is all about China. And Niall Ferguson said, "The rise of China may well prove to be the defining economic and geopolitical change of our time." Others have said that the movement of China is creating a 21st century world no longer modelled on and shaped by Western ideas and consumption.

The implication of China's recent gold bullion acquisition program is part of the changing world order and the way that people all over the world will live their lives.

When, not if, China's economic growth develops such that the entire Chinese population achieves our kind of modern living standards and ability to gain educational superiority, it is not likely that they will continue to be controlled by the authoritarian Communist Party. When China becomes a competitive commercial economy and the rural lands are being looked after by less than 10% of the population, China will be a multi-party, non-oppressive state with the freedoms of speech and religion.

Looking back at the previous 200 years of human history, there have been massive life changes – population, increase in freedom, and large amounts of wealth created and accumulated by many.

The leaders of the U.S. are, unfortunately, living in an environment where they have to make important decisions without having sufficient knowledge or information available to them. Their decisions, while impactful, are also powerful and dangerous. They can do a lot of good and a lot of harm. As a result, as Ben Bernanke has told us, we live in great uncertainty and possibly grave financial danger. It is very difficult to accept uncertainty, which may be the only thing in my life that has never been scarce. But, I have been favoured in my personal life and business career to work hard on fundamental values in order to gain that understanding of reality despite uncertainty. Looking forward to financial markets, what do I see as reality? What do I see as the history of the future?

The majority of countries in the world are in a transition to modern lives resembling that in the U.S. and Canada and France and Germany. After 100,000 years of life on planet earth (depending on who you ask), we went from just 1.7 billion people 100 hundred ago to 7.0 billion people today. And in the next 100 years, the world could have 10.0-15.0 billion people living just like we live now here in the West.

That period is going to need a lot of the hard stuff that comes from the ground, and for those of us who produce food, we will have to work harder. Meanwhile, China is buying gold bullion daily by the hundreds of thousands of ounces, with the ultimate intent of eliminating the U.S. dollar's status as the reserve currency of the world. That elimination does not bode well for the U.S.'s balance sheet and increasing debt load. The negativity that it may create is yet not totally known.

I am bearish about the current state of almost all capital markets. This bearishness does not mean that I am necessarily bearish on the price performance of the stock market for the coming year. In fact, I think we will end up having an interim buying opportunity that will result from this bearishness.

We are living through the aftershock of the 2007-2009 stock market fall, and we have achieved the opportunity to thrive by investing properly to make money from the opportunities in the aftermath of the previous bear market. We are among those who can survive well by investing properly and have an advantage over those who will have to sell and lose money.

I could easily see a scenario where the stock market remains flat on the various indexes – the S&P 500 Index or what have you – as 2014 draws to a close. This projection implies a great deal of optimism at first glance. But, it is actually not optimism. It is a negative observation, as much as I could easily see a circumstance where the stock market could crash below 1,200 on the S&P 500 in the coming year.

The potential for such a wide-ranging stock market outlook really resides in the heart of my overall concern about markets We have been living in a Botox environment where the market has been distorted in many ways because of the stimulus engineered by the Fed. Whether it continues with that stimulus or not does not make me bearish or bullish. Instead, it is the illusion of where the market really is. So if my idea is that the stock market might no longer rise under the influence of the monetary stimulus seems absurd, you have to look no further than the many asset classes that in the past have been closely correlated with the stock market when they reached the breaking point.

These kinds of environments bring out the bearishness that leads to the ability to buy regular names in the capital markets. By regular I mean non-precious metals, i.e., non-gold; you get the opportunity to buy these stocks at very inexpensive prices.

Mr. Buffett built his whole portfolio based on what he bought in 1973 and 1974, when I was young and very new in my career. I am bearish that the unintended consequences of the aggressive monetary stimulus of the last several years, which will probably continue, will come home to roost, just as they did in 2000 and then again in 2007.

So, I am bearish on capital markets in general and worried about investors that have been suckered into the stock market we see now. Yet, I am very bullish on the price of gold because the price of gold has taken its bearish hit. Meanwhile, every country in the world is printing paper currency, led by the U.S., which has that wonderful reserve currency that allows it to print at will.

It is my view that the reserve currency is suspect. It is suspect in that almost all the major countries in the world are starting to work around it, especially China and Russia. China is spending its U.S. dollars mostly to buy gold. To me, the place to be is in the precious metals market. That explains my bullishness on gold and bearishness on the entire market.

In his recent *Strategy Notes* (June 1, 2014), ScotiaMcleod's Nick Majendie recalls that Jeremy Grantham, the famous investor, was one of the few among us who correctly identified the technology bubble "in advance." Mr. Grantham also identified the housing bubble that ultimately led to the 2008-2009 financial crisis. Both these bubbles caused 50% drops in the U.S. equity markets. Bubbles are now known to be the cause of significant stock market drops. According to Mr. Majendie, Jeremy Grantham has concluded that the current U.S. "Presidential Cycle" has caused a new bubble in the U.S. stock market, and that its peak will likely come around the next presidential election in November 2016.

At that time, according to Mr. Grantham, the S&P 500 will be more than 100% overvalued and will likely experience a 50% drop. From my perspective, the U.S. stock market is already significantly overvalued, so 100% overvaluation is not difficult to see. The Botox stock market is the result of what prominent financial journalist Jim Grant has termed as the "overmedication of the economic patient" by the Fed, which has gone overboard with stimulus. To quote Grant, “It seems the Fed’s full-court press on financial markets and pricing thereof has induced a deep complacency with respect to financial assets and has also introduced a sharp degree of optimism or what we might call even inflation in the financial markets.” There has been a series of financial Botox interventions since 2007. And they have resulted in the accumulation of “immense, improbable, unimagined amounts of digitized immaterial money.” They also have given the public and mutual funds an immense incentive to invest and speculate in new and arguably riskier ways. Bank-owned mutual fund managers are usually directed to be at least as good as the stock market index, and, as a result, many mutual fund holders are likely to be hurt when the current Botox-filled bubble finally bursts.

Our Latest Project

The Vancouver Urban Resort – A World Class Entertainment Complex

Dundee Corporation, in conjunction with Paragon Gaming (Paragon), is currently undertaking development of The Vancouver Urban Resort, a world-class destination entertainment complex located in the heart of Downtown Vancouver. The Resort will be the only project in Canada that combines a range of world-class entertainment, gaming and hotel offerings in one facility in a downtown core. Dundee has leveraged its relationship with 360 VOX, which will act as co-development and asset manager for the project.

Total project costs are anticipated to be approximately $600 million, with Dundee and Paragon expected to control a 51% ownership interest in the Resort. The project will comprise 680,000 square feet of total developable area, including 125,000 square feet of casino gaming space, 569 hotel rooms, 50,000 square feet of convention space, 1,200 parking spaces, eight restaurant and bar options, retail and a spa.

Vancouver, British Columbia is one of the main gateways to North America by travelers crossing the Pacific and is a significant area of international business as one of the largest ports in North America. The current gaming market within British Columbia remains strong, with gaming revenues growing at a compound annual growth rate (CAGR) of 3.7% over the past six years.

The project is currently undergoing the final stages of the pre-development phase and is expected to commence subterranean excavation in the second half of 2014. The Resort is currently scheduled for a fourth-quarter 2016 completion, with the Casino Operating Services Agreement being rolled over from the existing Edgewater Casino. The existing Edgewater Casino is located across the street from the Resort and is expected to operate at its current location until the resort opens.

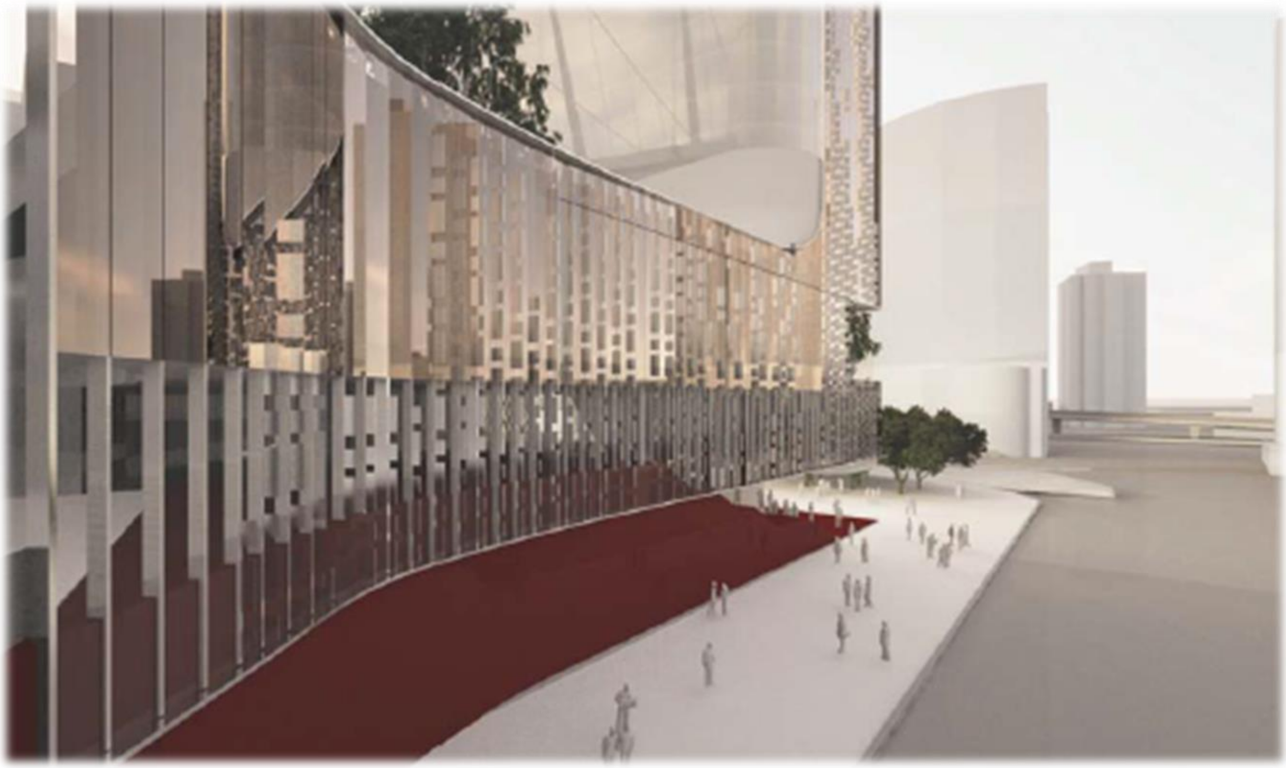
Resort Highlights:

The Only Urban Casino within Downtown Vancouver

- The complex will hold the only Casino Operating Services Agreement within downtown Vancouver.
- The Casino is currently licensed for 75 table games and 600 slot machines.

Two World Class Marriott Branded Hotels

- A 336-room J.W. Marriott hotel, Marriott's luxury branded 5-star hotel.
- A 233-room Autograph Collection Hotel, a 4-star boutique hotel offering.



Located within the Heart of Vancouver's Entertainment District

- The Resort will be strategically connected to the newly renovated BC Place Stadium and adjacent to Rogers Arena, Vancouver's two premier sports and event venues, which host over 2 million visitors per year.
- The site is located within Yaletown area, Vancouver's entertainment district, and within close proximity of Pacific Centre, Chinatown and the shopping district along Robson Street.

Favourable Market Fundamentals

- The Resort has a limited competitive set, with no other facility offering the breadth of up-scale amenities within the local market place.
- Vancouver hotel average daily rates have increased at a CAGR of 3.6% from 2009 to 2012.

A personal note from Ned to any who are interested and have actually made it through to the end of this report, and to my fellow Dundonians:

1. I believe in the dignity and morality of our business.
2. I try to understand myself better than others.
3. I try to read a book a week, but generally do not believe everything I read. Instead, I work at finding out the truth and value of things on my own using my own fundamental tools, and I do not follow crowds.
4. I remember, but try to disregard the past. I am aware of the present, but work at being concerned about the future based on my fundamental views.
5. I cling to my basic precepts as being unchangeable, but work to change that which should be changed.
6. I try to never lay blame for failure on other people or external events.
7. I treat all obstacles or challenges as opportunities.
8. I annually at least tithe my income to worthwhile charities.
9. I always try to treat people as I would expect them to treat me.
10. I am an optimist by nature, culture and upbringing in our business. It is just that sometimes I get a little cautious about my optimism, because I am also a big believer that life in total is a "crapshoot" as a result of the randomness of having so many different things that could affect my life, and especially our business.

All four of my sons and my wife are of the view that I should be working less than I do. As any Chief Executive Officer of a publicly traded company would tell you, the job is a 24-hours-a-day venture. I take work home for easy reading because there just is not enough time during a regular day. I am not complaining. I love what I do and have no intention of retiring. In the Ten Commandments for Gaining Wealth, about which I am quite religious, the 10th commandment is: "Never Retire." I am healthy, my brain still works well, and my doctor has given me the green light to continue, which is what I intend to do.

My hero, from the perspective of retiring, again is George Burns. He was born in 1896 and got his start as a vaudeville comedian, before developing that wonderful act with Gracie Allen. Mr. Burns outlived his wife by decades, during which time he won an Academy Award and wrote three bestselling books. He died at the age of 100 on March 9, 1996. Throughout his life he had heart trouble, but in 1980 he appeared in the film *Oh God! Book II*, and in 1984 at age 88 he appeared as both God and the devil in the sequel *Oh, God! You Devil*. In 1988, at age 90 plus, he won a lifetime achievement award for the performing arts at the John F. Kennedy Centre. Some of his best lines were:

"Don't stay in bed unless you can make money in bed."

"I look to the future because that's where I'm going to spend the rest of my life."

"I rather be a failure at something I love than a success at something I hate."

But, some of his other quotes reverberate for me as well. "I'm going to stay in show business until I am the last one to leave." At the age of 90, Mr. Burns was still performing at clubs in Las

Vegas when, on one instance, he was obliged to stay on the stage for several hours. He was asked by a reporter when he was going to retire; after all, he was 90 years old. “How old is old?” asked the reporter. George Burns answered, “Age to me means nothing. I can’t get old; I’m working. I was old when I was 21 and out of work. As long as you’re working, you stay young. When I’m in front of an audience, all that love and vitality sweeps over me and I forget my age.”

He lived to be 100. He made his response to “how old is old” when he was 18 years older than I am today, and he continued to work in movies, write books and perform on a Vegas stage for another 10 years.

According to George Burns, I am not of retirement age yet! I still have a job that I enjoy doing.

- This letter was written during the period between November 2013 and May 2014.

Corporate Directory

Board of Directors

Normand Beauchamp
Michael Cooper
Daniel Goodman
David Goodman
Jonathan Goodman
Mark Goodman
Ned Goodman
Harold (Sonny) Gordon
Ellis Jacob
Dr. Frederick H. Lowy
Garth A.C. MacRae
Robert McLeish
A. Murray Sinclair
Jeremy Soames
K. Barry Sparks

Executive Office

1 Adelaide Street East, Suite 2100
Toronto, Ontario M5C 2V9

dundeecorporation.com
dundeecapitalmarkets.com
dundeegoodmanprivatewealth.com

Registrar and Transfer Agent

Computershare Investor Services Inc.
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1

800.564.6253 t
service@computershare.com

Stock Listing

The Toronto Stock Exchange

Stock Symbol

DC.A

Officers

Harold (Sonny) Gordon
Chairman

Ned Goodman
President & Chief Executive Officer

Lucie Presot
Vice President & Chief Financial Officer

Mark Goodman
Executive Vice President

Mark Attanasio
Vice President

Sivan Fox
Vice President, Legal

Kevin Ng
Vice President, Taxation

Perina Montesano
Vice President, Internal Audit

Naomi Ruby
Vice President, Human Resources

Lili Mance
Corporate Secretary

DUNDEE

DUNDEE