PRIVATE WEALTH ADVISORY

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The Inflationary Storm, Pt 2

This is the second part of my ***Inflationary Storm*** series of Special Reports. The purpose of these reports is to detail the best, least well known inflation hedges in the financial markets.

As is already well known, inflation has begun to spread throughout the financial markets and world economy.

Asset	Price 1/1/10	Price 2/22/11	% Change
Oil	82.75	94.64	14%
Gold	1,137	1,397	23%
Silver	16.81	33.05	97%
Wheat*	5.53	7.62	38%
Corn*	4.25	6.79	60%
Cattle	85.00	110	29%
Sugar**	26	31	19%

* per bushel
** cents per pound

As you can see, commodities of all kinds are soaring. You'll note, in particular, that agricultural commodities have been top performers, trailing only Silver in price appreciation. However, this performance is even more significant when you consider that it occurred in half of the time period measured above.

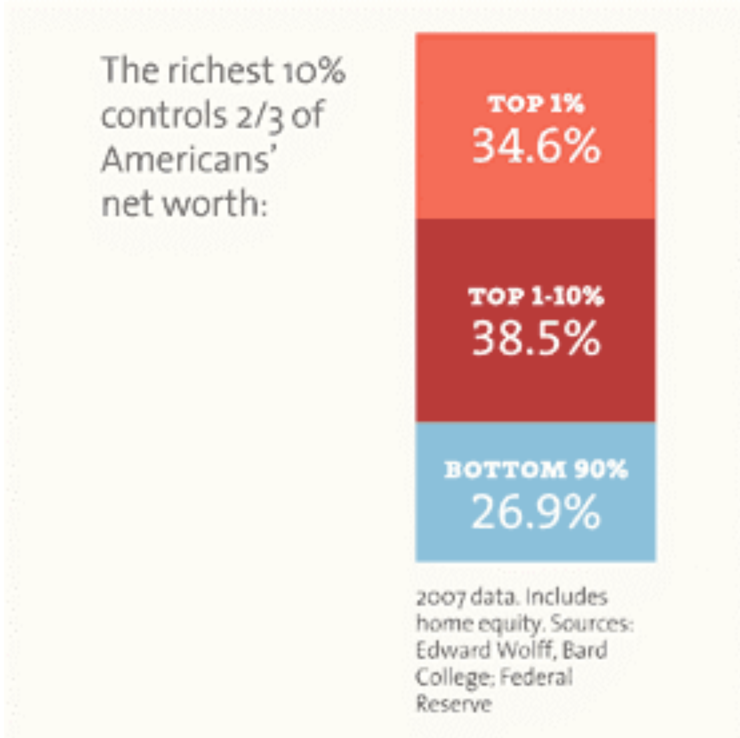
Indeed, Agricultural commodities were laggards during most of QE 1. It was only when the Fed introduced QE lite in August '10 and QE 2 in November '10, that Agricultural prices began to explode higher:

As you can see, The Rogers Agricultural index only broke above its multi-year resistance level after the Fed indicated it was going "all in" on its reflation efforts with QE lite.

This in turn has resulted in riots and revolutions worldwide. Already we've seen this occur in Tunisia, Algeria, the Ivory Coast, Egypt, Libya, Bahrain, Iran, and now Saudi Arabia. We've also seen the start of this in China.

The primary driver of these situations has been higher food prices. Food accounts for 50% of spending in many emerging markets. With food prices hitting record highs and going higher, many folks are literally starving. As a result, they've become violent and are moving to overthrow the elites in control of their countries.

This situation is a stark warning of what's to come in the US. While many believe the US is immune to this kind of disorder, the fact remains that the US has a similar wealth gap to most emerging markets:



The reasons the US hasn't been gripped by riots are the following:

1) The security nets (food stamps, welfare, etc) continue to keep lower income Americans afloat… for now.
2) Food in the US is so processed that increases in agricultural prices don't pass through as rapidly into higher food prices.

Neither of this will last much longer. Regarding #1, the US Government is broke. In fact they're so broke than an aid to Nancy Pelosi (who I can't stand) has revealed that the US Government might actually shut down at some point in the near future.

As for #2, commodities will be spiking even higher once the following is digested by the markets:

This is a chart of the weekly futures contract for the US Dollar. As you can see, we have just broken the multi-year trendline. What does this mean? That the momentum that maintained the US Dollar from the 2008 lows has been BROKEN.

It is literally now "do or die" time for the US currency. If the US Dollar does NOT rally HARD right now… then we're triggering the massive H&S pattern in short course and on our way to a 50% devaluation:

When this happens we'll be seeing hyperinflation hitting the US with inflation hedges soaring into the stratosphere.

Inflation hedges such as the three detailed in this report.

However, before we delve into these investments, I want to stress that **these are LONG-TERM holdings, NOT trades.** If you choose to buy them, expect to hold them for a year if not more.

I am stressing this because it can take time for the markets to discover the value of any investment. Consequently, we need to be patient in holding these inflation hedges as it might take a while before the market catches on to their true value.

Moreover, given the quality of these investments as well as their extremely undervalued prices, all three of them are potential BUYOUT targets. But buyouts can take a while to manifest.

Case in point, consider RedBack Mining: one of the BEST gold mining stocks on the planet.

Redback sat atop an unbelievable Gold deposit in MAJOR Gold territory in Ghana, Africa. Indeed, every time the company engaged in additional drilling it found more and more ounces of Gold.

I first wrote about Redback to clients in 2007 when it was trading at $5 or so per share. The company then rallied to $9 before the 2008 Crash. During the Crash it fell to $4 per share. It bottomed quickly however, and subsequently rallied to $30 where it was bought out by Kinross Gold.

I mention all of this to show that:

1) Top quality inflation hedges DO experience volatility
2) Buyouts take time, so patience is required
3) You can make a TON of money if you're patient and disciplined about your inflation hedges.

Keep all of this in mind regarding the three inflation hedges detailed in this report.

Now, let's get to the inflation hedges themselves.

Hedge #1: Buy When There's Blood in the Streets

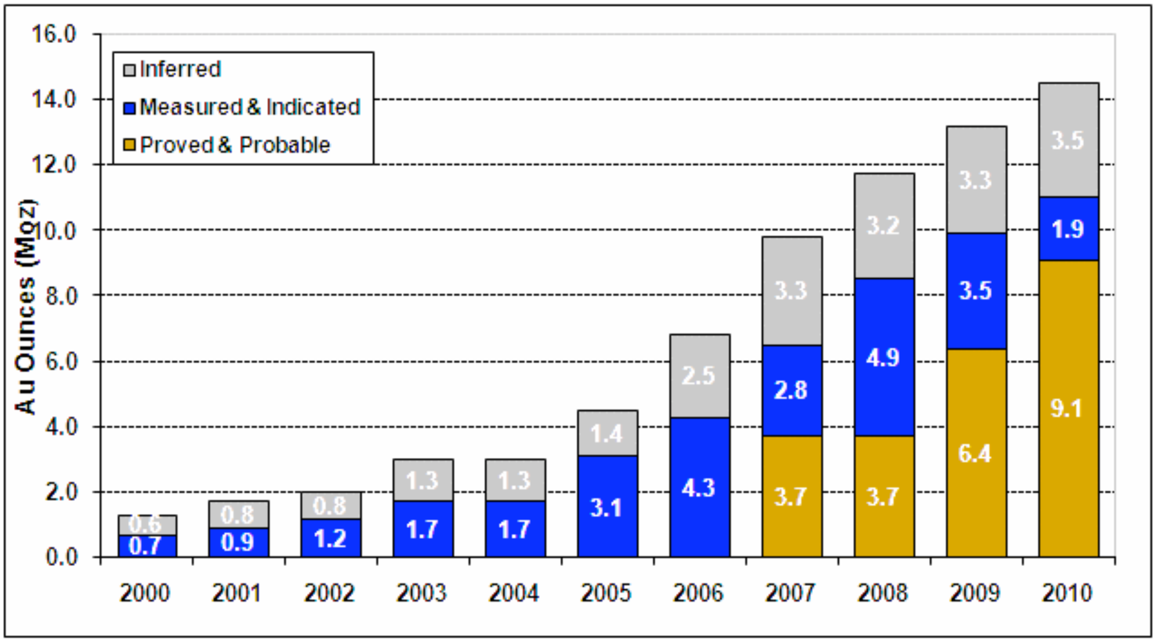
John D Rockefeller famously once said that the time to buy is when there's blood in the stress. His point was that the largest, most extraordinary gains come from buying during times of panic, not complacency.

Case in point, those who bought mining stocks during the 2008 panic have made fortunes.

With that in mind, our first inflation hedge is a world-class precious metals asset that is currently right in ground zero for social unrest.

I'm talking about **Centamin Mining (CEE.TO)** in Egypt.

Centamin owns 100% of the Sukari mine in Egypt. This resource has 9 million ounces of proven reserves and nearly 6 million ounces of measured and inferred reserves. The company is actively moving to tap these additional resources.



More than being an asset play, Centamin also has operations that are already producing income. Indeed, the company began production in 1Q10 producing over 200,000 ounces in 2010. It expects to more than double its production rate by 2012, producing 500,000 ounces that year.

Centamin is currently producing its reserves at a cost of roughly $500 per ounce. And it is totally unhedged (meaning no contracts setting the price at which it sells). So every day that Gold's price rises, so does Centamin's sales numbers.

On top of this, the company is extremely well capitalized with no debt and $166 million in cash and liquid assets. With a market cap of $2.1 billion, this means the company is trading at 20 times CASH: a RIDICULOUS value for a mining company (they're normally cash negative).

Now about the social unrest.

The situation in Egypt did spark some trouble for Centamin when its employees staged a sit-in. However, the company released a note today announcing that the sit-in has ended and workers are back at work.

Thus, the situation in Egypt has created a phenomenal opportunity to buy Centamin shares without actually damaging its operations. Indeed, the company is now trading where it did it at the time it began production a year ago! And it's on track to produce 300,000 ounces this year!

Thus, today we have the chance to buy a Gold PRODUCER at the same price it traded at when it was still just an EXPLORER.

Now for the value…

With Gold trading at $1,400 per ounce, Centamin's proven reserves alone are worth $12 BILLION. The company's entire market cap is just $2.2 billion.

Put another way, we have the opportunity to buy an unhedged Gold producer with no debt and $166 million in cash **for 1/6th the value of its PROVEN reserves.**

At this pricing we're getting Centamin's 1.9 million ounces in measured reserves and 3.5 million ounces in inferred reserves for FREE!

Action to take: Buy Centamin Mining (CEE.TO).

Again, I want to stress that while Centamin is ridiculously cheap, it CAN get cheaper. So if you choose to buy this investment, you need to be willing to weather some volatility. You should also expect to hold this investment for 12-24 months. I believe that once the company proves the 5 million in additional reserves and hits 500,000 ounces in annual production, it will be snatched up by a larger firm. Given the company's current goals, this should occur sometime before 2013.

Hedge #2: A Double Edged Energy Play

Our next inflation hedge is a play on both natural gas and oil.

This company has prime property in Central Alberta: the Mecca of oil and gas production in Canada.

The company has assets in both commodities. Indeed, the beauty of this property is that it makes this company a MAJOR buyout target for larger Natural Gas companies, Natural Gas Liquid Companies AND Oil companies. It's literally attractive to three different industries, especially when you consider the value.

Indeed, based on its proven and probable reserves (32 million barrels of oil equivalent), this company could be trading at $3.2 billion.

Its total market cap today is **just $205 million.**

The company I'm talking about is **Anderson Energy (AXL.TO).**

Originally Anderson was a natural gas play, with 82 billion cubic feet of natural gas and 2.2 million barrels of NGLs. This alone made Anderson a primary takeover target for any larger natural gas producer.

However, with natural gas prices collapsing due to an oversupply in the US, an acquisition based on this value is not likely right now. Consequently, the company has moved quickly to change itself into an oil play by aggressively drilling for oil on its properties.

To whit, in September 2010 it only had 4 horizontal wells on its Cardium property. Today, it's already grown that number to 24. Of this number, 20 have already been brought into production.

Given the size of this property alone, Anderson could drill as many as 309 wells there. All told, company plans to bring 143 wells online in the next three years.

This resource, combined with Anderson's Edmonton property (126 wells drilled with 74 more to go) makes Anderson a PRIMARY buyout target for larger oil producers looking to increase their reserves via acquisitions rather than exploration.

I think the odds of a buyout here are high at any point in the next 12-24 months. Just based on its proven and probable reserves alone, Anderson could rally HUNDREDS of percentage gains. It's only a matter of time before a larger oil or natural gas company swoops in and snatches this company up.

Action to take: Buy Anderson Energy (AXL.TO).

As was the case with Centamin, you need to be willing to stomach some volatility here. But I fully expect Anderson to be trading MUCH higher in the coming months.

Hedge #3: The Top Performing Asset Class of the Next Seven Years

Our final new inflation hedge is an asset play on the best performing inflation hedge of the last 50 years.

That inflation hedge is timber.

Most investment commentators don't even consider this asset class as worth mentioning. They consider timber too boring or dull.

They obviously haven't seen the below chart before.

Asset Class – Average Annual Returns

	1998 - 2007 (10 yrs)	1988 - 2007 (20 yrs)	1978 - 2007 (30 yrs)	1960 - 2007 (47 yrs)
Timberlands [1]	8.9%	14.6%	11.8%	12.5%
Commercial Real Estate	12.9%	8.8%	10.3%	10.0%
S&P 500	5.9%	11.8%	13.0%	10.4%
U.S. T-Bills	3.5%	4.5%	6.0%	5.5%
U.S. Consumer Price Index	2.7%	3.0%	4.1%	4.2%

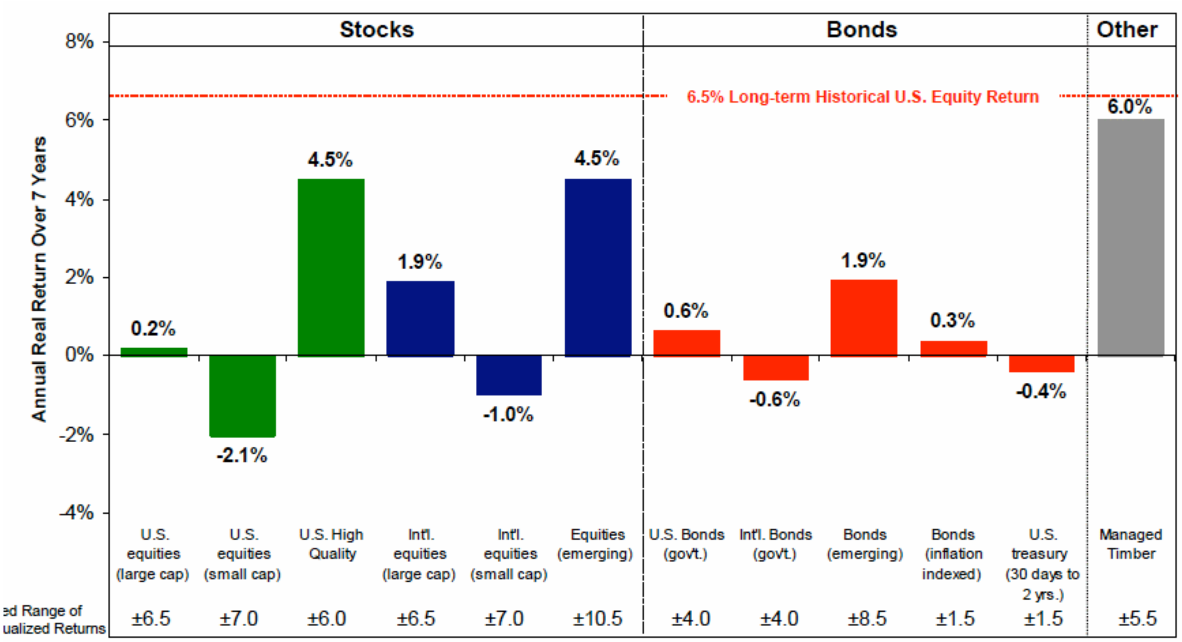
1. Measured as the holding period return from a portfolio of U.S. timberland

As you can see, Timber has beaten all other major asset classes since 1967. Indeed, it's outperformed the Fed's phony inflation metric THREE fold during that time period.

On a side note, timber is currently also the favorite investment of investing legend Jeremy Grantham.

Grantham was one of the few folks who called the financial crisis as well as the market rally from March 2009. He oversees more than $100 billion in assets and has a track record few can match.

Grantham believes timber will be the single top performing asset class over the next seven years, producing gains of 6% per year compared to 4.9% for US blue chips, 4.5% for emerging market stocks, and 0.6% for US bonds.



*The chart represents real return forecasts[1] for several asset classes. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Actual results may differ materially from the forecasts above.

[1] Long-term inflation assumption: 2.5% per year.

Now, 6% per year doesn't sound like much, but we also need to consider that Grantham's forecast includes the following disclaimer:

[1] Long-term inflation assumption: 2.5% per year.

As you can see, Grantham is assuming inflation of 2.5% per year in his forecast. Somehow, I think he's understating the reality of the inflationary forces at work today:

Asset	**Price 1/1/10**	**Price 2/22/11**	**% Change**
Oil	82.75	94.64	14%
Gold	1,137	1,397	23%
Silver	16.81	33.05	97%
Wheat*	5.53	7.62	38%
Corn*	4.25	6.79	60%
Cattle	85.00	110	29%
Sugar**	26	31	19%

* per bushel
** cents per pound

Our final inflation hedge is the largest timber owner in Western Canada (it's also the largest private land owner too). All told it owns 787,000 acres of timber on land with a fair value in the ballpark of $720-740 million. When you add in the value of the land this company's assets are worth $820-840 million.

Today the company 's total market cap is **$474 million (US Dollars).**

I'm talking about **TimberWest (TWF-UN.TO) (the company also trades under the symbol: TMWEF.PK)**

Timberwest is an asset play in every sense. The company is the largest non-government landowner and timber owner in Western Canada. And TimberWest can unlock this value in several different ways.

They are:

1) Timber sales
2) Land sales for real estate development
3) Alternative energy (wind power or river power)

Regardless of which specific (or combination) of these approaches TimberWest chooses to pursue, the simple fact remains that it is at least 50% undervalued just based on its timber assets alone.

And it will perform well in both a weak OR strong world economy.

As you well know, I firmly believe the world economy is heading into a serious double dip right now. However, even if I'm wrong (I put the odds at less than 1%) and the world economy somehow manages to enter a new growth phase, TimberWest will profit from it.

You see, TimberWest currently sells its timber in British Columbia, the US, and Asia (China and Japan). So if the world economy somehow rebounds and enters a new growth period, TimberWest's revenues will grow as well.

As for a weak economy…The beauty of TimberWest's trees is that no matter what the world economy does, how housing performs, or whether alternative energy takes off or not, these trees keep on growing. This is literally an asset class that grows 24/7 irrespective of any outside event.

In this sense, TimberWests's asset appreciation is GUARANTEED over time. Even if the company shuts down all operations its asset base still increases. Even by Jeremy Grantham's extremely conservative inflationary estimates (inflation of 2.5% per year) we should see gains of 6% per year from this company.

And if inflation REALLY explodes… it's going to be a lot higher than that.

Thus with TimberWest, we have the highest returning historical inflation hedge, which will perform well in both a strong and weak economy, and is currently undervalued by at least 50%.

It doesn't get much better than this.

Action to take: Buy TimberWest (TWF-UN.TO) (the company also trades under the symbol: TMWEF.PK)

On a final note, I want to stress that TimberWest is a long-term deep value play. Based on its timber assets alone, the company is undervalued by roughly 50% or so.

However, timber is not a financial world darling. You hardly ever even hear it mentioned in any financial commentary. So it may take longer for the value here to be unlocked. But at some point, someone is going to take note of the value here and move to acquire TimberWest. When that happens, our patience will pay off BIG TIME.

This concludes Part 2 of our ***Inflationary Storm*** report. Again, thank you for your interest.

Good Investing!

Graham Summers

PS. Regarding stocks… I believe the US stock market is topping RIGHT NOW. I'm putting out an in-depth report on it for tomorrow. But I wanted to keep this report separate from that content for clarity's sake.

PORTFOLIO REVIEW

If You HAVE To Own Stocks Portfolio					
Company	**Symbol**	**Buy Date**	**Buy/Short Price**	**Current Price**	**Gain/ Loss***
Coke	KO	3/30/10	$55.00	$63.91	19%
Budweiser	BUD	3/30/10	$50.45	$55.30	11%
Johnson & Johnson	JNJ	3/30/10	$65.20	$60.39	-5%
Wal-Mart	WMT	3/30/10	$54.64	$53.03	-3%
Exxon Mobil	XOM	3/30/10	$66.98	$87.07	33%
				Average	**10.8%**
				S&P 500	**11.8%**

- gains include dividends.

Currency Crisis Portfolio					
Company	**Symbol**	**Buy Date**	**Buy/Short Price**	**Current Price**	**Gain/ Loss***
US Dollar Bullish Index	UUP	11/10/10	$22.48	$22.23	-1%
UltraShort Euro	EUO	1/7/11	$20.44*	$19.05	-7%

* average of first price $21.61 1/7/11 and second price $19.27 1/26/11

Inflation Portfolio (OPEN BUYS NOW)					
Company	**Symbol**	**Buy Date**	**Buy Price**	**Current Price**	**Gain/ Loss**
Gold bullion	N/A	3/17/10	$1,120	$1,414.00	26%
Silver bullion	N/A	3/17/10	$17.50	$33.70	93%
Vista Gold	VGZ	12/15/10	$2.55	$2.89	13%
Novus Energy	NVS.V	12/15/10	$1.01	$1.25	24%
Extract Resources	EXT.TO	12/15/10	$8.75	$9.11	4%
Centamin Mining	CEE.TO	2/23/11	$1.95	NEW!	BUY!
Anderson Energy	AXL.TO	2/23/11	$1.19	NEW!	BUY!
TimberWest Forest	TWF-UN.TO	2/23/11	$4.63	NEW!	BUY!
				Average	**32%**

Coming Crisis Portfolio (Bought at 11/16/10 at 11:46AM)					
Investment	**Symbol**	**Buy Date**	**Buy Price**	**Current Price**	**Gain/ Loss**
UltraShort Brazil ETF	BZQ	11/16/10	$17.74	$16.46	-7%
UltraShort Emerg. Mkts ETF	EEV	11/16/10	$36.57	$35.08	-4%
UltraShort Russell 2000 ETF	TWM	11/16/10	$15.87	$11.83	-25%
UltraShort Real Estate ETF	SRS	11/16/10	$20.94	$16.35	-22%
UltraShort Materials ETF	SMN	11/16/10	$25.49	$18.74	-26%
UltraShort Financial ETF	SKF	11/16/10	$18.67	$14.39	-23%