ValueInvestor INSIGHT
The Leading Authority on Value Investing
September 30, 2009

Survival Mode

What would your portfolio look like if you had a decidedly negative outlook for the economy and equity markets? Eric Sprott is just the man to ask.

Don't come to Eric Sprott for happy talk about the current economic and investment outlook. "After talking with Eric," said one of Sprott's long-time investors in a magazine interview last year, "you want to down a whiskey and take a Prozac."

Negative though his current message may be, Sprott's nimbleness in navigating good and bad times has been highly positive for Sprott Asset Management clients. The firm manages C$4.5 billion and its flagship Sprott Hedge Fund LP since inception in 2000 has earned a net annualized 20.8%, vs. 7.3% for the S&P 500 (in Canadian dollars).

Calling himself a "survivalist," Sprott today sees upside in silver, gold, energy and a broad mix of what he considers potential small-company "homeruns." See page 2

INVESTOR INSIGHT

Eric Sprott
Sprott Asset Management

Investment Focus: In addition to a large stake in precious metals, seeks companies with growth prospects dramatically higher than the market currently expects.

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Investor Insight: Eric Sprott

Eric Sprott of Toronto's Sprott Asset Management explains how his portfolio reflects his "survivalist" tendencies, why he's betting big on silver, why his American holdings are almost exclusively shorts, and why he thinks the market is underestimating growth in Corridor Resources, Medusa Mining, Norseman Gold and Sensio Technologies.

Your portfolio today is both extremely defensively positioned and filled with swing-for-the-fences bets. Is that typical?

Eric Sprott: Since I started investing I've always focused on finding hidden gems – small undiscovered or ignored companies with upside potential not just 30-40% above the current price, but that can return multiples of the current price. It's more the style of [former Fidelity Magellan manager] Peter Lynch, making a large number of small initial investments that we believe can get very big.

We want to hear what a company thinks it can do, focusing our analysis then on how likely that is to happen and what the upside is if it does. People might consider that swinging for the fences and risky, but we don't look at it that way. If we've done the work and believe something can grow 50% per year, if the market is only expecting 10% growth we've got a lot of room for error.

As for our defensive position, I learned early on in running a securities firm that it was important to have a broader view on the market, to take advantage of long-term secular trends and to prepare for major risks. I see incorporating that view into how and where we invest as one of my primary responsibilities. For some time now our broader view on the market has made us extremely defensive.

What are the key elements of your negative top-down view?

ES: Going back ten years, we believe the bursting of the Internet bubble was the start of a secular bear market. We had a cyclical bull run starting in 2003 because the U.S. Fed and Treasury set off a housing mania that then morphed into a more general lending mania. The result is a massively over-leveraged financial system for which we will pay the price for some time to come. Stimulus programs worldwide have done nothing to remedy that – the system is more leveraged than ever, we've simply transferred debt from the private sector to the public sector.

Given the market rally, you'd think an incredible economic recovery was just around the corner. But we see the real economy continuing to struggle in areas that matter, including employment rates, corporate revenues, housing prices and retail sales. If that's happening in the face of unprecedented stimulus, we're more than a little concerned about the economy's health when the stimulus effects wear off and there's nothing left to replace the artificial demand.

Our view is that we either stay painfully stuck in a secular bear market or we have hyper-inflation as money printing goes on unchecked. In either case, that argues for a defensive investment position.

What does the portfolio of someone with such a negative view look like?

ES: In our hedge fund, where we have the most discretion to do exactly what we want, we're long 30% in silver bullion, 15% in gold bullion, 30% in gold-related equities, 10% in energy, 5% in miscellaneous stocks and 10% in cash.

On the short side, for every dollar of capital we're short about 70 cents. Since we don't count cash as a long position, that means we're roughly 20% net long. Our short book is fairly diverse, but is focused on things like banks, homebuilders and retailers – companies that are most sensitive to ongoing troubles in the economy and financial system.

Describe the rationale for having such a significant precious-metals exposure?

ES: If we believe we're in a secular bear market or entering a world of hyper-infla-

Eric Sprott

O Canada

In 20 years of building Sprott Securities into one of Canada's largest independent brokerage firms, Eric Sprott never lost sight of the aspect of the business he most enjoyed: "Where I've always been most engaged," he says, "has been in hunting down investment ideas."

In 2000 he sold Sprott Securities after spinning out its investment-management division, Sprott Asset Management, to which he now devotes his full attention. He took the company public in May of 2008, selling 20 million shares at C$10 per share. After hitting C$2.25 last November, the shares currently trade around C$3.85.

Sprott considers his Canadian base an asset not only for enhancing his precious-metals' expertise – "Toronto is arguably the precious-metals financing capital of the world," he says – but also for the perspective it gives him on U.S. equity markets. "There's no assumption we 'have' to be in the U.S.," he says. "In fact, partly because we've consistently thought the U.S. dollar was overvalued, over the past decade our U.S. activity has been almost exclusively on the short side. That's been a good thing, and it's still true today."

tion and debased fiat currencies, there's no better place to be than gold and precious metals. I find it quite instructive that the price of gold has gone up every year for the past nine years, since the bear market started. That's not a coincidence and we think the full cycle could easily reach 15 to 20 years.

There is a survivalist aspect to having such a big stake in tangible assets. As long as governments show such low regard for policies that support the real value of paper financial assets, investing in precious metals is about the only way to guarantee the preservation of your wealth.

Explain your affinity for silver.

ES: One significant distinction between silver and gold is that while most of the gold produced in the history of the world still exists, most of the silver ever produced has been consumed and is gone. World silver inventories have been massively depleted over the past 25 years, which will continue because consumption exceeds production every year. Given how few silver-producing mines are coming on line, it's highly unlikely we'll see the supply of silver increase. So as demand for silver goes up, from both investors and end users, we see it having relative pricing upside even over gold.

There's also an odd situation today in the market where two major financial institutions – we're not exactly certain who they are – own short positions in silver of about 600 million ounces. Those are huge positions in a market that is only about 800 million ounces per year, and we think those holders are going to face a day of reckoning sooner rather than later. Their having to cover would only increase the upward pricing pressure.

Talk about the relative merits of gold bullion versus gold-mining shares.

ES: It depends, of course, on how the market is valuing gold miners, but generally the equity prices will rise and fall faster than the price of the commodity. So if you're bullish on the price of gold, it's better to own the mining stocks.

Earlier this year gold equities got incredibly inexpensive and we saw that as an opportunity to shift some money from bullion to related equities. Bargains are harder to find today, but we're still finding small gold miners that appear to have slipped through the market's cracks and trade – based on what we believe are reasonable production estimates and no increase in the price of gold – at only around 5x estimated 2011 earnings. When we find those, we'll buy them all day long.

ON GOLD ETFS:

Using an ETF defeats a main reason to own gold in troubled times, which is the fact that it's no one else's liability.

Are you a fan of gold exchange-traded funds like GLD?

ES: No. As it's become so popular, GLD is ostensibly buying huge amounts of gold – a high percentage of the world's current production at any given time. As gold investors ourselves, we know the difficulties involved in taking physical delivery of gold. Are they truly buying all that gold? Where in their chain of sub-custodians is it actually held? If any of the numerous counterparties involved were to default, it could be difficult for GLD to actually get at the gold it's purported to own.

We're not saying anyone is doing anything untoward, but we just think using an ETF defeats one of the main reasons for owning gold in troubled times, which is the fact that it's no one else's liability. Why take the risk?

Has your long-held optimism about energy stocks been shaken in the past year?

ES: We have been peak-oil enthusiasts for some time. Decline rates for conventional production – which we estimate at around 8% per year – impose a mathematically insurmountable hurdle to a continually rising oil supply. While constrained supply in a world of rising demand will inevitably lead to shortages and rising oil prices over time, the incredible decline in industrial production over the past 18 months has counteracted even peak-oil dynamics. That will reverse again as economies stabilize.

Are you putting any relative emphasis today on oil versus natural gas producers, or on exploration and production firms versus service companies?

ER: Our holdings today are mostly in natural gas, the price of which we think is poised to rise dramatically in the next 12 months. The depletion rate in North American producing gas wells is 20-30% per year and on top of that we've seen drill-rig activity in gas running at 50% below last year. Given that, we expect gas production in North America to decline by 10-15% over the next year, which almost can't help but put upward pressure on prices. We wouldn't be at all surprised for gas prices to be in the low teens a year from now, versus around $3.50 per million BTU today.

We tend not to buy oil service companies, which is a function of our trying to identify multi-baggers. If the price of natural gas goes from $3 to $10, the pure-play gas stock is going to significantly outperform the service company.

You have been a bull on uranium in the past. What about today?

ES: We're very bullish on the prospects for uranium from the inevitable increase in demand for nuclear power generation, but at the moment we can't find opportunities in the area where we only have to pay 5x 2011 earnings. That could happen as the price of uranium starts to move up – the market often doesn't react that quickly to price changes – we just have to be patient.

Are any other commodity-related stocks of interest?

ES: With our macro view, we're not keen on exposure to more economically sensitive commodities like copper, lead, zinc or

nickel. We don't put agricultural commodities in that category because demand is relatively inelastic. The problem is that there just aren't that many capital-markets bets to make on agricultural commodities. One related company we do like is a Chinese dairy producer, American Dairy [*see VII, July 30, 2009*], which fits our profile of having tremendous upside against the expectations built into the stock price. Those types of opportunities in agriculture-related stocks are fairly rare.

In your resource plays, talk about the research that goes into vetting management's expectations.

ES: In most of the opportunities we look at, the story revolves around a significant increase in production or a big new discovery. Our added value comes in handicapping how likely that increase in production is or what the ultimate potential of a new discovery might be. We bring to that the experience of having done this for decades and having the best industry contacts. If we ask the right questions about things like where the mine is, how it was found, its geology, the quality of the ore base and the production experience so far, we think we're pretty good at assigning probabilities for how things will play out.

Is management's track record important?

ES: In these cases, not so much. Great people can drill and drill and find nothing, and not-so-great people can hit it big with the first hole. I'd much rather listen to what the test wells are saying than what management is.

One thing I want to point out is that we're not just about resource plays. If an analyst brings me a stock trading at 5x a credible estimate of 2011 earnings, I don't care what business it's in. When we started our first mutual fund in 1997, it was full of technology stocks and industrials. We go where the opportunity is – it just turns out that the opportunity set we see today happens to be very narrowly focused.

Speaking of, are you always as concentrated in a few big ideas as you are today?

ES: No, but it doesn't concern me. I've been around long enough and have had enough success that when I believe in something I'm just going to be there. I don't worry about indices or weightings or other things like that.

While we often make clear sector bets, we do normally own a lot of stocks – 150 to 200 – at any given time. Much of that is a result of buying below-the-radar-screen ideas with small market caps. I'd like to put $50 million in an idea, but we'd end up owning 20%, 30% or 40% of the types of companies that attract us, and we'd rather not do that. The alternative is to make more smaller investments.

ON SHORTS:

Because the most profound lending mania was in the U.S., the remaining risks are still the most pronounced there.

Elaborate on where you're finding short ideas today?

ES: It's been painful, obviously, over the past six months to have a large short book. We've covered a few that went against us, but we're mostly very patient.

In our shorts we're looking for cases where it appears that what the market is expecting is so far from what will turn out to the truth that when the truth comes out, the stock will collapse. We short bigger and more liquid stocks than we buy on the long side – they're less apt to go up a lot – and we may have 100 shorts at any given time.

Because the most profound lending mania was in the U.S., we believe the remaining risks are still the most pronounced there. As a result, we're short most of the big financials like JPMorgan Chase [JPM], Goldman Sachs [GS] and Wells Fargo [WFC]. The leverage in the system that needs to go away is also bad news for homebuilders, so we're short all the major U.S. homebuilders as well.

Retail stocks in our estimation have run much further than the economic prospects warrant, so we're also short a wide variety of them, including J.C. Penney [JCP], Macy's [M], Target [TGT] and Abercrombie & Fitch [ANF]. How can we expect consumer spending to pick up while the income of workers keeps going down and the number of unemployed keeps going up?

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Another more specialized area in which we've been active is cruise lines, where we're short the big players like Carnival [CCL] and Royal Caribbean [RCL]. That's partly due to our negative economic view, but an added factor today is the effect we believe the swine flu will have people's interest in taking cruises.

Describe a representative gold-mining idea in your portfolio, Medusa Mining [MML:AU].

ES: As I mentioned earlier, our basic strategy in the sector is to look for under-followed companies with the potential to significantly increase earnings even if gold prices stay flat. We're finding junior producers trading at a fraction of the 20x or so multiple on 2011 earnings at which most senior producers trade. Some of the valuation discrepancy is perfectly valid, reflecting still-modest production levels or big projects in the early stages of development. But in most cases the cheap valuation is simply due to the companies being unknown to the general investor, which we don't expect to last.

The windfall in these types of stocks comes from the multiple expanding if we're right about rapid production growth, plus any benefit from rising gold prices. If we're buying companies at 5x earnings two years out assuming $1,000-an-ounce gold, if gold goes to $1,200 or $1,300, as we expect, the share prices are likely to triple or quadruple.

Medusa is a good example. The stock trades in Australia and London, but the operations are in the Philippines, where they operate a high-grade mine with extremely low cash costs of production, around $200 per ounce. (Production costs of $500 per ounce are more typical.) Production is expected to increase from approximately 50,000 ounces in the fiscal year ended in June to 100,000 ounces by June 2011. On top of that, the company has been aggressively drilling and recently announced a doubling of reserves, and we believe there's a great deal of potential beyond that.

At A$3.20, the stock has moved up sharply in the past few months. What upside do you still see?

ES: If production reaches 100,000 ounces and gold is at $1,000, we expect the company to earn A$0.56 per share in fiscal 2011. On that basis, the multiple is still under 6x. If gold is at $1,200 an ounce in two years, the earnings would likely come in closer to A$0.70 per share.

The next layer of opportunity comes from the continued expansion of the reserve and resources base. We know they're looking and have already had some initial drilling successes. If those pan out to the extent we believe is possible, production could be closer to 200,000 ounces per annum in the next several years. Even without the multiple expansion that would inevitably happen if they got there, you can see how much upside there still is. Companies like this can get relatively big in a hurry.

What are the biggest risks?

ES: There's political risk everywhere, even in the United States and Canada today, but the Philippines has been a relatively attractive place for mining companies to do business.

The biggest risk to us is that they can't expand production beyond the 100,000-ounce level. Ore bodies have many unknowns, including how much is accessible, how quickly they produce and at what cost. But even if Medusa flat lines at 100,000 ounces, at a perfectly legitimate 10x multiple on the earnings we expect in two years – again, with no change in gold

INVESTMENT SNAPSHOT

Medusa Mining
(Australia: MML:AU)

Business: Gold exploration and mining company based in Australia but with primary production and development at properties located in the Philippines.

Share Information
(@9/29/09, Exchange Rate: $1 = A$1.144):

Price	**A$3.19**
52-Week Range	A$0.41 – A$3.60
Dividend Yield	0.0%
Market Cap	A$538.4 million

Financials (Year-end 6/30/09)

Revenue	A$57.3 million
EBITDA Margin	70.9%
Net Profit Margin	66.6%

Valuation Metrics
(Current Price vs. TTM):

	MML	S&P 500
P/E	12.4	72.9

MML:AU HISTORY

THE BOTTOM LINE

The company is a good example of the type of precious-metals stock that attracts him, says Eric Sprott: unknown, with low production costs, rapid expected increases in production and a low multiple of earnings two years out if it meets its goals. Assuming $1,000 gold, he says, the shares trade at less than 6x estimated 2011 earnings.

Sources: Company reports, other publicly available information

prices – we'd expect the shares to be 75-100% above where they are today.

Is the story similar for Australian miner Norseman Gold [NGX:AU]?

ES: It's a simple story. Norseman operates Australia's oldest continually operated gold mine, called the Norseman Gold Project. Following an operational restructuring last year, the company has successfully reduced costs and is on track to increase production as well. From around 80,000 ounces in the fiscal year ended in June, we expect it to be producing closer to 120,000 ounces in 2011. Based on our assessment of where they continue to look, there's a decent chance they could find something big that makes that production forecast ultimately look low.

But even at 120,000 ounces of production and $1,000 gold, Norseman should be able to generate something like A$0.26 in earnings in 2011. At the current share price of around A$0.80, the earnings multiple is only 3x. If we assumed gold were at $1,200 an ounce, our earnings estimate would be A$0.40 per share and today's share price would look even more undervalued.

If you're right about how cheap companies like this are, do you expect bigger producers to start snapping them up?

ES: We've seen M&A activity in the junior gold sector heating up. In July, Randgold Resources, in partnership with AngloGold Ashanti, announced it was acquiring Moto Goldmines, which because of the political and production risk attached to its large gold deposit in the Congo, was trading earlier this year at the equivalent price for its gold resources of only $20 per ounce. Over the summer there was a bidding war for Kinbauri Gold, whose primary asset is the El Valle gold-copper deposit in Spain, which resulted in its share price rising over 80% in three months.

Quality gold deposits are scarce and, as we obviously believe, will become increasingly valuable. In such an environment, we'd expect the deal-making to continue. It's often far easier and cheaper for a big company to buy growth through an acquisition than to try to develop it internally.

Explain the potential you see in one of your natural gas bets, Corridor Resources [CDH:CN].

ES: This is one of our favorite companies in the energy sector and is significantly leveraged to the price of natural gas. It's based in New Brunswick, Canada, where it has extensive shale properties that it continues to develop and put into production. Right now the company is producing about 20 million cubic feet of gas per day, but that should materially increase in the near future as two newly producing wells come on line.

What's exceptional about Corridor is the potential amount of gas sitting in the company's shales. An independent energy research firm recently came out with a report estimating there was on the order of 50 trillion cubic feet of resource there. ("Resource" estimates measure what might be in place but isn't all necessarily recoverable, while "reserve" estimates try to measure what is recoverable.) Most people, including us, are non-believers in numbers like that, but it came from a reputable firm and isn't that out of line with numbers we've heard bandied about with respect to Corridor's shales. It's not a total shock that someone doing a full geologic assessment would make an estimate like that.

To fund the vast amount of development spending required to bring

INVESTMENT SNAPSHOT

Norseman Gold
(Australia: NGX:AU)

Business: Operator of Australia's longest continuously running gold-mining operation, which has produced more than 5.5 million ounces of gold over the past 65 years.

Share Information
(@9/29/09, Exchange Rate: $1 = A$1.144):

Price	**A$0.83**
52-Week Range	A$0.45 – A$0.92
Dividend Yield	0.0%
Market Cap	A$143.5 million

Financials (Year-end 6/30/09)

Revenue	A$96.7 million
Operating Profit Margin	23.0%
Net Profit Margin	21.1%

Valuation Metrics
(Current Price vs. TTM):

	NGX	S&P 500
P/E	4.2	72.9

THE BOTTOM LINE

Following an operational restructuring last year, the company has reduced costs and is likely to increase its gold production by 50% over the next two years, says Eric Sprott. With $1,000 gold, that new production level would translate into A$0.26 in earnings in 2011, he says, which means the shares trade today at only 3x that estimate.

Sources: Company reports, other publicly available information

increased production on line, the company is currently trying to set up a joint venture on its properties. Given the strong hand we believe it has and our views on the price of natural gas, we think today's share price is a pale comparison to what it can be.

How do you take a stab at what it can be?

ES: There's clearly plenty of work to be done to figure out how much of this huge projected source of gas can be economically delivered, so it's understandable that the market doesn't want to ascribe too much value to it. We're not so naïve to believe we can have anywhere near the definitive answer, but in running multiple simulations with a wide variety of educated estimates, it doesn't take long to conclude there's some serious optionality on the upside.

Our rule of thumb is that 1000 cubic feet of gas in the ground should be worth around C$1 in market value. So if over time Corridor can prove out reserves of one trillion cubic feet, that should be worth C$1 billion in the market. Against a market cap of just under C$300 million, that would produce more than a three-bagger.

Even without that, the shares based on current metrics are inexpensive. Assuming $6 per-million-BTU natural gas, on about $50 million in revenue we estimate the company can earn cash flow per share of around C$0.45 in 2010. The current share price is 7.3x that, which should prove to be cheap when the doom and gloom about natural gas lifts.

Turning to a non-commodity idea, why do you consider Sensio Technologies [SIO:CN] a potential homerun?

ES: Sensio is a small Montreal-based company with patented technology that facilitates the transmission and broadcast of 3-D content using 2-D devices and infrastructure. It provides encoding technology for minimal or no cost to movie, television and videogame producers creating 3-D products, and then charges a per-unit royalty for the decoding technology used in televisions, game consoles, DVD and Blu-ray players, set-top boxes, personal computers or any other playback device.

We expect 3-D to proliferate at a tremendous pace in all media platforms over the next few years and Sensio has what is considered the market-leading technology to help make that happen. We've seen research that estimates the total potential royalty-generating unit shipments of applicable PCs, TVs, game consoles and other devices could reach nearly 1.2 billion units per year within the next three or four years. At even tiny penetration levels, that would translate into huge revenue and profit growth for Sensio. Profit margins in royalty-type businesses like this tend to be in the 70-80% range or greater.

With revenues today nearly non-existent, this seems almost like a venture capital investment.

ES: I told you we look for the biggest bang for the buck. For its fiscal year ending in May 2012, assuming 3-D-enabled devices continue to increase rapidly for theater and home markets and Sensio slowly starts to build market share, revenues could come in at C$13-$14 million, with EPS in the 14-15 cent range. As new content and hardware feed off each other, growth could accelerate from there, sending revenues over C$40 million in fiscal 2013 and EPS to around 50 cents per share.

If all that happens, that's not bad against a share price of around C$1.70 today.

INVESTMENT SNAPSHOT

Corridor Resources
(Toronto: CDH:CN)

Business: Exploration, development and production of primarily natural gas reserves located in the McCully Field in the eastern Canadian province of New Brunswick.

Share Information
(@9/29/09, Exchange Rate: $1 = C$1.0842):

Price	**C$3.28**
52-Week Range	C$1.29 – C$3.99
Dividend Yield	0.0%
Market Cap	C$287.9 million

Financials (Year-end 2008)

Revenue	C$25.9 million
Operating Profit Margin	n/a
Net Profit Margin	32.4%

Valuation Metrics
(Current Price vs. TTM):

	CDH	S&P 500
P/E	15.0	72.9

CDH:CN HISTORY

THE BOTTOM LINE

The company's performance is highly leveraged to the price of natural gas, which Eric Sprott believes is poised to rise dramatically. Assuming $6 per-million-BTU gas, the shares trade at only 7.3x estimated 2010 cash flow, he says. The potential homerun: early estimates of some 50 trillion cubic feet of gas in the company's shale properties.

Sources: Company reports, other publicly available information

ES: A lot obviously has to go right for the company to hit those numbers, but the upside if they come even close is massive. A company growing like that in a field with open-ended growth certainly isn't going to sell for 3.4x earnings. For comparison, Dolby Laboratories and DTS – companies in the industry with similar royalty revenue models but much lower growth – today trade for something like 20x 2011 EPS estimates. Put that multiple on 50 cents per share in earnings and, even if it takes longer than we expect, Sensio would be a homerun.

How are you looking at downside risk?

ES: There's not as much downside protection in this idea versus a gold stock trading at 5x earnings. Here we have to look out a number of years until the multiple gets cheap. The compensation for less downside protection, of course, is that the upside is potentially explosive.

We also see the real potential that someone recognizes the value of Sensio's technology and tries to buy the company. We have no precise estimate for a takeout price, but if the technology is what we hope it is, any deal would surely only happen at a significant premium to today's market price. That could help put a nice floor on the share price.

Your investor letter from March 2007 about how the bursting of the credit bubble had only begun was detailed and turned out to be quite prescient. But while your hedge fund did far better than the market in 2008, your mutual fund got slammed like everyone else's. If you saw it coming, why weren't your returns better?

ES: Our view has always been that in the midst of a financial crisis, gold should go higher. But that didn't happen in late 2008, as there was a run on the U.S. dollar and people in knee-jerk fashion dumped gold and, in particular, gold-mining stocks. We got massacred along with everyone else because we were significantly exposed to those two areas. The good news for us is that that reaction has reversed itself and the price of gold is back to a record high.

We were also somewhat more exposed to energy going into the latter half of last year, which hurt as oil prices fell. As I said earlier, nothing happened to change our view on the long-term imbalance between supply and demand, but the short-term demand hit set off by the crisis had more impact on oil prices than we expected.

In a crisis, all fundamentals get put on hold. It wasn't easy late last year, but we've been around long enough to know that doesn't last and we've had enough success to stick with what we believe in.

What evidence are you looking for that the worst is over for the economy?

ES: The declines in personal income and consumer spending have to reverse before we can have a recovery. A key metric I'm watching is U.S. income-tax receipts, which continued to decline through August, down something like 8% year over year. It's a truer indicator of the extent to which people are working and making money and the extent to which the government can meet its obligations. We also closely watch retail sales, adjusted for non-recurring influences like "cash for clunkers."

One thing I'd add: I never look for the stock market to tell me when the worst is over. Everyone is trying to jawbone the stock market up and as soon as it does, the sentiment indicators improve. Then the market goes up some more. All that has very little to do with what's fundamentally going on. On the fundamentals, there isn't much cause for optimism. VII

INVESTMENT SNAPSHOT

Sensio Technologies
(Toronto: SIO:CN)

Business: Provider of technology built into TVs, DVD players and other playback devices that facilitates the transmission and broadcast of 3-D digital entertainment.

Share Information
(@9/29/09, Exchange Rate: $1 = C$1.0842):

Price	**C$1.72**
52-Week Range	C$0.08 – C$1.92
Dividend Yield	0.0%
Market Cap	C$69.0 million

Financials (FY2010 Est.):

Revenue	C$1.5 million
Operating Profit Margin	n/a
Net Profit Margin	n/a

Valuation Metrics
(Current Price vs. TTM):

	SIO	S&P 500
P/E	n/a	72.9

SIO:CN HISTORY

THE BOTTOM LINE

The company's patented technology facilitates the transmission and broadcast of 3-D entertainment, which Eric Sprott believes is an area of high growth in coming years. From a tiny base, the company can earn as much as 50 Canadian cents per year by 2013, he says, making the upside from today's share price "potentially explosive."

Sources: Company reports, other publicly available information