MONEY, METALS AND MINING

THE MORGAN REPORT

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Quote:

Gold has NEVER been a hedge against claims of inflation. There is no such empirical evidence whatsoever. If that were the case GOLD should never decline and should keep pace with the CPI even on a manipulated market. ***Gold is the hedge against political uncertainty and government DEFAULT****.*

~ Martin Armstrong

The Big Picture

For endless months we have stressed the death of the dollar, and it seems the mainstream press has certainly taken up that mantra recently, talking about currency wars, currency crisis, and emergency "sessions" or meetings taking place all over the globe. In fact we sent out a piece from the MSM (mainstream media) about China and Russia agreeing to do business in each other's currency instead of using the U.S. dollar. The trend has been established and it will continue and grow in scope as the global financial system is restructured. At this point we really do not know if the restructuring will be by the already inept powers that continue to lead the world into a deeper financial morass, or if what is left of the free market will begin growing politically, or if perhaps as people decide to do some type of commerce in the ultimate alternative currencies—gold and silver.

This month's quote is thought provoking in the extreme, as many believe the governments are all-powerful and cannot default. Of course any of our subscribers know full well what we are seeing in the mainstream press is that many in the euro-based countries have defaulted, but the system is trying to bail them out, using fictitious "money" created from nowhere representing nothing. BUT, in return for these loans, the people are expected to downgrade their living standards substantially. As this is being written, Ireland is still undecided about how they wish to handle the situation.

The bottom line is this story has been told again and again in history, yet most people do not study history. Government's ability to sustain all the benefits is directly correlated to the ability to extract wealth from the society at large—in other words, until the majority is getting benefits that can no longer be extracted by either taxes or borrowing. We have reached that point in most of Europe and the U.S., and therefore a government default is possible. Can we grow ourselves out of this mess, as some suggest?

Certainly it is possible that innovation and ingenuity can make a difference, and in our view, things will be better in the long term, especially when measured on a global basis. However, for the next several years at a minimum, expect to see downsizing in almost everything—less clothes-shopping and traveling, smaller houses and cars, even smaller government, believe it or not. The new leading edge of the population will be the minimalists, those who have very high quality "things" but few of them. This will be the overall trend in North America. China and India will "strive" to

become similar to the current status-driven "bigger is better" for a short while longer, but both of those cultures are longer in history and conserve by necessity, so they also will find the minimalist trend as well.

So, how does a U.S. dollar default look? Actually, you have been watching it in your daily, weekly, and monthly news for quite some time. The trend by governments is to deny the fact that there is anything wrong; just look at how the CPI (Consumer Price Index) is totally bogus and yet quoted in the mainstream with a straight face. Government is going to delay as long as possible but in our view we are getting ever closer as we see more and more methods and discussions being reported that implement ways to trade without U.S. dollars.

One of our primary concerns is that the deterioration takes place in a timeframe that allows the markets to adjust. If there is a panic out of the dollar then we could see huge movements in all the financial markets. Unfortunately, this is the trend and we expect much more volatility in the future. Just stop and think for a moment. For 20 years or so, silver traded at the five-dollar level. Just recently, we saw silver move from $19 to $24—a five dollar move; and then from $24 to $29—another five dollar move.

If there is some "trigger" that starts a massive exit out of the U.S. dollar, the main verification would be in the U.S. bond market, as we have stressed again and again in these pages. That would be the verification that things are unravelling not only quickly but perhaps in a manner that would indicate that the damage cannot be overcome by conventional means—which of course is to issue more debt, and this is already NOT working, as even the average citizen is now realizing.

For now however, the focus is back on "Euroland" and this artificial monetary construct that looks like it may implode. Germany is the leader in production and much of the other countries that comprise the euro zone have over promised benefits to their people. Try taking away a promised benefit . . . people take to the streets in protest. Try telling the people they are the ones who actually provide the benefits so why not cut out the middleman (government) and provide for themselves and their neighbors, if they so choose . . . you will get a look of astonishment, as most think it is government that provides or produces something.

Many of our readers have been invested in this sector in various ways for quite some time and therefore will have difficulty, thinking that we are really just getting started into the next leg up in the precious metals. For a real life example, I just finished a call with one of the few remaining hard copy publishers in the hard money space. What he confirmed to me is that even his subscriber base, which has been flooded with information about the economy and the benefits of precious metals-investing, has largely just been "reading" about it, rather than taking action. The truth is most people follow the herd and so those people are certainly at the leading edge, yet have been "waiting" to invest. What this means is that there will be much more silver and gold purchased from the current levels on up than was ever purchased during the past decade, as hard as that might be to grasp.

Another very important event was the G20 meeting of Nov. 11-12. This meeting was notable because of the divisions and tensions that surfaced among the participants. There was open criticism of the U.S. monetary policy, which has been reported in the MSM. China's Dagong Global Credit Rating Co. downgraded U.S. Treasury debt just one day before the G20 meeting. Hmm, what does this mean? It means that China is sending an extremely powerful message to the entire planet—the U.S. is only as good as the paper it prints and that paper is not what it used to be!

This is extremely controversial but it would not shock this writer to learn that the whole QE2 is for one purpose and one purpose only. To buy back some of the long-term debt from CHINA, not from the open market, to allow China to use U.S. dollars while they can, to buy up more meaningful assets in the ground before the rest of the world catches on that this massive debt bubble is in danger of popping.

If the China hypothesis is correct it might not hurt to have a "war" issue with North and South Korea and big problems in Euroland, to distract many from the death/default of the late great U.S. dollar.

Officially, Dagong Global Credit cited, "deteriorating intent and ability to repay debt obligations after the Federal Reserve announced more monetary easing." This was no coincidence coming before the G20 and was a clear warning to the U.S. not to dictate currency policy to China when they are the biggest creditor of the U.S. The currency wars are only just beginning, but if my theory is correct and China can save face by Big Ben buying back some of this paper, the Fed may be able to extend the crisis longer.

The G20 failed to achieve anything concrete, which is extremely negative for the dollar and positive for precious metals. However, all markets go up and down, and at this point it seems that the U.S. dollar is due for a rally, as we have outlined on our videos, and the precious metals may take a breather here for a while.

My analysis of a stock market drop in October or November was wrong, the December time frame is almost always bullish for stocks and with the first two days of December behind us it seems this will be the case for the remainder of the year.

Silver Update

There have been multiple lawsuits filed regarding the silver manipulation, and this has been a very hot topic for those of us who follow the silver market closely.

Since almost everyone who subscribes to *The Morgan Report* is probably very familiar with these issues, this will be a brief summary with links provided and not a comprehensive blow-by-blow account of the situation.

The lawsuits were announced just days after Bart Chilton, commissioner of the CFTC (the Commodities Futures Trading Commission, (http://www.cftc.gov), made a statement that acknowledged silver price manipulation. It was shortly after this that things really started to heat up rapidly. I was contacted almost immediately by BNN—Business News Network—in Canada, to comment on the manipulation in a live debate with Jeff Christian of CPM Group in New York, publisher of the Silver Yearbook. Jeff and I have known each other for years, and his premise was that Mr. Chilton's statement was based upon belief, not fact, and mostly from the public. In my view, Jeff seemed to imply the public knows almost nothing about how markets work, and therefore this was merely a distraction. Distraction or not, the lawsuits began. . . .

On November 2, 2010, Kaplan Fox & Kilsheimer LLP (www.kaplanfox.com), a leading plaintiffs' firm, filed a class action complaint in the United States District Court for the Southern District of New York, on behalf of an individual investor, against JP Morgan Chase and HSBC in connection with their alleged conspiracy and manipulation of the market for silver futures and options contracts traded on COMEX...

"The complaint alleges that around June 2008, when JP Morgan acquired Bear Stearns, including Bear Stearns' short positions in silver futures, JP Morgan and HSBC commenced a conspiracy to manipulate, and did manipulate, the market for silver futures and options contracts on COMEX. Specifically, the complaint alleges that around this time, JP Morgan and HSBC, pursuant to their conspiracy, acquired massive short positions on silver futures contracts in an effort to artificially depress the price of the silver futures market. The defendants realized substantial illegal profits in connection with their scheme, while investors who had no knowledge of the scheme, lost substantial amounts of money because of the defendants' conduct.

"The complaint further alleges that the defendants' illegal scheme continued until around March 2010, when a metals trader based in London, publicly exposed the scheme. This trader has reported the scheme to the Commodity Futures Trading Commission ('CFTC'), and both the CFTC and the Antitrust Division of the United States Department of Justice are investigating the alleged conspiratorial and manipulative activities of the defendants..." – 11-04-10
http://www.marketwatch.com/story/jp-morgan-hsbc-sued-for-silver-manipulation-2010-10-27.

It is very difficult to prove manipulation and this is what I stated for BNN, yet no law firm would take on such a case, especially against a JP Morgan, unless the law firm had a strong case legally. So this implies that JP Morgan's short position is so obvious and provable that there is a case to be made and perhaps the judicial system will reign on the legal merits.

It is interesting to note that Jason Hommel sent out an e-mail, stating he was the first to file an antitrust complaint to the U.S. Justice Department against JP Morgan for silver manipulation in April of 2010.

http://silverstockreport.com/2010/doj.html

JP Morgan is also one of the custodians of the silver ETF, SLV. At the time of the initial filing, which I read carefully, JP Morgan stated they would be responsible for 130 million ounces of silver and after that other market makers would responsible. I have not studied the recent legal issues in some time so this might have changed, but the point remains that the SLV settles in cash only for investors.

There is really no way to know the exact total short position, because most of the naked short positions are held in OTC (over the counter) derivatives and are not reportable to the public. We do know from public data that we can estimate it to be 100 to 1. I actually did an interview with Jeff Christian years ago and had him explain bullion banking; in that video he fully mentioned the 100 to 1 ratio.

Jeff Christian also commented at the CFTC hearing on silver on March 25, 2010, that silver was traded and leveraged "over 100 to 1" in the London market.

JP Morgan has the largest derivatives positions of any bank, somewhere in the 70-trillion-dollar level. "As goes GM (General Motors), so goes America," is an old adage; well, GM basically has gone bankrupt and now is issuing "new" stock. Can we make a similar adage? As goes JP Morgan, so goes the U.S. government?

At this point is would be impossible to cover all the bad debt on the books of this mammoth derivatives player, and as small as the silver market is, it just might be the tipping point.

While on my strenuous European tour, I had the good fortune to meet with Max Keiser and do an interview with him on the silver market. Shortly after that, Max was talking with Alex Jones and put forth the idea of spreading the word for people to buy silver and sink JP Morgan. It seems this Internet message has gained some traction and it will be interesting to see how this manifests in the future.

Another lawsuit involved racketeering See: http://tinyurl.com/22k7v6f

This is an issue that demands some explanation, more than Jeff Christian's "that's how markets work" quip. Sure, we know that Delta hedging from the paper pushers can drive a market any way they want . . . that is the whole point, isn't it?

The last lawsuit that we will mention in this report is the class action that we sent to all our members; it was actually brought to my attention by a long-time friend and silver bug who is well known in the industry.

Moving on to my European tour of early November! The rooms were absolutely packed and silver was the most talked-about subject. The Germans and Swiss fully understand the benefits of silver investing. The people in the United Kingdom are similar to those in the U.S., where some are very aware of the financial problems and precious metals role, while others do not have a clue.

While in London I learned that sponsor of the London show and good friend Nick Williams has gathered impassioned people together to remove the value added tax on silver purchases. There was a VAT on gold at one time and it was voted out, therefore it could be possible for the same thing to happen for silver. The added tax on silver purchases throughout most of Europe certainly does discourage purchases.

Nick stated he now has 67 EU signatures and 9 non-EU signatures. He is planning to do a video for YouTube, maybe with some high-profile analysts—Jay Taylor, Bill Murphy, your publisher, and others—to cut in some clips saying that they support the cause. He'd like us to explain on video what the cause is and why people should support it.

Also in November, GFMS (Gold Field Mineral Services), which reports for the Silver Institute, stated its preliminary outlook for silver in 2011. I was pleased to see that the reporting on investment demand seemed much more accurate than in previous years. Further, the outlook for $30 silver in 2011 was stated, but they are looking for large mining increases, which we agree with for the next few years.

The highlight of the month for us was an interview we did with Eric Sprott about the new Silver Trust and his thoughts on the silver market. He opened with a very interesting statement that gold was the investment of the past decade and silver would be the investment of the next decade.

We determined that there is still ten million ounces of silver left to be delivered by the end of December to the Sprott Silver Trust. It is too early to determine if this will have any significant effect on price, but as of this writing there is an abnormal amount of notices to deliver silver in December. If the Comex is the one place that does have this amount "readily" available, things could get interesting. From our experience this is not the case, because the large dealers usually are well prepared for such purchases, such as what the Central Fund of Canada has done several times this past decade. However, we know the physical silver supply is very tight, so we will watch carefully.

We extracted this from Adrian Douglas of GATA fame and he asks some very interesting questions.

"The silver ETF SLV claims to have added 16.8 million ozs to its silver inventory last week. What's more they claim that 11.25 million ozs were purchased on November 10. This is equivalent to all the silver mined in the entire world during one week being purchased in one day. This is the same day when volume traded on the Comex exceeded all contracts outstanding and the price was hammered down yet there was very little net liquidation or covering."

James Turk reported a few weeks ago in an interview at KWN that the silver market is the tightest he has ever seen it. It should be noted that goldmoney.com is a large and regular buyer and seller in the wholesale market and so this is someone who is very close to the frontline. His comments make SLV alleged purchases of 16.8 M ozs of silver last week highly suspect.

It seems the silver price is on a one-way trip to higher levels, as each pullback is very short. This is in view of margin requirements being raised two times recently. For this to take place it means there is a strong buyer in the market and/or a very tight supply. It might be Sprott, it might be hedge funds, or some combination. In fact, it could be something that none of us has thought about currently. Regardless, silver is defying logic since it has remained overbought for weeks, yet continues to climb in price. This is why we do our best to let the market, not some technical indicator, make decisions for us.

We will have a much clearer picture on the short-term outlook for silver after we know all of the deliveries for silver have been completed for December. To repeat, we have never seen a tighter supply in all our years of following the silver market, so we might expect even further price increases from here. Remember, no market goes up forever, and it seems silver might need to take a rest at some point, but we are reluctant to make that call just yet.

The Silver Institute reported the following:

"(Washington, D.C. – November 24, 2010) The American Eagle Silver Bullion coinage program has already posted another record year, with over 32 million of the U.S. Mint's 1-ounce coins sold through today. Sales thus far in 2010 have surpassed last year's record of 28 million coins sold. Should the current pace continue, sales will surpass 35 million coins by year's end.

"Silver coin minting globally is projected to rise a robust 23 percent this year, to an all-time record, according to data released last week by GFMS Ltd., the precious metals consultancy, at the Silver Institute's Annual Silver Industry Dinner in New York City.

"Leading national mints are reporting exceptional growth this year. The Royal Canadian Mint has reported an increase of 50 percent in silver Maple Leaf bullion coin sales over 2009 figures. Similar strong growth is expected for the Australian Perth Mint's silver Kookaburra bullion coin, and the silver Philharmonic bullion coin issued by the Austrian Mint.

"U.S. Mint sales of American Eagle Silver Bullion coins have increased by 223% over the past five years."

Portfolio Review

We are going to review some chosen stocks this month but not everyone of them. First and foremost we now have huge profits in almost every company in our lists. It is EXTREMELY IMPORTANT that everyone note that any position that is up 100% or more that you sell one half (1/2) of your position. This allows you to have basically no risk with the remaining stock you hold. These include Energold, Endeavour Silver, SilverCrest, First Majestic, Silvermex, and Bear Creek.

This is truly the art of speculation and will make any sophisticated investor extremely happy. So, what do you do with the money you take off the table? First we are going to sell one more from the speculative list and replace it with a company that could do very well into the future.

Also, it is good idea to spend a bit, the Holiday's are here and reward yourself or those you love with something.

Top Tier

Franco-Nevada one that has consistently hit the top tier list a royalty company, has seen income up 37% on last year, mostly from one new asset, Palmarejo, which started generating revenues for Franco last July. The Palmarejo is a project we mentioned some time ago and has very good silver credits. The percentage of revenues from precious metals rose to 71%, while the margin of 89% remains very high.

Franco-Nevada has a continuous pipeline of projects and is looking to double revenues within four years. Then, in 2014, assuming it is permitted, Franco's latest acquisition will start production. This is the Prosperity Copper-Gold Mine in British Columbia.

The company has $650 million in cash and securities, and an unused credit line of $175 million. Additionally a solid balance sheet, top management, world-class assets, and a strong pipeline of development projects—300 royalties in all—and Franco is a core holding.

Royal Gold is another top royalty company that like Franco has not performed lately (last month or so) but has strong assets and a deep pipeline. The balance sheet is not as strong as Franco's but the company has made it clear that it wants to fund itself internally but is not quite there yet. However, any new royalties, will provide the base for internal sources of capital in the near future.

Royal has also seen growth in royalties, both the number and quality, with two-thirds of its producing royalty assets, by 2013, having lives of 15 years or more. Royal is also looking for future growth in royalty revenue, aiming to double revenues within two years. This is achievable, with Peñasquito (silver project) ramping up, Andacollo reaching commercial production this month, and the possibility of an end to the strike at Voisey's Bay Nickel Mine.

After that-- 2012, Mt. Milligan is expected to commence production, generating an estimated $51 million in its first six years, to make it Royal's largest single revenue earning. This like all of our top tier are hold's unless told otherwise. Just because a company leaves the list it does not mean it is not a valuable company, just in the case this month the silver companies are outperforming the gold companies.

Goldcorp is our only traditional gold miner, the best of the senior producers with strong operations, a solid pipeline, low political risk and low costs. Its latest mine, Peñasquito in Mexico, is ramping up with operations going very well. Goldcorp has several major mines in the development stage, including its joint venture Pueblo Viejo with Barrick in the Dominican Republic; and Eléonore, the Quebec property it acquired from Virginia, which continues to grow.

At the same time, Goldcorp is selling several small operations, a sensible move for a company with multiple major projects in the pipeline.

Silver Standard announced a new president and CEO, John Smith, with a background in oil and coal, following the resignation of Robert Quartermain, who had built the company. As readers may recall I met with Mr. Quartermain a few months after he left SSRI, it looks like he may be getting back into the business, more about this later.

Silver Standard has several things going for it, primarily its assets. These include its only operating mine, Pirquitas in Argentina, which is expected to be cash-flow-positive next year; several projects in various stages of development, with four mines possibly in production by 2014; the advanced San Luis Property (in joint venture with Esperanza), on which a feasibility has—finally—been completed (taking Silver Standard's interest to 70%); its rich Snowfield Gold Project in British Columbia, about which a just-released preliminary study outlines a mine with average annual production of 607,000 ounces of gold over a 23-year life; and $58 million in the treasury.

But there are uncertainties, including the problematic start-up of Pirquitas, and major decisions on how to proceed with both the profitable but small San Luis and the large Snowfield gold property. This company still remains a hold but our other silver picks in our top list have well outperformed this company from the time we dropped it as the highest strength company using our methodology.

Silver Wheaton continues to achieve record revenues and earnings. Cash it up at $323 million, which in addition to unused credit lines, gives the company plenty of firepower for future acquisitions. Its latest is an option to acquire the silver stream on Ventana's new La Bodega Project and other Colombian properties. The company said it is still seeing opportunities, though more with base metals companies now, companies that prefer cash up front for their silver.

Endeavour Silver's Bid for Cream Minerals

The Asset

Cream's principal asset is the Nuevo Milenio Project located in Nayarit State, Mexico. After acquisition by Cream in 2000, the company undertook a relatively modest drilling program and ultimately published a 43-101 report in December 2008 of an inferred resource of 5.087 million tonnes @ 251 g/t silver and 1.66 g/t gold, equating to some 41 million ounces of silver and 271 thousand ounces of gold.

Included in Endeavour's news release dated October 4 is this statement.

- Risk of Cream Resource Disclosure: Cream's mineral resources as disclosed in their National Instrument 43 101 ("NI 43 101") reports on the Nuevo Milenio Property were prepared by Cream's second largest shareholder and a Director, not by independent consultants as required under NI 43 101. In Endeavour's opinion, the resources are not compliant with NI 43 101 and a substantial amount of work will be required to confirm resources in compliance with NI 43 101.

In other words, Endeavour Silver feels the amounts of metal reported in the 43-101 are circumspect and will require a lot of drilling in order to solidify or correct the data.

Regardless, the property is highly prospective and there are a number of potential targets that need basic exploration and drilling.

The Background

In early 2009, Endeavour met with Cream in Mexico to receive an overview and conduct a site visit of the Nuevo Milenio Property in Nayarit State, Mexico. Endeavour subsequently expressed its interest in the property to Cream and Cream invited Endeavour to make an offer. At the time, Cream had approximately $2 million in debts, no cash, and negative working capital.

In June 2009, Endeavour made an offer to acquire all of the shares of Cream Mexico, the wholly-owned Mexican subsidiary of Cream that owns the Nuevo Milenio Property, for cash and Endeavour shares. After meeting to discuss the offer, Cream requested and Endeavour then tendered an improved offer to include more cash and a net smelter return royalty. The improved offer would have allowed Cream to pay off all its debts, retain a very healthy cash position, provided it with a significant shareholding in Endeavour, and a net smelter return royalty.

Cream's Board of Directors declined Endeavour's revised offer and elected to enter into an option and joint venture agreement with another junior mineral exploration company in July 2009. The agreement did not include any cash payments to Cream, and over the following 12 months, a pitifully small drill program was completed. The option was dropped in July 2010. During this period, Cream shareholders suffered 35% dilution, as Cream needed to raise funds in order to stay in business.

Cream then contacted Endeavour in July 2010 and asked if Endeavour would consider re-opening discussions with Cream regarding the Nuevo Milenio Property and in particular, if Endeavour would honor its revised purchase offer from 2009. Endeavour responded positively and met with Cream to discuss the offer and possible variations of the offer. An extended period of discussions began, with e-mails and meetings in August and September 2010 between Cream and Endeavour, wherein the two parties attempted to reach an agreement with regard to the Nuevo Milenio Property.

At the requests of Cream, Endeavour tendered no less than five separate offers during this period to Cream, up to and including September 25, 2010, including the following types of transactions: (1) various proposals to purchase Cream Mexico or the Nuevo Milenio Property directly; (2) a possible friendly takeover bid for the shares of Cream; and (3) an option to joint venture the Nuevo Milenio Property. Consideration offered by Endeavour included cash payments, Endeavour shares, exploration expenditures, a participating interest, and royalties.

After the fifth offer was rejected by Cream's board of directors, Endeavour elected to make the offer directly to Cream shareholders, as it became evident that negotiations with the Cream board had been unsuccessful. At this time, Cream continues to have approximately $2 million in debts, no cash, and negative working capital.

The Offers

On September 27, Endeavour made a cash offer to the shareholders of Cream at 12 cents per share, representing a 76% premium to the market. On November 9, this offer was increased to 14 cents per share, payable in either cash or Endeavour shares. This offer expires on December 6, but might be extended by Endeavour Silver.

The Responses from Cream

After several rejections (and the resignation of two board members), on November 23, Cream issued a news release recommending acceptance of Endeavour's bid for the company. It should be noted that Cream's chairman, Frank Lang, controls 24% of the stock on a fully diluted basis and stated he will not be tendering his shares.

Silvermex and the Genco Acquisition

Silvermex has been quite active over the last twelve months. The most recent surprise has been the recently completed business combination with Genco Resources. This transaction raised questions from a number of investors, the most notable being, "Why?" This update will offer compelling reasons.

The Old Genco

Over the course of the last two years, Genco had undergone some trying times. The mine was shut down for 18 months. The company lost its management team after a shareholder proxy battle. Mine development ceased. The share price had not emerged from the precipitous descent of 2008. When mining activity was re-established early in Q2 this year, production rates were low, as were grades. Additionally, Genco was running out of cash quickly, which the mine desperately needed. The resources are still in the ground. Between 2006 and 2009, Genco invested more than $55 million on the project, which included over 85,000 meters of drilling. While there has been a substantial amount of drilling, there has been a definite lack of follow up. The capable management team will focus on these opportunities in the near future, concurrent with increasing production rates from operating production centers. The property has numerous potential production centers.

Tremendous growth potential lies with the opportunity to re-open a mining district that historically mined at very high grades. There is significant opportunity to not only extend the mine life but to expand the production profile all from the existing land position. The land position is 15 kilometers long and contains 7 past producing mines and 4 newly discovered targets. The wholly owned district historically produced approximately 10% of the Mexican silver output. Many of the mines produced at high grades. For instance, historical records and underground surveys indicate that the Rincon Mine, which was the third-largest silver mine in Mexico in 1930, had grades averaging 3.81 g/t gold and 860 g/t silver over its mine life; Magdalena Mine produced at 2 g/t gold and 800 g/t silver; Mina de Agua production grades were 3.24 g/t gold and 470 g/t silver.

In March 2010, Genco calculated a NI 43-101 resource estimate of approximately 160 million ounces silver and 1.2 million ounces of gold on the property, much of it focused on large open pits. Silvermex management has reservations regarding this resource estimate and will complete an updated resource model and estimate at some point in the future. Using modern exploration techniques will significantly enhance the understanding of this district and will be very valuable in identifying extensions of existing mine and new deposits for future growth.

It appears that Genco represented a distressed asset, needing capable management and money to realize its potential. So, Silvermex, after due diligence, negotiated a fair transaction for all shareholders.

The New Silvermex

The recent business combination represented a total transaction value of approximately $75 million upon announcement. This transaction actually builds value for shareholders of both companies and offers a significant production growth profile for a well-managed company. It can be argued that it would be very difficult, or impossible, for either company to attract or purchase the quality of assets, capital equipment and infrastructure, cash flow potential, resource expansion opportunities, and able personnel for half of the total transaction price. So, the transaction makes good business sense. This transaction is a prime example of how the Silvermex management team can deliver value to its shareholders by identifying and acquiring a quality asset (which can add additional value) that doubles the value of both companies and provides a platform for future growth.

This merger should create an exciting new silver producer with a solid foundation. It is well positioned to deliver increasing shareholder value. Furthermore, early this week Silvermex announced it had fully subscribed a $15 million institutional financing, which provides the capital necessary to increase efficiencies at La Guitarra, expand mine development, and fund in-fill drilling programs, all of which should lead to increase mine production and cash flow and support further exploration and resource confirmation. Silvermex boasts Sprott Asset Management and Silver Standard Resources as significant shareholders, which further builds confidence in the new Silvermex. Silvermex has focused on a mandate to increase its institutional ownership to 30% in 2011 and the company is well on its way to achieving this. While the share capital structure has indeed grown considerably, it has provided a liquid float in which funds can now acquire shares without moving the market too much when either accumulating or divesting. Liquid markets are a prerequisite for active institutional investment.

It is also important to note that management has demonstrated its ability to enhance shareholder value in past experiences. Past records build confidence that their current strategies are realistic, professional, and they will present plans that deliver future value.

The company is well funded with almost $25 million in cash. There are approximately 210 million shares outstanding and a current market cap of approximately $155 million. Since reforming itself less than a year ago, Silvermex has tripled its share price, strengthened its balance sheet, upgraded its existing assets, and demonstrated that it looks to be an aggressive player in the silver sector. Silvermex is poised to make a well-managed, rapid transition from an exploration company to a proven producer and it is safe to assume the company will continue to demonstrate continued growth. Given the current valuations of other junior producers, and considering the proven management team, cash position, and property potential, the writer believes Silvermex offers good value at these levels.

On Our Watch List

Orko Silver, www.orkosilver.com
TSX-V: OK

The Morgan Report was the first to pick up Orko Silver out of the gate and alert subscribers to its then nascent silver discovery at the La Preciosa Project in Mexico. Since then the company has come a long way and presently finds itself atop a major silver deposit, C$300+ market cap (as of day close of November 25, 2010), and—more importantly—a deal with Pan American Silver. Under the terms of the deal, Orko is to be **carried to production** at 45% interest in the project. In other words, Pan American will only earn its 55% stake by advancing the project to production.

If there were any questions regarding Pan American’s intentions and due diligence to date, we believe they were addressed through the work conducted on the project in the last year by PAAS itself. We further believe that PAAS should acquire the whole company (Orko) or 100% of La Preciosa before it makes a production decision on the project. Therefore, we see an opportunity for a “quick and easy” return on investment in OK shares if such a transaction were to materialize. We would certainly prefer to be paid in shares of PAAS, which is the premier silver producer and is likely to remain so for years to come, and achieve further prominence in the silver sector through acquisitions such as the one we anticipate in this case.

Ultimately, if we are right about a potential acquisition, this might be a good way to get PAAS shares at a discount, as Orko shareholders would probably demand a premium for their shares. Just for argument's sake, if this transaction were to take place today when OK shares are trading at C$2.50, we would expect the transaction to take place somewhere in the $3.00-$3.50/share range. If we're wrong about this and there is no takeover any time soon, don't despair; Orko shares should still trade in close relationship to both the silver price and the price of PAAS shares for as long as Pan American is in the deal. You like those odds? By all means consider a place for Orko in your portfolio at this time.

In the interest of full disclosure, Sean Rakhimov has no position in Orko as of this writing, but intends to take a position after this write-up is published to subscribers.

49 North Resources, http://www.fnr.ca
TSX-V: FNR

This is a bit of a step away from what we normally do at TMR. But given the diversity of interests, our subscribers, and the opportunity at hand, we thought it was worth the effort to bring this company to your attention. 49 North is not really a fund, but acts like one in many ways. The best analogy we have for this play is an incubator company reminiscent of CMGI of the dotcom era. While the dotcoms were built on ideas, and most vanished over time, FNR is in the natural resources business and builds its ventures on tangible assets. A present-day peer may be Sprott Resource Corp. (TSX: SCP) Not to get hung up on these analogies, FNR is a very interesting vehicle. It's focused on developing the resources of the Saskatchewan province of Canada and has been very successful at that. It is run by Tom McNeill, who is well known in the industry as a successful entrepreneur.

FNR shares closed at C$2.60 today (November 26, 2010), while, according to their own web site http://www.fnr.ca/html/portfolio/index.cfm, where they track the net asset value (NAV) for the company, it stands at around C$3.81. There is a good chance it is even higher than that. To make the long story short, this is a conservative way to play the resource bull market in a mining-friendly jurisdiction that abounds with opportunities and very competent management. We expect FNR shares to trade above their NAV at some point during this cycle, which is itself a moving target that potentially has more upside than downside going forward. This is for patient investors only. According to TSX Web site (http://tmx.quotemedia.com/quote.php?qm_symbol=fnr), the company is trading at a P/E ratio of 4.6. In the case of FNR this metric is also a moving target, as the number can move substantially, based on acquisition or sale of assets/shares in other companies.

Sean Rakhimov has no position in FNR.

Westminster Resources
TSX-V: WMR
Shares Outstanding: 53.5 Million
Fully Diluted: 84.8 Million
Management & Insiders Own: 30%
Share Price as of 11/18/2010: C$0.50
Cash: C$3.1 Million

This company is one that we suggest TMR subscribers take a close look at for possible trading purposes. Sean Rakhimov visited the projects of this company in mid October 2010. WMR has two projects in west-central Mexico. The Navajoa is a silver project, which is why we initially took interest in this company. However, the company subsequently acquired the Anita Copper-Gold Project, which has quickly become the focus. This is a highly prospective project that has seen quite a bit of work over the last hundred years. It is a high-grade copper-gold project that has never been drilled, yet was attempted to be put into production a few times that we know of (http://tinyurl.com/2dk2fuy). That is a very telling piece of information.

Our initial strategy was to wait for drill results for confirmation of historic numbers ranging from 4% copper and 5 g/t gold and up, starting on surface, which makes it amenable to open-pit mining, assuming the project is advanced further. However, the stock has been inching up, and it looks like this situation may "run away" from us. On another note, there may be some weakness in the share price often associated with shares becoming free for trading from previous financings. WMR has such an event taking place on Tuesday, November 23, 2010, where shares will become free trading from a financing conducted earlier this year (http://tinyurl.com/2aetul9). This writer, Sean Rakhimov, participated in that round of financing, even though at that time the company was just in the process of assembling a land package around the core Anita claims.

We have no way of knowing whether there will be any weakness in WMR share price. We're just saying that it happens fairly often with junior exploration companies. The reason for this alert is to bring the company to your attention as well as take advantage of any possible weakness in share price, to establish a position in the company. There is a bit of buzz about Westminster in Vancouver so we felt that we should tell you about the company sooner rather than later.

Lastly, there is a drill on the Anita Property right now and a drill program is scheduled to take place before year end, perhaps extending into 2011. The results of this program should provide an indication about the potential of the project and prospects of the company, so until that time, any talk regarding potential upside is a pure speculation.

Therefore, you decide how it fits with your investment strategy. We will have more on the company in the future.

November 26, 2010
Sean Rakhimov
Editor, http://SilverStrategies.com
Send Feedback

. . . .

Morning Star Gold (ASX: MCO) – Australian Stock Market

Web: http://www.msgold.com.au
282 m shares on issue; 1,850 shareholders
A$17.5 million cash + A$3m in JV funds
Recent price: A$0.50
52-wk H-L-Last: 0.51 – 0.29 – 0.37
Avg. daily volume: 295k shares

Morning Star Gold is a gold producer and holder of mining and exploration tenements in Australia's second-ranked hard rock historic goldfield. The properties are 120km from Melbourne, Australia's second-largest city.

In order to establish cash flow, the company is looking to begin production at its 100% owned Morning Star Gold Mine, targeting 15g/t values, in late 2010–early 2011. Three of Morning Star Gold's adjoining mine titles have been granted mining licenses; the other two have been granted exploration licenses.

Historic gold production for the Wood Point-Walhalla Hard Rock Gold Field (Australia's third-largest in production), which began in 1862 (and ceased in 1959 due to a $32/oz gold price), has been 7 Million oz. At one point in the 1940s, the Morning Star Mine was Australia's premier gold producer, producing 883,000 ounces of 25g/t gold during its time in operation.

The existing ore bodies had previously been mined to a relatively shallow depth. With the first new production in 50 years soon to be taking place, the potential for effective application of new exploration/production technologies is evident.

A$12m was raised in 2009–10. The company has a 5–10 year production plan. Anticipated net profit for years 2–6 (2011–15) @ $1,370 gold is projected to ascend from year 1 at A$26m, to year 6 at A$40m. The forecasted 2011 profit of A$26.7m can be re-invested into current operations.

An experienced mining staff is on site, and enjoys the pro-mining support of the local community. Morning Star Gold has experienced teams in management and exploration.

The mine infrastructure itself has been re-developed to the 10 level. It has been developed to 820 meters, and at present, has been dewatered to 310 meters.

The onsite Gravity Gold Processing Plant (good to go) is scalable, enabling throughput to be expanded or even doubled. Multiple high-grade targets close to processing plant, allowing easy acquisition.

Due to a tightly-held share structure, there is a limited float, with the top 10 holders controlling 50% (and the top 50 holders controlling 70%) of outstanding shares.

An excellent overview of the company and its plans can be obtained in downloadable pdf form on the company Web site at http://www.msgold.com.au. Further background about Australian stocks in general can be found at the Australian Securities Exchange home link: http://www.asx.com.au/index.htm.

I have received requests over from many of our Australian subscribers for a good speculative junior and this is it in my opinion. I spent a full evening and attended the full presentation from Greg Curnow the chief geologist for the company. We are not making this a formal recommendation because most of our subscribers will have difficulty buying the stock, but if you like the prospects we certainly would encourage you to investigate further. If you decide to purchase just remember this would fall into the speculative category so risk money you can afford to lose.

Portfolio Changes

Buy Sprott Resource Lending (SILU, NY,) is the new name for Quest Capital,

Which transformed from a Canadian mortgage lender to a resource lender. In actuality, it is returning to its roots, since this was the focus of the company when it was formed in 2003. In its new incarnation, under the direction of the Sprott group, it will act as a provider of capital to the resource sector, both mining and oil & gas. The new company will combine Quest's capital and lending expertise with the knowledge and contacts of the Sprott group, pre-eminent Canadian resource investors.

Profitable business with growth and income resource lending can be very lucrative. This was our intent with Endeavour Financial and I will take full blame for not selling when it hit our 15% stop loss. Moving on we want to sell Endeavour Financial (not Endeavour Silver!) and replace it with SILU. This company should serve the funding space between exploration and production. Loans can carry yields of 12% per year as well as equity kickers. In a strong resource market, this equity could add significantly to the growth of the company. Under the arrangement, the Sprott group will be well paid, 2% of assets plus a performance fee.

After this adjustment to our portfolio, we should be in an extremely strong position going into the New Year. Our portfolio could include nothing but winners with a full 60% of them given us our original capital back.

We are discussing a new model portfolio that is more aggressive in January and your conservative editor is pretty well convinced that we can improve even more. So you may see some changes again in January.

Letters to the Editor

Letter #1: I have come across a junior miner that I am considering investing in and adding to my speculative portion of my portfolio. I picked up a small amount of the stock at $1.25 but I'm considering adding to my position. From the information that I was able to obtain about the company, I was pleased with what I read; however, I was wondering if you have done any research on the company or commented on it in one of your reports. The name of the company is Avino Silver and Gold. Any information that you can pass on about this company would be greatly appreciated.

Response: We do feature companies of merit in our reports, as our readers are aware, yet not all make it to our portfolio. The main reason is usually that the company has a small daily volume and we have learned the hard way that a "formal" recommendation will take the stock price up significantly (only on very small companies) and then the price floats back down, leaving our subscribers holding the bag, so to speak. We truly have your interest at heart (ours too, as we invest right along with you) and therefore might mention a company so you can investigate further. This actually applies to those in our lists as well.

Letter #2: David, as a new subscriber, I was wondering if you could answer this question—When you do company profiles (updates), such as Great Panther, Artha Resources, etc., and they are not on the featured companies list, what should be the trading approach? Take a look, invest, wait till recommended...?

Response: See Letter #1, but also take a look. For example, Great Panther has been on our formal list before, but at times it seems we have too much focus in Mexico. However, now that most of our readership can book their original investment back (bank their initial cost), it reduces the country risk a great deal. Ultimately, you always make the final investment decisions, but if you do what we teach you are successful.

Letter #3: A little Holiday Cheer we will share . . .

Although I have followed you for years I must admit I just recently signed up. So I am a fairly new subscriber to your site and currently do subscribe to many similar services. I just wanted to send you a quick message.

Your site is one of the best, in my opinion. It is very professional and easy to follow. I cannot believe all the information you provide for only $269. When I logged into the Members area I was shocked to see all of the updates, information, and videos you provide. I felt like I'd hit the lottery. You really keep us up to date on what's going on in these uncertain times and I think that is most important.

You have on happy subscriber here. Keep up the great work.

Oh, I almost forgot! I wanted to mention your alert system application. I have never seen anything like it, and since downloading, I have not missed one of your updates. I really like that I can log in to the Members area with just one click of the mouse.

James

Letter #4: I own Hecla shares, probably too much. All the government activities of QEs, giving bankers free money, dollar collapsing (the reason I'm into mining shares), airport groping, etc., are getting me worried about what would happen if silver prices shot to the moon. A national takeover of the mines? See http://kealliance.wordpress.com/tag/epa. I know this is a little far out, but anything can happen. Regards, Jim

Comment: In my view, much of the power from those in charge is based on keeping people in a state of fear. I very much doubt the government here could take over a private sector company very easily. As long as you own real metal and a strong portfolio, as we outline, you have no reason to fear in my view.

Personal Notes:

At the end of last week gold was up 24% for the year silver was up 58% for the year and Palladium was up 67% for the year. I forecast the silver would outperform gold by thirty percent in 2010, but so far it did it by 100%. The HUI and XAU were up about 25% each proving again this year that just a pure silver investment is better performing than either of the two main precious metals indexes.

Our speculative stocks have beaten the indexes far and wide but be sure to take partial profits so you can relax and enjoy further gains. It seems each year I struggle to find the correct words for the Holiday's as this readership is truly global and it seems that some have to vent their views that I am not properly acknowledging some particular faith or religion. So, let me state enjoy the following thirty days in the manner that is in line with your core beliefs.

If you look back to last month's Personal Notes, you see what rings true for this author and maybe for you as well. Most reading these reports are blessed to a large degree and therefore it is with gratitude that I thank you our members for allowing me to be of service to you by doing what I enjoy so much, teaching, speaking, and writing about money, metals, and mining.

Until next month, wishing you health above wealth and wisdom beyond knowledge,

David Morgan

ASSET ALLOCATION

Top Tier: This section is for serious money where an investor can place up to 10 percent of their Precious Metals Equity money in each company. Please spread out in this sector.

Speculations: In this section, only place money you can afford to lose.

TOP TIER SECTION (90% of money spread in these companies spread equally in 5 to 6 stocks)					
Company	Symbol CAD (US)	Initial Date	Initial Price	Profit (Loss)	Comments
Agnico Eagle	(AEM)	Early 2001	~C $10.00	Open	Buy
Silvercorp Metals	(SVM)	6/01/05	~C $1.70	Open	Buy
Newmont	(NEM)	2002	~ US $25.00	Open	Buy
Pan American Silver	(PAAS)	9/01/01	~C $2.50	Open	Buy
Silver Wheaton	(SLW)	10/01/05	~C $5.00	Open	Buy
SPECULATIONS SECTION (10% of capital spread evenly in all selections, i.e., 1% in each)					
Company	Symbol CAD (US)	Initial Date	Initial Price	Profit (Loss)	Comments
Energold	EGD.V (EGDFF)	1/02/07	C $1.40	+190%	Buy
Endeavour Financial	EDV.TO (EDVMF)	7/02/07	US $9 - $10	-60%	Sell
Silver Crest	SVL.V (STVZF)	9/30/07	US $1.10	+55%	Buy
Endeavor Silver	EDR.TO (EXK)	7/03/08	US $3.10	+110%	Buy
Mines Management	MGT.TO (MGN)	7/03/08	US $2.61	+10%	Buy
First Majestic	FR.TO (FRMSF)	8/04/08	US $4.08	+200%	Buy
Silvermex	SMR.V (SLVXF)	12/02/09	US $.33	+106%	Buy
Bear Creek	BCM.V (BCEKF)	3/01/10	US ~ $3.75	+162%	Buy
Prophecy Resources	PCY.V (PRPCF)	11/01/10	US $.80	+16%	Buy
Sprott Lending	SILU on NYSE	12/02/10	TBD	------	Buy

Prices as of December 2, 2010

Changes: Sell Endeavour Financial and replace with Sprott Resource Lending. Be sure to book your profits on all in the Speculative list that are up 100% or more. Suggest that you sell half and let the rest ride!