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Lithium scores a spot on Obama's energy independence team

The search for better solutions to the demanding USA energy arena is in full swing. Their quality of life, economical, political, environmental and national security issues require sector-specific and comprehensive solutions. The U.S. "engines" need diversified and reliable energy supplies while the resolution of the energy quagmire needs policies that must include conservation, increased efficiency, reduced reliance on foreign sources, development of national and secure resources, and advanced technologies. And, last but not least, every solution must be based on sound environmental stewardship, from the source to the end-user, and must include consideration of global climate and environmental impacts.

So, what is the latest effort from U.S. government to reduce this reliance on foreign sources of energy? Just listen to what President Barack Obama told an audience while speaking in Indiana early August, announcing US $2.4 billion in grants to advance the manufacturing and use of next-generation car batteries and electric vehicles. He stated, "I'm committed to a strategy that ensures America leads in the design and the deployment of the next generation of clean-energy vehicles. This is not just an investment to produce vehicles today; this is an investment in our capacity to develop new technologies tomorrow."

Obama's plan is to have one million electric cars on U.S. roads by 2015. JPMorgan predicts hybrid sales will reach 9.6 million cars three years later. Global Strategic Analysts predicts that the market for lithium-ion batteries (used in hybrid vehicles) is likely to grow at a compound annual growth rate of over 32% through 2010. With an increased demand for hybrid automobiles this growth rate in lithium-ion batteries will likely continue.

Thus, the question on every investor's mind is: Will this electrification ignite a boom in lithium, lithium exploration, development, and mining? In our opinion, it may be too early to tell, but the fundamentals are pointing in the right direction. With lithium batteries to play a key role in the auto industry and eventually appearing throughout the electrical grid, lithium could potentially be the next break out investment.

Andrew Mickey of Q1 Publishing agrees. He states, "Total U.S. auto sales may be down 40% this year, but hybrid electric vehicle sales are doing better. As you extrapolate this trend, it's not hard to see how 10% of the cars sold in the U.S. will have a battery in them in the next few years. Ten % of 10 to 15 million autos made each year is a lot of batteries. Exponentially, more than can be produced right now. This is going to be big."

Like any other investor, we cannot help but look at the money pouring into this sector. And, as an investor, one should always consider the flow of money when considering a new sector, a new metal to invest in, or a new investment in general. This injection of capital into the system will in many cases create short term upside in stocks having exposure to the sector in question.

Lithium stocks, in fact, have been trading higher this summer with some help from Obama's recent announcement. And while many junior companies are raising money on the back of this news and the stocks are trading higher, we caution investors to do their homework before putting any real, long term money into these companies.

Due to lithium's reactivity, it only appears naturally in the form of compounds. Lithium occurs in a number of pegmatite minerals, but is also commonly obtained from brines and clays. On a commercial scale, lithium metal is isolated electrolytically from a mixture of lithium chloride and potassium chloride. Lithium carbonate is needed to make the cathode material and the electrolyte used in a lithium battery, lithium carbonate (Li_2CO_3), is produced from lithium chloride. Brines and high-grade lithium ores are the present source for all commercial lithium production.

According to the United States Geological Survey, U.S. reserves of lithium total 760,000 tons. One kilogram of lithium equals 5.3 kilograms of the lithium carbonate used to make batteries. South America accounted for 60% of world output of lithium in 2008, followed by Australia and China, which combined produced 30% of the total. Two-thirds of the world production was from brines and one-third from lithium minerals (used mainly in the ceramic and glass industry).

The largest players in the sector are **Soquimich** (SQM), **Chemetall** (ROC), **FMC Lithium** (FMC), **Admiralty Resources and Comibol** (Bolivian government). Some lithium-focused juniors include: **Canada Lithium** (CLQ), **Western Lithium Canada** (WLC), **Lithium One** (LI), **Rodinia Minerals** (RM), **TNR Gold Corp**. (TNR), **New World Resources** (NW), and **First Lithium** (MCI), to name a few.

In summary, if you want exposure to President Obama's energy plan, lithium stocks may be a way to do that. Currently, lithium supply and demand are relatively in balance; however, with the race to develop lithium-based batteries for an electric automotive industry there will be a potential shortfall of supply in the future. And again, while the fundamentals support investing in lithium currently, please do company-specific research on each company before investing. Stay tuned for more on lithium and companies we think are well poised to take advantage of the potential shortfall of lithium supply in the future. ■

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