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CHICKENS COMING HOME TO ROOST

It is been a long hard struggle, but the economy is showing signs of life.

Unemployment, however, continues to be an extraordinarily difficult problem, especially if one looks at the number of those who have been out of work for more than six months and the underemployed. Those numbers show that "real" unemployment is still closer to 17% than 10%.

Interest rates are beginning to increase which will be very good news for investors who would like to receive more than a pittance on their money funds and decent returns on quality bonds.

Interest rates are increasing in the marketplace despite the fact that the Federal Reserve continues a policy of virtually zero interest rates hoping that flooding the country with money will help the economy and therefore the employment situation. That has not worked well so far, and the doctrine of unintended consequences continues to be in effect. In other words these policies could very well have the same unintended consequences that got this country into the mess in the first place.

Mr. Greenspan, former head of the Federal Reserve, is presently trying to defend himself against charges of causing, or at least failing to prevent, the economic meltdown before the US Financial Crisis Inquiry Commission. Many think his easy money policies caused the "Bubble." Greenspan said on April 7: "I was right 70% of the time, but I was wrong 30% of the time."

The question is whether the same mistakes are being made all over again. This time by Fed Chairman Ben Bernanke. Zero cost money ultimately results in Bubbles and Inflation.

From time to time we look out for "Chickens coming home to roost."

Now is an appropriate time because there seem to be an awful lot of chickens in the neighborhood. The Greek chicken, for example, has actually managed to run out of money. The socialist Greek government has given away more money than the government has. They want the Germans or some sort of EU plan to bail them out. Note: If the Germans do not come through and generously give the Greeks the money to keep them from defaulting, the Greeks will be very upset with the Germans.

People on welfare become extremely upset not with themselves but with their caretakers if they fail to grant every wish when the chickens come home.

Meanwhile there has been a run on Greek banks as over €10 billion deposits have been lost in the last two months, and interest rates on Greek bonds have been skyrocketing. For example, yields on Greek bonds on several occasions were 450 basis points higher than on comparable German bonds during the week of April 5, 2010.

There is a question as to whether there will be takers for new Greek bond offerings that the country must issue in order

to pay off its maturing bonds and avoid the first default by a European Union member. Despite this the Greeks are prohibiting hedge funds from buying new bonds. We wonder if hedge funds would ever buy the bonds to cover their short positions? No, not possible. How foolish of us to even have that thought!

Ultimately we suspect there will be some sort of workout for the Greek chicken with the European Union as the EU is greatly concerned about other members (larger chickens) who will soon be coming after the Greek blowup with similar but larger problems. Not surprisingly, the same causes will produce the same effects.

The English chicken is marching toward its socialist nirvana, and there are warnings by credit agencies that English sovereign debt could lose its AAA rating in the fairly near future. The American chicken is following the English chicken as the government competently and persistently borrows more than it can pay repay. There is talk of the US losing the highest ratings on its Treasury bonds, and we have heard of instances where certain high-grade corporations have been able to borrow at rates less than comparable treasuries.

The US sadly continues to issue more paper bonds and more fiat/paper currency. The gold market is taking note of this, and gold is presently selling around $1160/ounce. Serious talk continues about the dollar losing its reserve currency status. China's thoughts?

The Citigroup chicken keeps coming back again and again. Chuck Prince, a lawyer who had served as general counsel and who was Sandy Weill's right hand man for 10 or so years, and Robert Rubin former Treasury Secretary and Citi director, were testifying on Thursday, April 8, 2010, before the US Financial Crisis Inquiry Commission as to how the bank under their supervision managed more than $50 billion in losses that ultimately led to a $45 billion government bailout. Citigroup after all has been deemed to be "too big to fail." One can tell it's size by looking at the salaries received by these most apologetic superstar executives.

According to the April 9, 2010 *Financial Times* Mr. Rubin testified yesterday: "Almost all of us involved in the financial system… missed the powerful combination of forces at work and the serious possibility of a financial crisis. We all bear responsibility for not recognizing this, and I deeply regret that."

We do not know precisely to whom the former Treasury Secretary was referring when he said "We all bear responsibility…"

We don't bear that responsibility, and we did not miss "the powerful combination of forces at work and the serious possibility of financial crisis."

Chickens are coming from Los Angeles, the state of California, and the states of New Jersey, New York and Michigan to name a very few. Chickens are coming from everywhere. The money is gone, and the chickens are coming home. They are bringing a message that cannot be misunderstood.

The chickens will continue to multiply and keep coming at us as long as governments, states, municipalities do what they do best --- spend more money than they have and rely on us, the taxpayers, to bail them out. And that ain't chicken feed!

John W. Hamilton

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