

Today's Notes:

1. **What Mom and Pop Know**
2. **The World (Ex-US) Goes Nuclear**

1. WHAT MOM AND POP KNOW

Mom and pop know that something is amiss in Washington. My many Canadian readers and friends know it too. The press is having a field day with the AIG bonuses – firing up populist sentiment. Congress approved AIG's "retention" bonuses as part of a US \$787 billion legislation. The idea was to keep valuable AIG employees on the job till the toxic portfolios are wound down. CEO Ed Liddy explained this well last week in spite of the confrontational, rude and embarrassing grilling he received from our show casing legislators.

The Obama Administration pushed bill this through Congress so fast that apparently not one legislator in the House or Senate was able to read all its pages. The President threatened that a "catastrophe" would befall us if it were not approved.

The American and Canadian publics have been born into and believe in democracy. They believe in their leaders. Transition in leadership is always peaceful in Canada and the US. It has become customary in our respective Democracies to vote for change and then trust that the leadership will fulfill the promises. In Canada a much more powerful parliamentary form of government exists. A Canadian government can fall at any time if in a non-confidence vote at any time. This is a sort of dynamic term limit for a government.

US Congressional focus on AIG's bonuses is pure folly. Our Congressmen and women are wasting valuable time. Problems multiply with each new issue. The wheels are coming off in Washington. The populace is beginning to sense that this crisis is not only out of control, but that it is being deepening with government's inability to see a way through it.

In short things are "Spinning out of control". Last night I heard former AIG CEO Hank Greenberg say, "I never thought it was possible that a company as strong as AIG could have this kind of an ending." I must concur. By the way, I am told that, the Credit Default problem at AIG occurred after his dismissal.



Sheila Bair, head of the FDIC, said last evening that the government has the legal ability to extinguish employment contracts as it takes control to unwind the institution. Apparently AIG or any other company is not too big to fail. Ms Bair said,

“We can extinguish all the employment contracts, that’s part of our legal authority.”

The failure here is multi-fold. Treasury knew of these retention (not performance) contracts but did not want to be sued by omitting them. Senator Chris Dodd feared a financial meltdown if these bonuses were not left in the legislation. No one else caught on – till the Administration came out and publically bashed the AIG employees. .

Here are the chilling issues:

- 1) BIG Government can do anything it wishes to do. The average American and Canadian had better become educated – that’s why write at Morning Notes. Abrogate a contract? – Why not if it is politically expedient.
- 2) Winding down the mess. It is likely that the individuals that were to receive the retention bonuses are critical to unwinding the problems embedded in the trillions of AIG’s CDS contracts.

- 3) The proposed 90% taxation of these bonuses is punitive and frightening. In short, if the government wishes to tax they will do so. Anyone remember why we had a tea party in Boston two centuries ago? No one minds paying taxes if the levy is fair and just.
- 4) The President is beginning to lose support for future bailout plans, of which there will be many more. He remarked, **“We got a mess that we’ve got to clean up.”**
- 5) The Congress showed its despicable tendency to place blame elsewhere by treating public servant Ed Liddy, who receives no salary, bonus or stock, in a shabby fashion. Remember that it was Congress that wrote and passed the original AIG bill with these provisions embedded. Mr. Liddy patiently explained to Congress that these AIG men and women were being paid to stay and help undo the situation.
- 6) Wall Street is unhappy. It feels there is a vendetta and they are the center of it. I will admit that the bonus situation has gotten out of control – but taxation at 90%. This sets a very ugly precedence. Wanna see a real mess? Watch Wall and Bay Street’s human capital disappear.

It is not only the injustice in this situation. There is now a crisis in human capital. Take a look at what’s happening in London. 133,000 people from the finance arena are now gone. Many of these bright young people are gone forever from the world’s capital markets. Protectionism is just around the corner.

The Toll on Human Capital (Back to the Caves) London

Counting casualties

While there are no official numbers for job losses in London’s financial sector, the estimates are grim. Here are a selected few of the reported 133,000 jobs shed.

Bear Stearns:	7,500
Lehman Bros.:	14,500
Wachovia:	1,400
Bank of America/Merrill:	29,260
Citigroup:	7,900
Credit Suisse:	5,620
Commerzbank:	1,800
JPMorgan/Bear Stearns:	5,500
Barclays Capital/Lehman:	5,450
Goldman Sachs:	5,700
Morgan Stanley:	7,400
HSBC:	3,200
Deutsche Bank:	2,400

Source: hereisthecity.com

Toronto Globe and Mail March 22 2009

Between August, 2007, and February, 2009, 133,000 jobs were lost in investment banking, private banking and asset management. Topping the list of woes is Bank of America, the new owner of Merrill Lynch, with 29,260 jobs vaporized at the two companies

And this week we have Treasury Secretary Geithner’s plan to save the banks – another trillion \$s for the banks? The FT says that Treasury is busy soliciting buy side investors to buy into the toxic assets with cheap government loans. This appears to be the heart of the plan. After this recent AIG fiasco that ability will be impaired. What investment institution will now invest in toxic assets given Congressional proclivity to reverse legislation at a whim?

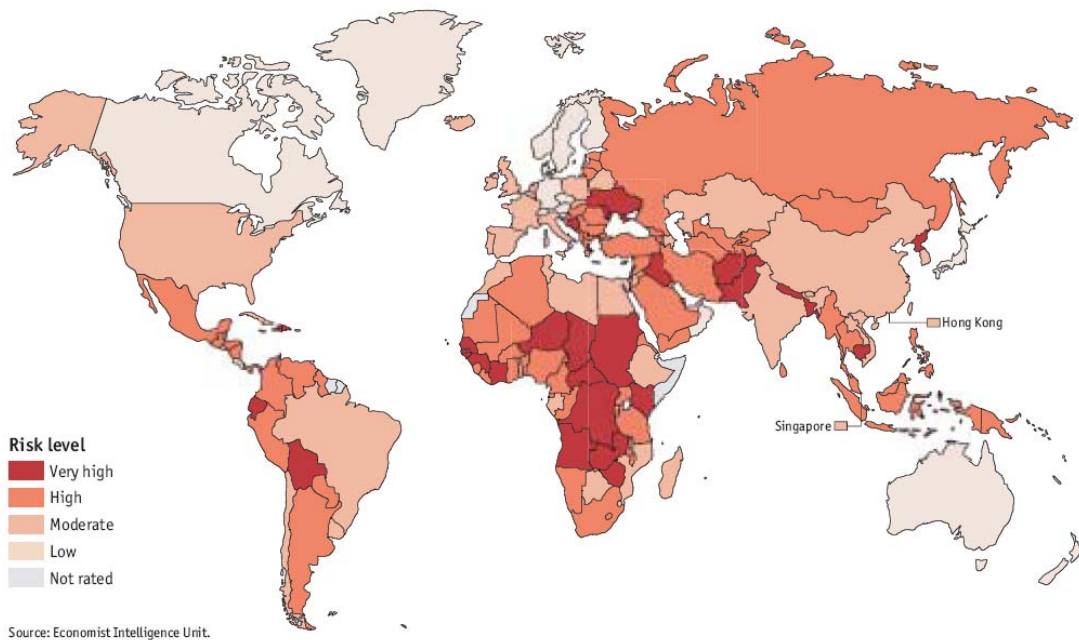
We give kudos to Dr. Bernanke, heretofore the invisible man, in deference to the problem. At least he recognizes the pending disaster. Congress and the Administration appear inept at crises management. Sadly it is a blame game. If the leader of the United States Treasury doesn’t pay his taxes, why should the AIG people?

Today and this week we turn to the banks. This is by far the most important problem now confronting the country. As you can see, in a short 18 months, the banking index has fallen 76% even after a tremendous rally last week. Once confidence is lost in the banking system the country is in trouble, Secretary Geithner's toxic asset plan is very important. Nationalize the banks? It hasn't worked smoothly for AIG. It must work. Given the mistakes and blame game over the AIG bonus situation and all the attention placed therein, I am worried. I think the average Canadian and American taxpayers now share in this concern. Confidence in Washington is draining away, mom and pop are beginning to understand. Gold is a good backstop for a part of your portfolio.



The Economist magazine recently published a global instability index. Only Canada, Australia, Norway and Sweden emerge from the EIU study looking stable, the rest of the world is rapidly becoming politically unstable, including the US. Is there any wonder. People ultimately realize what is really happening in the world.

Political Instability Index



2. NUCLEAR: ONLY THE US HOLDOUTS

Siemens of Germany has just concluded a significant nuclear deal with Rosatom in Russia, according to the Moscow News this AM. There are 30 reactors under construction around the world, 70 planned and 300 under consideration. The US pays lip service. Germany is now reconsidering its nuclear stance. In fact, there are three German firms bidding for work in nuclear plant construction. Sweden is headed back into nuclear as is Britain. Japan is starting up its breeder reactor that had been mothballed for 13 years. Russia is leading in the race to become the new nuclear knowledge. Why does the US not enter this race? We must rebuild the US industrial base. It is not clear that the auto industry in the US can be competitive. Canada has always been a leader in nuclear with its CANDU technology. The Province of Ontario is 40% dependent on nuclear energy. If we truly want electric cars to wean us off oil, it is clear to the rest of the world that nuclear is the only immediate proven solution. Why is the rest of the world headed back into nuclear with a vengeance if alternatives such as solar and wind are so all-encompassing?

I include the article from the Moscow News. Please read this and judge for yourself.

“BERLIN (AFP) - Siemens has become the latest German firm to up its game and tap into the renewed interest in nuclear power being seen all across the world - but not in the company's own backyard. The Munich-based industrial giant said late Tuesday it had signed a memorandum of understanding to form a joint venture with Russian firm Rosatom that they hope will become the "world market leader" in nuclear technology.

The joint company, in which state-run Rosatom will hold 50 percent plus one share, will be active along the entire nuclear chain from making the fuel, building atomic power

stations to decommissioning of old plants. The tie-up ruffled feathers in France where Siemens recently ended a cooperation agreement with French state-controlled Areva. Their joint company, Areva NP, is to be wound up by January 30, 2012.

Areva, which now faces a serious rival in the shape of the Siemens-Rosatom joint venture, said the draft agreement amounted to a "unilateral breach of contractual obligations." France produces around 80 per cent of its electricity from nuclear power and President Nicolas Sarkozy has been active in trumpeting his country's know-how to win French companies new business abroad.

The deal comes amid growing interest in nuclear power around the world, sparked by a desire by governments to reduce their dependence on oil, gas and coal. Energy prices hit record highs in 2008, squeezing consumers and firms and stoking inflation, while there are also worries about the long-term reliability of oil and gas supplies from Russia and the Middle East. Concerns about the impact of fossil fuels on climate change have also prompted a fresh look at nuclear power. According to Siemens, by 2030 there will be around 400 new nuclear power plants around the world, representing one trillion euros (1.25 trillion dollars).

"There are currently 32 nuclear power stations being built around the world, 70 projects at an advanced state and up to 230 could be launched in the coming years," Dieter Marx, secretary general of nuclear lobby group Deutsche Atomforum, told AFP. In Europe, Britain approved the construction of a new generation of nuclear plants last January and the Italian government has staged a U-turn on its decision to abandon atomic energy.

German firms have not been slow to jump on board, with the two biggest energy groups, EON and RWE, announcing in January they were teaming up to get a piece of the British nuclear pie. But in Germany itself, Europe's most populous country, nuclear power remains taboo. Former chancellor Gerhard Schroeder's government decided to mothball the last of Germany's 17 nuclear reactors - which produce a quarter of Germany's power - by about 2020.

Polls show that a majority of Germans also remain opposed to nuclear power and believe the technology remains highly dangerous because of potential accidents and terrorist attacks. Shipments of radioactive waste to the country's storage site at Gorleben regularly spark angry protests, with demonstrators chaining themselves to trains and blocking access to the plant en masse. But nuclear is not dead and buried yet, with support among Chancellor Angela Merkel's conservatives for a re-think growing.

The conservatives, who argue that abandoning nuclear power undermines the goal of cutting greenhouse gases, want to look at extending the life of some nuclear power stations. According to the Financial Times Deutschland daily on Wednesday, Siemens's new tie-up in Russia has Merkel's full backing.

"Political pressure is growing in Germany," Dieter Marx said. "When the government decided to abandon nuclear, they claimed that other industrial countries would follow suit but as it turns out, they are not only practically alone in the world, we are seeing lots of countries in Europe taking the opposite decision." The issue is expected to rear its head in German elections in September, when Merkel's conservatives hope to be able to ditch their anti-nuclear Social Democrat coalition partners."

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