

## **Dunbar Financial Strategies, LLC**

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Dear Client:

The earthquake and nuclear accident in Japan is expected to cost Japan \$300+ billion. To finance re-construction it is anticipated that Japan will have less desire to purchase U.S. Treasuries or will actually sell current holdings. This makes financing the U.S. deficit more difficult. More quantitative easing will occur in Japan and in the United States to pay for the quake damage and to finance the government debts of both countries. This is supportive of silver and gold. As a result of the nuclear accident, it is reported that China plans to double the number of solar panels it had anticipated constructing. Solar panels require a lot of silver. Silver will be required to re-construct Japan in addition to increasing amounts of copper.

Before the Japanese disaster it was estimated that the Fed had become the primary holder of U.S. Treasury Bonds having recently purchased more than 70% of new issues. Much of Europe is close to financial insolvency. Britain is close to insolvency as well as Japan so "outside buyers" of U.S. Treasury debt are few. This is one reason we have purchased precious metals and precious metals mining companies for your portfolio.

Packaged food will be increasingly imported by Japan as a result of the nuclear accident and dislocations resulting. We are looking to purchase stock such as Nestle and other food products such as meat producers when the opportunity arises.

Microsoft is reportedly tinkering with a new version of its Windows Phone 7 software that will allow mobile payments according to Bloomberg. It may release some of its first devices carrying payment technology this year. Mobile payments may be used in \$245 billion in transactions in 2014 up from \$32 billion 2010. The owner of the wireless spectrum will likely benefit from this increased business activity. Companies we own include AT&T, Singapore Telecommunications, and China Mobile. Cisco should also benefit from the increased business activity and increasing data activity from cloud computing, music downloads, mobile tv, etc. (Cisco has over \$4.20/share in cash and seems to be a higher reward / lower risk stock that we like).

"The Telegraph" of UK interprets the grassroots Arab revolution as the fall of the Middle Eastern U.S. empire. Photographs show rebel fighters with bands of .51-caliber Russian ammunition across their chest. Reports are that the rebels have connections to Al Qaeda. Regardless of the accuracy of these reports, instability in the region will likely produce less oil than before pressuring an increase in prices. Iran and Russia benefit most from the Arab revolutions feeding higher oil

price and loss of American influence. It is obvious that food prices have been rising and smaller packages of product have been substituted to diminish the appearance of price rises by food producers.

New home sales fell 17% for the month of February and 28% from February of 2010. The Commerce Dept. reported that this marks the lowest point for new-home sales since record-keeping began in 1963. The Northeast and Midwest regions were the hardest hit in the country. Weak housing hurts the banks which will require more Federal bailouts.

According to the National Association of Realtors, sales of existing homes fell 9.6% in February after posting gains for 3 straight months. Sales are down 2.8% from February of 2010. Distressed homes sold at a discount representing 39% of all sales for the month.

Recently, Bill Gross who runs the largest bond fund in the world dumped his bond fund's \$150 billion investment in United States bonds. He no longer believes that treasury bonds are a good investment. Gross is not alone. Blackrock, the world's largest money manager, is also underweighting Treasuries and reducing the duration of the bonds it still holds. Blackrock is dumping their long-term bonds which are the most sensitive to interest-rate changes in favor of treasury instruments that mature in one year or less. Other bond funds including the \$20 billion Loomis Sayles funds are also forgoing Treasuries in favor of high-yield corporate bonds.

So who is still buying U.S. debt? According to Bill Gross, China, Japan, and OPEC are still in the market for 30% of all new debt. The rest, however, is being purchased by the Federal Reserve which is now the largest holder of U.S. debt.

Even Americans are refusing to buy further U.S. debt. The monetization process has actually been going on longer than the news releases admit.

Rob McEwen is chairman of Minera Andes and U.S. Goldcorp. He recently was quoted as saying that gold may hit \$5,000/oz. within 3 or 4 years. He believes that gold is insurance against reckless government policies. Mr. McEwen was the chairman of Goldcorp and created value as Goldcorp rose from \$50 million to \$20 billion in market cap decades ago. Measures of the U.S. money supply value gold at \$7,200/oz. and above if the gold supply is measured against U.S. currency outstanding. Many commentators believe that gold could rise past \$3,000/oz. up to \$10,000/oz.

Precious metals may be overbought but there are many indications that Chinese and Indian buyers are continuing to exhibit strong demand even at higher prices for both gold and silver.

Many countries in Europe are heavily over-indebted. The same is true for the United States and Japan. Many believe that the rise of the gold price is a reflection of the increasing world debt rather than an indication of business activity levels.

There may be an opportunity in precious metal stocks as they have not broken out to the upside as the precious metals themselves have. Historically, precious metal stocks do follow the bullion prices.

Gross also believes that interest rates will rise to attract additional funds to buy bonds which is most directly bearish for bond prices and indirectly can be bearish for equity prices.

Quantitative easing will therefore continue for this reason and because not only is the Federal Government bankrupt but states and cities are as well and will likely require assistance. The Fed balance sheet is vast. Interest and mortgage payments to the Fed from its holdings are enough to fund further quantitative easing without the “announcement” of QE3 according to Jim Rickards. Therefore, expect further Dollar and currency devaluation worldwide as governments and banks are in similar distressed conditions almost worldwide.

Thank you for the opportunity to assist with your investments. As a reminder, my cell phone number is (601) 862-7829. The office number is (601) 366-3170.

Sincerely,

Thomas T. Dunbar