

Thank God It's Friday!

July 11, 2008

Today is a lucky day. It's 7-11. The problem is that nobody told the Wall Street traders to buy, buy, and buy.

For the better part of a year, our financial infrastructure has been under assault. The roots are deep and stem from bad debt and excessive lending, a lethal combination when prosperity wanes. The result has been the worst housing collapse in history and distressed balance sheets for the banks and financial companies who were left holding the bag, not all of it unwarranted mind you.

Both federally-chartered mortgage agencies - Fannie Mae and Freddie Mac - fell over **40% this week**, as fear mongers suggested the government should them out but Treasury Secretary Paulson ruled out such a dramatic move. The two account for half our nation's mortgages. *What* the Secretary said - *that the two mortgage giants should continue under their current forms while he worked on a plan to bolster them* - was less poignant than the traders' interpreting his words to mean that the Bush Administration has failed to stabilize the financial system since the Bear Stearns collapse in March. The Street continues to leave no room for doubt about the continued challenges in our financial system, which has great influence on the greater global economy.

A couple of financial industry heavyweights spoke out this week on their interpretation of the state of affairs. **Bank of America's CEO Ken Lewis** called for a gradual recovery in 2009, and that despite a non-recession thus far, it will continue to feel like it. Lewis continued to defend his company's positioning claiming there was no need to neither raise additional capital nor cut the dividend. This is good news to B of A investors who cherish their generous \$2.56 dividend which now yields 11% in light of the stock price dropping below \$22/share.

Jamie Dimon, **CEO of JP Morgan**, is a Wall Street favorite who always warrants attention when he speaks. On Tuesday, the outspoken banker said that those who made the mistakes are to blame, referring to predatory lenders and speculative buyers. He suggested that increased regulation is necessary to prevent another financial crisis. Any wise banker would love to see investment banks and brokers fall under heavy federal scrutiny that has plagued money center banks like JP Morgan and B of A for decades. Naturally Wall Street HATES this idea of more government regulation.

Investor psychology continues to be challenged as the economy skids along the growth line. Markets are nothing without confidence, and it will take time for the system to regain its credibility. Despite the struggles, the financial system is not broken although it needs some fixing. Aggressive lending is likely a thing of the past, at least for this cycle. All bets are off 3 decades from now.

To close on a positive note, Apple's 3G I-phone launched today to the delight of consumers and sidewalk campers from coast to coast. Despite this struggling economy and spiking oil prices, people are still willing to shell out \$200 for the "coolest" handheld device on the planet. What a country!

By: Mike Frazier

INDEX	07.11.2008	12.31.2007	%Change
DOW JONES	11,100	13,265	-16%
S&P 500	1,239	1,468	-15%
NASDAQ	2,239	2,652	-15%
Bond YIELD	3.94%	4.03%	-2%*

Bond Prices



Bond Yield %

