



Thank God It's Friday!

October 3, 2008

Today, Congress finally passed a bank bailout bill. Our initial take is that the credit markets will be the first to respond, and that is what's most critical. The financial plumbing on both Wall Street and Main Street desperately needs fluidity. We are already seeing signs of relief but the stock market will take more convincing because the reality of a sluggish economy will now be the focus. Then comes the election. Our Fall Newsletter is in the mail with more details but here's a preview.

While Congress was trying to pass the bank bail-out bill, politics mucked-up the works. Democrats wanted it done ASAP. Republicans wanted it their way. Neither was willing to go it alone. So, what's new? EVERY one of the 435 seats in the House of Representatives is up for re-election on November 4th and they should really be worried. The public is mad as hell and won't take it anymore!

When the housing bubble burst in 2007, our credit markets were critically wounded. In response to the largest financial crisis since the Great Depression, the U.S. Treasury Department, in conjunction with the Federal Reserve Bank, devised a plan to extinguish the financial blaze. This plan is far from perfect and even farther from being a long-reaching solution to our nation's housing crisis.

It's a quick fix but fails to address the genesis of the problem. In fact, politicians cannot even agree on the cause of the calamity much less a cure. Some blame failed government regulation. Others point to real estate speculators and creative mortgage brokers who lent money to folks who had no business borrowing and were buying houses way above their means. Everybody blames greedy Wall Street Robber Barons for milking the mortgage system for every last dime. But the fact is that the 20% of homeowners in mortgage trouble don't much care who is to blame: they just want a solution. 80% of home mortgages are being paid on time every month yet these folks also want a solution because they are watching their nest-egg go down the tubes. Every month their largest single asset goes down, down, down in value. This precludes homeowners from future borrowing via Equity Lines or refinances not to mention the destruction to their Net Worth.

There is no right answer, but there are plenty of righteous ones. First, Congress needs to acknowledge the extent of the current mortgage crisis which is pushing our American banking system to the brink of disaster. Really! That's how bad it feels from where we are sitting, right in the middle of the capital market paralysis. Without a fix, we will be forced to stand by and watch one bank after another become insolvent. Why let this happen if it can be avoided? To teach the "bad guys" a lesson a la financial tough love? Not a good enough reason to ruin thousands of lives, lose thousands of jobs and bankrupt thousands of small businesses . which are already one payroll away from oblivion.

A huge stumbling block to fixing the mortgage problem is the attitude of many Americans who look upon a bail-out bill as simply another get-rich scheme for Wall Street. This public skepticism concerning any government intervention has been passed on to Washington making everyone scared to take a stance hence. Nothing gets done.

Inside the bond pits, for the past fortnight, normal transactions seized-up awaiting resolution of government intervention. Traders feared unsettled trades and banks stopped lending to each other. Business is not getting done as usual. This is why we are anxious for the Congress to move quickly to empower the U.S. Treasury to BUY ASSETS, INVEST in MORTGAGES and RESTORE LIQUIDITY. It's not a hand-out; it's an investment in the purest sense, albeit an investment in troubled mortgages.

Many Americans are naïve when it comes to government intervention. They mold it together as if all intervention is alike: It's OK to intervene to stop an airline strike but it is NOT OK to intervene to stop a run on the bank. Who decides GOOD versus BAD intervention? So far, it's the politicians, but soon it may be the voters. Congress' handling of this vital financial crunch has been sophomoric, ill-timed, inadequate, immature, unacceptable and at times embarrassing. Whew! You get the point.

We will review the final bill and let you know what it REALLY says. Stay tuned.

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