



Thank God It's Friday!

November 7, 2008

CAR WARS is on our mind today, specifically what's going on in Detroit and Washington to rescue the ailing auto industry.

Will our government let GM and Chrysler go under? NEVER.

Should they? Not unless tough love is the game which is better suited to disciplining teenagers than corporate titans.

Congress made an enormous error in letting Lehman Brothers go under while it protected the likes of Goldman Sachs and Bear Stearns and Wachovia. Too much is at stake this time that reaches well beyond labor jobs. It would overcome the financial stability of 2.5 million jobs in related businesses and trillions of dollars in retirement plans and pensions.

To grasp the essence of this economic maze, we offer you 4 pictures which should be worth a million words. If you mix and match these 4 companies via merger, a solution appears: two car companies in exchange for 2 finance companies. Chrysler has the cash GM needs, leaving the finance companies to morph into a bank holding company. This creative resolution only works if the immediate liquidity needs are met first.

GM, the car company needs cash	GMAC, the finance company
100% publicly owned	51% owned by Cerberus, private equity firm
\$20 billion in cash now	49% owned by parent GM
\$2 billion/month cash burn rate	1/3 home mortgages; 1/3 auto loans; 1/3 insurance
CHRYSLER, the car company has cash	Chrysler, the finance company
Majority owned by Cerberus, private equity firm	100% owned by Cerberus, private equity firm
\$11 billion cash on balance sheet	

The auto industry has long been the backbone of American manufacturing, as noted today by President-elect Obama who held his first press conference accompanied by his All-Star Economic Advisory team this morning, which included Warren Buffet by phone. Speaking with the financial heavyweights at his back - which includes the likes of Former Fed Chairman Paul Volcker, Google CEO Eric Schmidt and Former Clinton Treasury Secretary Larry Summers - Obama said he would attack the economic crisis head-on. The soon-to-be President acknowledged that our nation reported the highest unemployment rate since 1992 today, and that fixing the economic crisis will take time but needs immediate attention, and it has his. When asked about a follow-up stimulus package, Obama assertively responded that if the Lame Duck Congress failed to act fast, it would rise to the top of his priorities after his inauguration on January 20th.

To the disappointment of many Wall Streeters, Obama failed to appoint his Treasury Secretary today.

Two superstars are atop the short-list for the critical role that will succeed Hank Paulson and inherit the task of navigating the economic recovery. Both are very strong candidates: Larry Summers, age 55, not only has experience in the job already, but dealt with both Long Term Capital's collapse and the Asian crisis in 1998, which might give him the nod. Tim Geithner, age 47, is President of the NY Federal Reserve Bank has a better chance of representing the new face of change in Washington. Our money's on Summers but our gut tells us it'll be Geithner.

By: Jude Bedell and Mike Frazier

Two Walnut Creek Center ■ 200 Pringle Avenue, Suite 450 ■ Walnut Creek, CA 94596
925.932.0344 ■ 800.783.0344 ■ FAX: 925.932.8216
www.bedellinvest.com