

Thank God It's Friday!

January 16, 2009



As our 44th President is sworn in 4 days from now, he promises to bring CHANGE to America. In fact, he's already shaking things up around the Beltway by challenging legislators to draft-and-pass a stimulus bill to ward-off more job losses and additional bankruptcies. Congress claims they can have it ready for signing-into-law by President's Day, February 16th. Thankfully, it's a legal holiday because we should have some pretty exhausted politicians following the arm twisting and mud wrestling that will most certainly occur whilst compromising on the details.

Presidents tend to have their own stimulus trademarks: Kennedy sent a man to the moon; FDR built railroads, canals and bridges; Clinton invested heavily in the Internet while creating 21 million new jobs during his term. Obama's stimulus program creates new jobs through healthcare, infrastructure and schools. Build, build, build is his mantra.

We expect to see far more government economic intervention from Obama than we received from Bush. Even supply-siders are requesting quick, decisive and enormous government action due to the severity of the current business slowdown. As corporate profits fall, so do US tax receipts. As corporations cutback on capital expenditures to protect their profits, jobs disappear. This recessionary syndrome has already been exported from the USA to countless trading partners around the world. Both developed nations as well as emerging ones are affected. 14 major nations have already announced FISCAL stimulus packages and 10 of those have thrown in MONETARY stimulus to boot. Globalization works both ways.

As corporate earnings season kicked-off this week, concerns over banks and insurance companies have further increased. The troubled assets on bank balance sheets have not dissipated. They need TARP money and timing is of the essence. Therefore, this week, the Senate voted to release the second half of the \$700 billion TARP fund. Most of the capital will flow to financial institutions.

The good news is that strings are finally being attached along with the dough. New leadership in the White House can hopefully learn from the folly of the first half of TARP money administration. Laissez-faire administration of large sums of taxpayers' money doesn't do the job. From now on, we expect to see tougher restrictions on executive compensation AND dividend cuts naturally follow. Just today, Bank of America lowered its dividend to one penny as a quid-pro-quo of receiving additional TARP money. As investors we can live with a dividend cut if it buys the stability the bank needs to survive and flourish.

However, the most time urgent job for Mr. Obama is to force TARP recipients to LEND money in order to create demand deposits which will eventually create more money. Let's all wish him well and expect him to do a great job. Let's stay positive like Americans have done before. After all, NASA wasn't built in a matter of weeks; it took years. And try to remember the wonderment we learned on our journey to put a man on the Moon.

Enjoy the long weekend! By: Jude Bedell

