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Wall Street and Washington Will Change When:



Every so often, we come across a picture that says it all. You see, a flying pig is as likely as is a chastened and reformed Wall Street and Washington...which, of course, is not at all.

Berthann is a farm girl and knows the meaning of the saying “don’t let the fox watch over the henhouse.” We, as a nation, have all been reminded of the utter folly of such a concept. Imagine, the protectors of the public (government) overseeing the financial backers of the protectors of the public (Wall Street and fellow financiers). It is not a pretty picture, never has been, and never will be. The business of business and politics continues unabated, unchanged, and certainly unchastened.

What Financial Meltdown?

Pardon our cynicism. It is hard not to be cynical when the earnings of our “humbled” financial institutions are announced. In July, we learned that JPMorgan Chase’s investment banking fees hit record levels; Goldman Sachs earned \$3.44 billion over 90 days on record revenue from trading and underwriting stock; Bank of America’s trading revenues hit record territory while the bank earned a quarterly profit of over \$3 billion; and finally Citigroup announced profits of \$4.3 billion.

In yet another jaw-dropping demonstration of the arrogance of these firms, New York’s Attorney General Cuomo just released a study that should make every executive at these companies ashamed. Citigroup, which lost more than \$27 billion in 2008, paid over \$5 billion worth of bonuses last year. You and we, as taxpayers, are partial owners of Citigroup. This financial behemoth managed to swallow \$45 billion in TARP funds, lose more than \$27 billion dollars, deny credit to thousands of creditworthy customers, and yet pay themselves more than \$5 billion. This is beyond ludicrous; this is egregious and morally criminal.

Not to just pick on Citigroup, fellow Wall Street firms Goldman Sachs, JPMorgan Chase, and Morgan Stanley all paid bonuses that exceeded their profits in 2008, the year of the financial meltdown that brought the financial world to the edge of the abyss, the year that millions of American citizens saw their retirement and college savings implode.

Attorney General Cuomo said it better than we ever could, "When the banks did well, their employees were paid well. When the banks did poorly, their employees were paid well," said Cuomo. "And when the banks did very poorly, they were bailed out by taxpayers and their employees were still paid well."

Happy Days are Here Again on Wall Street

Meanwhile, in less than four months, the Dow Jones Industrial Average has gained +36% and the Russell 2000 (small stock index) is up +63! Year-to-date, the NASDAQ (technology stocks) is up +27% and investment values in foreign, emerging countries are up over 48%.

In the bond world, junk bonds ("high yield bonds") are the leader of the pack, gaining +36% since the beginning of the year. For the same period, emerging country bonds gained +20% while long-term, U. S. government bonds dropped over -10%.

Clearly, investors feel times are good again. Mutual funds which invest in these sectors are reporting record or near-record inflows of money. It seems quite apparent that we are seeing signs that human nature has survived the Great Recession.

A Reality Check

Out of an inherited skepticism of all things corporate or government, we at FFA have a tendency to scrutinize the facts behind the noise of the media, government, and Wall Street. The facts as we read and interpret them continue to flash significant warning signs.

As we have maintained, we believe the recession is not ending as soon as the experts tell us it will. We believe there is more pain to come in the investment markets. We believe our country is digging itself into another debt hole that has the potential to cripple our economy. At minimum, we believe others will acknowledge that the worst recession since the Great Depression still has miles to travel. Yes, less bad is better than more bad...but so what?

In closing, we are all participants and witnesses to a historic time like none other since that of the Great Depression. We, at FFA, are seeing radically-altered lifestyles for so many in our community. We feel a palpable sense of seriousness among people with their personal finances. Having a citizenry take a sober stance toward something as vital as personal finances is one positive result from this Great Recession. Charity towards others is another.

As always, we remain deeply grateful for your interest, trust, and confidence.

Berthann & Craig