

A Call for Calm in the Great '08 Meltdown

October 10, 2008

You do not need us to tell you there is a global meltdown occurring before our eyes in the financial marketplaces. Our request is that you take a moment to read what we have written and try to give us the benefit of the doubt with what we say.

First, we are urging calm. The fear and confusion among the population is palpable. Now is not a time to succumb to emotion. We must allow our intellect to overpower our emotion or we stand the chance of blowing up our entire financial houses.

Unfortunately, the abdication of any and all leadership from Washington has not helped the peoples' confidence. We are speechless that our Congress remains on vacation (until January because of elections no less!) while our financial system melts before our eyes. Sadly, that will have to be a topic for another day.

FFA firmly believes the “only thing new in the world is the history you don't know.” It has become indisputable that we are in historic times right now. Our loose interpretation of Truman's quote is it means whenever things are designated as “first time ever”, some historian comes back with multiple occurrences in the past. We wish to act as the historian this time around.

There can be no doubt the events we are witnessing and experiencing in the financial services and banking system are history in the making with the ending still to be written. However, while the events are clearly unique, the results are not. Having the Dow Jones Industrial Average drop significantly for days in a row is not unique. Seeing the Dow Jones lose 40% in a year's time is beyond painful, but not unique. The point totals of the daily drops are unique; but the more relevant figures, the percentage drops, are not unique. They are painful, very painful, but not entirely unique.

What we are seeing is a classic trend in a rough bear market, from a bear that arrived quickly and is acting increasingly violent. This, in stock market lingo, is known as capitulation. And capitulation has happened repeatedly through the history of the stock market making this time not as unique as the pundits may want you to think.

Capitulation as defined by Encarta Dictionary is “surrendering or the giving up of resistance.” In the stock market, when investors surrender, they flood the markets with sell orders and prices drop precipitously. This is what we are currently experiencing on a daily basis.

The history of bear markets shows that when capitulation occurs, when times are the darkest, when “this time it’s different” becomes the mantra, then we will know we are in striking distance of the bottom of the market. Other classic capitulation signs are industry-changing consolidation, massive redemptions in mutual funds, flights to guaranteed products, talk of “burying the cash in the coffee can” and aversion to any type of “risk”. Every one of these indicators is flashing bright red as we write this.

The facts are the global lending markets have essentially frozen and the governments of the world are doing everything they can to unfreeze them. This unprecedented coordinated effort, for the time being, is being discounted. We believe the freeze will thaw and the markets will function again. As history has shown us, just when it appears the world is going to end, something unexpected occurs to pull us back from the abyss.

We think some positive steps have occurred that will help us move away from the abyss. We are all currently witnesses to the most massive government intervention (rescue) in history, not only in the U.S. but around the world. (For the record, let there never again be doubt that we are living in a global economy, warts and all.)

Central banks around the world are injecting hundreds of billions into their systems. For the first time in history, multiple countries joined together to reduce interest rates. The heads of the world’s governments and monetary systems are committed to containing this panic simply because there is no alternative. We believe with the amount of tactics the governments have thrown against the wall, with more to come, something is ultimately going to stick and will start to alleviate this crisis.

For now, among the ruins can be found some items of value if you look hard enough. Have you heard that the Social Security COLA for 2009 should be in the 4% to 5% range while the Medicare B premium will not be increased for 2009? That Uncle Sam will soon be flooding our banks with money to lend at good rates? That our fellow citizens who can’t pay their mortgage are probably going to get a reprieve? That the bailout extends the wooden arrow tax credit? (Ok, a little levity never hurts.) That oil has dropped into the mid-\$80 range from almost \$150 in mid-July (a 47% drop in price)? That Americans have started to reduce debt for the first time in ten years?

We know it is tough to distill good news in the dark days we are living in. Even when we hear or read the good news, it just doesn’t feel so good. The wind has been taken out of most American’s sails. Faith and trust have been shaken to the core. But we believe it will not break us; that out of all these market excesses (bubbles) will come new innovations and new opportunities. And most importantly, we urge that lessons be learned so future generations never experience the emotions (trauma?) of this time.

We ask for patience and a clear-head during these tumultuous times. The crushing losses in the stock market and the panic selling are clear indicators that the bottom is coming.

In closing, through the anxiousness of this moment, take time to note where you were in 2008 and what you were doing; the historians will be writing about this period long past our time.

Berthann & Craig