



What's New?

Feddern Financial Consulting Group Newsletter

October 19, 2009

KEYS TO THE BEGINNING OF A RECOVERY:

- 1. The Real Estate market must stabilize. If not reversing, at least not continuing to fall. *NEW HOUSING STARTS UP this past Spring and Summer because of seasonal factors but inventory still huge! The Nationwide COMMERCIAL COLLAPSE IS JUST BEGINNING!***
- 2. Unemployment must stabilize. If not reversing, at least not continuing to rise. Last report was lower! *IT'S ACTUALLY WORSE as a "%," Back to near 10% - BUT IT CONTINUES TO MOUNT @ OVER 500,000+ weekly.***
- 3. Corporate Earnings (profits) must stabilize. If not reversing, at least not continuing to fall. *A FEW POSITIVE SIGNS but mainly in TECHNOLOGY.***
- 4. Banks must begin to make loans again (especially to small businesses and potential home owners...albeit under ancient premises of buyers being qualified and of all things, a down-payment! *Lots of "hoopla" from the mega banks, but it appears that there's no real progress. They're "hoarding" any cash they can get their hands on. And now here comes the Regional problems compounded by PRIME loan and Alt-A resets!***
- 5. The DOLLAR has to decline. *It's started for REAL!***
- 6. Auto sales must stabilize at some NEW level. *Maybe started!***
- 7. The consumer must get "back in the game of consumin'" *NO WAY!*
*ANALYSIS OF THE ABOVE: No Real Hope YET! -10/19/2009***

A "Roadblock" Guy?

Jason Simpkins, Managing Editor of Money Morning recently proposed the question: "Is Timothy Geithner a Roadblock to reforming the financial system?"

"Financial disclosure forms revealed last week that some of U.S. Treasury Secretary Timothy F. Geithner's closest aides earned millions of dollars a year working for top Wall Street firms.

That finding alone would not likely be enough to cast doubt over Geithner's ability to take the lead in reforming the financial system. But this isn't the first time the Treasury Secretary has come under fire for maintaining close ties with Wall Street, while failing to look out for the interest of the average American.

Indeed, disclosure of Geithner's phone records showed that the Treasury Secretary has had Wall Street firms on speed dial for the duration of the crisis, and a government watchdog group recently blamed him more than any other government official for the oversized bonuses that were paid out to financial firms that received taxpayer bailouts.

Together, these revelations have undermined confidence in Geithner's ability to be a dynamic force in pushing for the financial regulatory reform he's promised.

The advisors who came under scrutiny last week included Lewis Alexander, a former chief economist at Citigroup Inc. (NYSE: C), Mark Patterson, a former lobbyist for Goldman Sachs Group Inc. (NYSE: GS), and Matthew Kabaker, who earnings millions of dollars at private equity firm Blackstone Group LP.

Alexander, who in March left Citigroup to join up with Geithner, was paid \$2.4 million in 2008 and the first few months of 2009, Bloomberg News reported. Kabaker, who had a hand in crafting the plan to spur banks to sell their toxic assets, earned \$5.8 million working on private equity deals at Blackstone in 2008 and 2009 before joining the Treasury in January. A large portion of that payout was in stock that Kabaker received when Blackstone went public in 2007.

Goldman Sachs Group Inc. paid another advisor to Geithner, Gene Sperling, \$887,727 for advice on its charitable giving, and fulltime lobbyist Mark Patterson \$637,492, according to Bloomberg.

Lee Sachs reported more than \$3 million in salary and partnership income from New York hedge fund Mariner Investment Group.

Because these advisors work as so-called counselors, they don't require Senate confirmation, yet they still help oversee the \$700 billion banking bailout and influence financial regulatory reform, including limits on executive pay.

Critics, including those in President Obama's own cabinet, contend that this presents a conflict of interest.

"The influence of money and lobbies on Washington has reached a shameful level," Paul Volcker, chairman of the newly formed Economic Recovery Advisory Board, told the financial daily *II Sole 24 Ore*. "Not to mention the fact that, since many Treasury nominees have not been confirmed by Congress, Geithner is surrounded by private advisors. Eight months into the new administration, the Treasury does not yet have a staff of [its own] officials. And this raises the

question of using informal advisors who come from Wall Street. It should not happen.”

It’s not just Geithner’s aides that have ties to Wall Street, either. The Treasury Secretary’s phone records show he had at least 80 conversations with top financial figures since January 28. That includes 10 discussions with JPMorgan Chase & Co.’s (NYSE: JPM) Jamie Dimon and 22 with Goldman Sachs Chief Lloyd Blankfein. Blackrock boss Larry Fink and Citigroup luminaries Dick Parsons and Vikram Pandit also ranked high on Geithner’s call registry.

It’s not unusual for the U.S. Treasury Secretary to keep close contact with his corporate counterparts, but coupled with his previous position as Chairman of the Federal Reserve of New York, Geithner has garnered the perception of being particularly cozy with Wall Street bigwigs.

“I don’t mind that he’s talking to Wall Street,” said U.S. Rep. Brad Sherman, D-CA, “The problem is he appears to be listening.”

AIG Arbitrage -

Accusations such as these were underscored by a recently released watchdog report that blamed Geithner for \$168 million in bonuses paid out to executives at AIG, a company that received more than \$180 billion in taxpayer funds.

Neil Barofsky, the Special Treasury Department Inspector General who is in charge of overseeing the Troubled Assets Relief Program (TARP), characterized the payout as a “failure of communication and a failure of management” on the part of the Treasury, which he said “outsourced its oversight” to other agencies.

AIG argued that it had no choice but to pay the bonuses, a large portion of which went to its Financial Products group that led to the company’s downfall and exacerbated the financial crisis.

AIG asked some of its employees to return the money voluntarily, but so far the insurance company has recovered just \$19 million of the \$45 million it asked the recipients to repay.

While the government – which now owns 80% of the company – has said it has little authority to rescind pre-existing contracts, Barofsky accused both the Treasury and Congress of missing opportunities to demand renegotiations.

“Just because it was a legally binding contract didn’t mean there weren’t other alternatives,” said Barofsky.

“They didn’t think it was that big a deal – \$168 million was a drop in the bucket,” he added. “Their concern was paying back the debt.”

Barofsky is currently working alongside TARP “pay czar” Kenneth Feinberg to reduce the \$198 million in bonuses AIG is scheduled to pay out in March 2010.

Other critics have been even harsher with their criticism.

“We have a Secretary of the Treasury who failed to know what he should have known, failed to do what he should have done, and has failed to give us transparency,” U.S. Rep. Darrell Issa, R-CA told ABC News. “We’re hearing that, one, we’re not getting transparency and, two, even if we get transparency, if we can’t trust the judgment and decisions of the Treasury, then, in fact, we’re not going to get the outcome the American people expect us to get. And we’re going to continue to have non-essential people paid huge bonuses in many cases that are unnecessary with taxpayer dollars.”

Window Closing on Reform?

Geithner’s ties to Wall Street and his inability to effectively manage the AIG bailout leave questions about his role in financial regulatory reform.

Geithner predicted world leaders at the Group 20 meeting in Pittsburgh would sign off on “really far-reaching ... pretty detailed” executive-pay standards to take effect by year’s end and set out a timetable for reforming key aspects of financial regulation.

But such comprehensive reform has so far failed to materialize. Similarly, more than a year after the collapse of Lehman Bros., a comprehensive plan for domestic reform has yet to emerge from the halls of Congress.

Chairman of House Financial Services Committee Barney Frank plans to “mark up” provisions on hedge funds, insurers and brokerages this week – on Oct 21 and 22 – and bring a reform package to a vote on the House floor in November.

“I think we’re making a lot of progress, I think momentum is now with Chairman Frank and [Senate Banking] Chairman Christopher Dodd and, as the president said last week, it’s very important that we try to get this done this year,” Geithner told reporters on Tuesday.

However, some analysts believe that the window for significant reform is closing as the U.S. economy edges toward recovery.

“As we get a little more distance from the actual collapse and things begin to stabilize, then people think we don’t need to take as much drastic action,” Michael Bernstein, an expert in political and economic history who is currently serving as provost at Tulane University, told NPR. “That’s a very disappointing reality.”

In fact, a large portion of the anti-business rhetoric that provided the backdrop to the financial crisis has been replaced by public rants against big government and the vehement debate over healthcare reform that has consumed Congress.

“The president has offered a reform proposal that would grant broad new authorities to government bureaucrats while intruding in private markets and restricting personal choice,” Spencer Bachus of Alabama, the senior Republican on the House Financial Services Committee told The New York Times. “The obvious lesson of the events of September 2008 is that we need smarter regulation, not more regulation, not more government bureaucracy, and not more incentives to engage in harmful business practices.”

Meanwhile, big financial institutions and community banks have unified against several pillars of the proposal, including the creation of a new consumer protection agency, and tighter regulation and more transparency regarding derivatives and credit default swaps – the very instruments that have been blamed for exacerbating the financial crisis. They’ve also lobbied hard against restrictions on executive pay, The Times reported.

“The clock is ticking and we’re at a cross roads,” Travis Plunkett, chief lobbyist for the Consumer Federation of America, told CNNMoney. “If we don’t see a substantial move this fall, financial reform may wither on the vine.”

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We continue to receive more and more inquiries about our Down-side Risk Management disciplines along with our group of recommended money managers. We appreciate your “referrals.” It’s the main way we continue to build our business.

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