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What Happened? Did You Get The Number Of The Truck That Hit Us??
Fall 2008 – U.S. barely evaded complete economic breakdown. World also!

A. Whose fault?

- 1. U.S. Government**
 - a. Congress**
 - b. SEC**
 - c. Bush & Clinton Administrations**
 - d. Federal Reserve Board**
- 2, Wall Street Greed and Stupidity**
 - a. Leverage**
 - b. Securitization of mortgages**
 - c. Corruption of rating agencies**
- 3. Investors – “Next Big Thing” chase**
 - a. Stock market dot.com break of 2001-02**
 - b. Housing price boom, up 36 years in a row**
 - c. Direct speculators – “flipping”**
- 4. Home buyers**
 - a. Sub-prime borrowed funds they could not pay back**
 - b. Realtors and homebuilders- fed the boom**

B. Congress

- 1. 1977 Passed Community Reinvestment Act – promoted low income housing ownership.**
- 2. Since then aggressively promoted expansion of home ownership.**
- 3. Commodity Futures Modernization Act designated CMOs a commodity available for trading under very little regulation. Trading commenced.**
- 4. Home interest deductible, Other personal interest not.**
- 5. Pressured Fannie Mae and Freddie Mac to lower borrower standards.**
- 6. Blocked Bush Administration from efforts to reform Fannie & Freddie.**

C. SEC

- 1. Mark to Market Rules**
- 2. Eliminated “Uptick” short sale rule**
- 3. Lifted leverage limitations on larger investment banks**

D. Bush & Clinton Administrations

- 1. Continued push for expanded home ownership.**
- 2. Did not monitor SEC closely**
- 3. Allowed Congress to interfere on Freddie & Fannie.**

E. Federal Reserve Board

- 1. Kept money extremely loose 2003-7 producing very low interest rates**
- 2. Allowed leverage throughout the economy**

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- F. Credit Default Swaps – Insurance Policies against loss**
 - 1. Buyer and seller – no regulation, sellers can sell with no capital restrictions.**
 - 2. Can be sold to third party, sold again, etc.**
 - 3. \$43 TRILLION outstanding in Fall of 2008. (\$80T. now)**
 - 4. Point of interest: New Wall Street proposed legislation does not address this problem.**
- G. It's different this time! Most dangerous words in Wall Street.**
 - 1. Human nature does not change.**
 - 2. It was a different challenge however, with economic meltdown facing U.S.**
- H. U.S. Government intervention, full faith and credit pledged to stop meltdown. Congress timid, needed two tries and bribery of the House.**
 - 1. TARP funds loaned to financial institutions by U.S. It worked, mostly paid back, except for AIG.**
 - 2. \$800 billion Stimulus Program enacted. Little impact.**
 - 3. Fear of huge deficit spending by majority of public**
- I. Stock markets continued to plummet.**
 - 1. Cure for low prices? Lower prices!**
 - 2. Hit bottom March 9, 2009. Up 80% since then.**
- J. Economy hit bottom Summer 2009.**
 - 1. Very sluggish recovery due to fear of U.S. Government**
 - 2. Private small business facing higher taxes, costs, regulation**
 - 3. Record deficit spending by U.S. causing great fear.**
- K. Where do we go from here?**
 - 1. Economy will recover slowly, 2011 or 2012 before robust**
 - 2. Stock market will continue slow recovery, depending on earnings**
 - 3. Investors face challenge.**
 - 4. Inflation at high rates virtually inevitable due to U.S. deficits**
 - 5. Bonds at record low rates. When interest rates inevitably rise they will drop in price. Stay in two-three year maturities.**
 - 6. Common stocks still attractive. High quality, above average dividends. Caveat: taxes on dividends rising from 15% to 43%. Stay in tax free accounts wherever possible.**