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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.**