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Inside this issue

[The Bill For America](#)

[Stocks Following Pattern To Bottom Shortly](#)

[Upcoming CNBC Appearance](#)

[Friends And Family Plan](#)

The Bill For America

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My hope tonight is to make this a "short" update since my daughter came home with a little cold last week that translated into Daddy being flat on his back in bed. I'd love for someone in the medical community to explain to me why every single time one of my kids gets a little cold, I am the one who gets hit the hardest!

The only topics I want to cover tonight are the congressional bill that passed last week and the state of the financial markets. First the bill. For almost a month, we have been hearing all about the package that Treasury Secretary Hank Paulson put forth with support from the Federal Reserve and SEC. Somewhere in that time, the word "bailout" became front and center and never left.

The problem I have is that it's not really a bailout. Who exactly is being bailed out? I've heard everyone from Goldman Sachs to Citi to hedge funds to even John Lennon and Jim Morrison! It's your right to disagree, but this certainly isn't a classic bailout. This bill was ONE weapon in a giant arsenal against the greatest credit calamity in 70 years.

While \$700B is an enormous amount of money, Ben Henry Capital, as someone mused, will be using that investment to operate as a giant hedge fund of sorts, buying and selling

in various credit instruments to tackle the single largest bout of constipation in the history of the world. They will be assuming risk and expecting reward to try and get the bowels of the system moving.

But that bill isn't enough by itself. It's no panacea or magic bullet. It's ONE significant weapon in the war. What somewhat surprises me is how few people really talk about the more than TRILLION dollars the Fed has used over the past year to combat the credit crisis. And there's more on the way! I shudder to think where the global financial system would be had Bernanke not woken up in January to realize the gravity of this mess.

Before I forget, in my medicated state, I am one who is sick and tired of hearing congressmen and investment professionals alike saying that while they either voted for or support the bill, but it's a bad bill. PLEASE, give me a break! Stop worrying about covering your collective rear ends. I can see it now. Those in congress who voted yes but don't like the bill will take credit if it works, but disavow it if it fails, saying they never liked but were forced to vote for it.

My take is there probably aren't any perfect bills in congress. I mean, seriously, how can anyone use the words perfect and congress in the same sentence? All politics aside, is anyone proud of our congress now? I was talking to a client last week who joked that the only solution come November is to vote against all of the incumbents! The so called "experience" that we have isn't worth very much when it's really needed. It's like that old Richard Pryor movie, Brewster's Millions. A small sub plot was Pryor funding a campaign to vote for "None of the Above".

Getting back to the bill that was passed, I think it was absolutely necessary, but not the final piece. It greatly reduces my worst of worst case scenarios that saw our country spiral into a deflationary, modern day depression, but does not yet eliminate it. Hopefully, that time will come before long!

Right now, the credit markets are totally frozen. No one can argue that point. Many on Main Street are saying, "so what"? And there lies the real problem. The powers that be have done a horrendous job of communicating the reason behind the credit crisis and how it affects the average person.

Here are a few oversimplified examples. The auto lease market has almost totally stopped. The average person with a superior credit score who offers to prepay the lease isn't getting takers. Imagine that. The bank has zero risk, but refuses to fund the lease. They simply are not lending until they get some of the toxic paper off of their balance sheets.

Let's say you own a profitable small business that deals in seasonal manufacturing where your cash flows ebbs and flows. During the softer times of year, you rely on a floating line of credit from your bank. But when you go to tap the line to meet payroll needs, the bank pulls the line and you are on the verge of missing payroll and having to lay people off.

On a slightly more sophisticated level, the commercial paper market is essentially the lifeline for major corporations to meet cash flow needs. They issue the paper in maturities under a year to banks, pensions, money market funds, etc. The problem today is that few folks are buying that paper at reasonable rates of return and corporations are being to find other means at substantially higher cost to the company.

For those of you wondering about the deals Warren Buffet struck with Goldman and GE, they were in response to the drying up of even the highest quality credit. Why would a company like GE pay anyone 10% a year when they could issue paper at roughly half that rate? Because no one is standing there offering.

Multiply that around the country and globe!

When Ben Henry Capital gets up and running, I definitely do not envision overnight success. Like I've been saying all year, it's going to take time and patience! Once the banks start the process of moving their bad paper to the government, I fully expect private money to step up and offer higher prices in the open market.

Imagine you have a bond that you want to sell, but no one wants to buy it because they don't want to be the only one stepping up. So you go to Uncle Sam and agree on a number. Then your neighbor says that she actually likes that bond and wants to buy it for a little more than Uncle Sam. It should only be that easy!

And the \$700B that Ben Henry gets funded with isn't going to be used all at once to buy these bad instruments. Rather, through a series of reverse auctions, the government will buy and then sell securities, possibly transacting far more than \$700B. While I am very hopeful that this will begin the healing process, it's far from guaranteed and there are risks. By spring of 2009 the latest, we should be able to gauge its effectiveness, but we'll likely see hints of that long before.

For all of our sake, this needs to be successful!

## **Stocks Following Pattern To Bottom Shortly**

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Nothing has really changed in my thoughts regarding the stock market. We are in the bottoming process that should last another few weeks. Volatility should remain at historic highs and you can expect multiple hundred point moves in both directions until further notice.

No one ever said this was going to be easy emotionally and that's what these types of affairs entail. After the Crash of 1987 on October 19, stocks were crazy in both directions

until the final low was hammered in on December 4. And then we saw one of the truly great bull runs of all time.

This go round is even tougher. We've been under constant attack since the year began and it feels worse each time, even though the most painful decline was back in January.

Not long ago, the SEC imposed its misguided attempt to stabilize the stock market by banning short selling on some 800 stocks. I railed on it at that time and continue to believe it's just wrong. ([Blame In On The Shorts](#)) Just look at the stock market! It's still going down without all these supposed miscreants shorting stocks.

Fridays action was clearly not good with early strength being sold into on the House's passing of the bill. Talk about the classic case of buy the rumor, sell the news. We are now left in the familiar position of having weakness of Friday in a downtrending market that should lead to another ugly opening on Monday.

For the bulls, the best thing would be a very nasty first hour, followed by stability and some strength into the close. Or, just an awful day on Monday that scares the few bulls left with a bad open on Tuesday and sharp upside reversal by the close.

One thing I fully expect to see to help the markets on a number of fronts is a coordinated global interest rate cut this month. I'll touch on this more in the next update.

Stocks are very close to a significant low in both time and price, but the next two weeks should test even the most grizzled veteran!

Upcoming CNBC Appearance

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### [Unemployment rate accelerates](#)

I am going to be interviewed live this Wednesday on CNBC at 11:05am edt, no doubt about the current state of the financial markets.

## **Friends And Family Plan**

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