FRIENDS OF THE MIDDLE
NEWSLETTER #17 — NOV. 15, 2011

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The European Financial Crisis

(posted by Steven W. Baker / SteveB, Nov. 15, 2011)

I have to say — If these (below) are the "free markets" the businessmen talk about, they don't seem to be working very well do they? Do you hear a big outcry from businessmen to find the roots of the problem and fix them? No. Silence. It's all about taxes and income distribution. Surely this tells us that what has happened has happened on purpose. Now there is a frightening thought! Or was there some grand miscalculation? Because, in the final analysis, we know less about economics than we know about education or love.

We obviously don't know enough to keep ourselves out of trouble, like with the Great Depression, the Great Recession, the Housing Bubble, the Bailout, and now the Euro crisis. (I'm leaving out all the small stuff like normal recessions and times of rampant inflation.)

At least we don't know how to keep ourselves (people, governments, and businesses) out of trouble when the businessmen (and politicians) are given free reign to create whatever weird kinds of derivatives, etc. they can think of. Free reign to pollute the markets with pure speculation. Free reign to manipulate powerful leverage for private gain and public loss. Free reign to permit the create mountains of debt (like Italy's) that require the best of all possible worlds to transpire on Earth for it to be repaid (just like many predatory housing loans in the US). Free reign to corrupt the government into helping create bubbles that create and destroy fortunes...trillions of dollars.

Money out of control = big trouble!

But when government controlled things (banking, etc.), as it did in the wake of the Great Depression, when profits and incomes were taxed more fairly, when government regulators did their jobs backed by laws with teeth, America became the richest, most successful nation the world has ever seen (at least, that is our largely true, so coveted myth).

Money controlled = true wealth!

I rest my case. Isn't it proven? Not by fancy economic models, conjecture, and hidden agendas, but by real history, real American history (which not even Presidential candidates seem to study or know any more).

I think we need to investigate and grasp firmly how such massively disastrous economic experiments (such as these huge, unsustainable, even prayerful housing and Euro debts) were undertaken in the first place and, apparently, get the good of the larger society back in control—not give money even freer reign, which is still the Republican plan.

Below is some thinking about how deep we are in it. How deep? Well, I think I'm going to need Rick Perry to lend me his cowboy boots. (Note: a lot of this sounds possible to me, but the assessment of Portugal, which is a country I know a little about, seems mainly wrong.)

I don't want to sound like Genn Beck. (And instead of the reality presented below, he subscribes to less likely, more otherworldly, catastrophes.) But, as my uncles used to say, "Jesus!"

"65% Chance of Banking Crisis by End November: Think Tank" by Patrick Allen, CNBC

Nov. 9, 2011, (http://www.cnbc.com/id/45218531)

(A domino effect on banks is 65% likely following a Greek default and a run on the Italian banking system according to analysts.)

There is a 65 percent chance of a banking crisis between November 23-26 following a Greek default and a run on the Italian banking system, according to analysts at Exclusive Analysis, a research firm that focuses on global risks.

Having tested a number of assumptions in a scenario modeling exercise, the Exclusive Analysis team warned it is becoming less and less likely that EU leaders will simply "muddle through" and have made some bold calls with clear timelines on when the euro zone will be thrown into a major financial crisis.

The most likely outcome according to their analysis is a sudden crisis in which the US, UK and BRICs nations refuse to provide funding via the IMF for the euro zone. In a world where predictions are made with no time lines, the paper makes some bold predictions which can be held to account over the next three weeks.

In the worst case scenario, Exclusive Analysis expects the governments of Greece and Portugal to collapse due to a lack of consensus on how to handle the debt crisis leading to social unrest. German opposition to handing more funds to the EFSF rises, leading Germany's parliament to actually reduce the money available to the bailout fund.

"In face of that, China and the other BRICs give clear signals that they will not support the bailout fund. The EFSF turns to the ECB, which refuses to print out the amount of money the former needs to bailout the PIIGS. In face of the EU's failure to boost the EFSF, the European banks refuse to accept the 50 percent haircut on the Greek debt. Both the IMF and the ECB suspend payments to Greece," said the report released on Tuesday evening.

Between November 18-22, French debt, under Exclusive Analysis' most likely scenario, is downgraded leading to the interbank lending market freezing up with new governments in Greece and Italy "faced down by protestors in their attempts to implement more austerity".

Civil unrest follows in Spain following the election of a new government which pushes through even tighter austerity measures, and Portugal announces it cannot meet financial targets putting its bailout cash from the IMF and ECB at risk.

"Increased fear that these economies will default creates bank runs in Greece and Portugal and a downgrade of French sovereign debt from AAA to AA. EFSF is subsequently downgraded to AA+" said the report.

"The spreads applied to the debt of all PIIGS increase with yields on Italian bonds reaching 7.3 percent. In a second contagion effect, depositors in Spain and Italy fear a banking crisis in their own countries, which end up creating a series of bank runs and a collapse of the interbank credit market as banks know that most of their counterparts are at risk. Greece defaults."

This doomsday scenario comes to a head between November 23-26 when Greece leaves the euro to print money and rescue its banking sector. The new currency falls quickly and depositors lose out as their investments are converted into the new local currency.

“The government default on the sovereign debt and the banks default on their foreign debt, which causes a banking crisis across Europe. Italian bond yields rise and exceed 7 percent and the country faces bank runs, in face of which the government freezes deposits and defaults on the sovereign debt”.

So far so scary. For those looking for some hope, the Exclusive Analysis report predicts a 25 percent chance that the EU will continue to muddle through. In this scenario new politicians in Greece, Italy and Spain are given some breathing room by voters to find new solutions to the crisis until the end of the year. Portugal still fails to meet its fiscal targets, putting its bailout cash at risk, and French debt is still downgraded on prospect of Greek debt default.

“However, the new governments in Italy, Spain and Greece are given a honeymoon period by protestors and euro zone counterparts, which prevents a market rout.”

In January and February, Greece defaults but the fallout is contained as a new deal on 70 percent haircuts is agreed. Spanish and Italian bond yields hit 7 percent.

“Civil disorder continues in Portugal and Spain, reducing their ability to implement austerity packages. Sovereign ratings in Spain and Italy are downgraded and the prospect of rescue feels imminent as far as analysts are concerned,” warns the report in its muddle-through scenario.

“However, the UK and US governments reduce their objections to the use of IMF resources to fund the EFSF, which, together with a Greek default, improves market conditions and halts the rise in yields on the Italian and Spanish debts.”

With Spain and Italy entering IMF programs, the debt crisis rubbles on in 2012 and 2013 before things turn nasty as Greece defaults and recreates the drachma.

“Markets close to Italy and Portugal again towards end-2012 and civil unrest resume, starting off a second cycle of crisis and speculation about the future of the euro zone.”

If that is the muddle-through scenario, then we are in for a very nasty end to 2011 and years of euro zone debt crisis. But Exclusive Analysis does predict a 10 percent chance that the crisis is resolved.

In this good news scenario Greece still defaults before the end of the year, but “stronger political leadership in other PIIGS contains the fallout”.

“New governments in Italy, Spain and Greece are given a honeymoon period by protestors as they attempt to implement more austerity; a real sense of national unity is constructed with respect to the crisis.”

The new governments are seen as more credible and the US, UK, IMF and BRICs agree to make more funds available to the EFSF.

“The new ECB head is persuasive of the need for the ECB to purchase more bonds from national governments. Greece defaults in November, but under the new technocratic government the process is orderly and banks agree to accept 70 percent haircut on their credit. France recapitalizes its banks and suffers a sovereign downgrade,” said the report.

In the first two months of 2012 France and Germany reach an accommodation on ECB lending and fiscal rules which means the ECB becomes a lender of last resort in return for statuary limits on the amount the so-called PIIGS can borrow, a condition demanded by Germany.

“Market conditions improve and PIIGS bond yields decrease following these successful negotiations. Italy and Spain are emboldened by their lower yields and by the Franco-German pressure to negotiate a restructuring of their debt with creditors with a view to smoothing and lengthening the maturity profile.”

Exclusive Analysis will join Worldwide Exchange at 10:10 BST/5:10 ET to discuss the report and will be joined on set by Jim Rogers of Rogers Holdings.

"Is Italy Beyond Saving?" by Anthony Mirhaydari, MSN Money

(http://money.msn.com/investment-advice/article.aspx?post=90d19a07-6ce1-4e38-a011-ba5220549d0e)

(As its bond yields surge to new highs, increased borrowing costs suggest the country has passed the point of no return.)

Stocks plunged Wednesday as U.S. markets suddenly realized, after a string of cute little end-of-day rallies, that the Eurozone is toast. The debt contagion that pulled down Greece, Ireland and then Portugal has now infected Italy — the third-largest worldwide issuer of sovereign debt — pushing its borrowing costs to unsustainable levels. The European Central Bank, which was actively buying Italian debt to keep the situation under control, is being steamrolled.

The margin hike death spiral I warned about in my last blog post is now playing out. The LCH.Clearnet exchange clearinghouse bumped up margin requirements on Italian bonds across the board Wednesday, raising initial margin requirements (the amount of extra cash investors need to hold in their accounts) from 6.65% to 11.65% for 7- to 10-year bonds.

Italian clearinghouse CC&G also increased margins to 11.65%. The additional cost of trading is resulting in forced selling. As bond prices drop and yield rise, the volatility will likely bring additional margin hikes as the clearinghouses move to protect themselves from losses by acting as the middleman during bond trades.

Here's the thing: An analysis of Italy's debt dynamics by Barclays Capital finds, at current yields, "the self-reinforcing negative market dynamics that now threaten Italy" suggest the country "may be beyond the point of no return."

With the Italian budget deficit pushing deeper into negative territory because of added borrowing costs, the country — which is considered too big to fail (net liabilities of around $2.2 trillion) and too big to save (Europe's bailout fund has less than $400 billion left in it) and is without an effective government (Berlusconi lost his ruling majority Tuesday) — has no choice but to take a bailout funded by unrepentant and ultimately inflationary money printing from the ECB.

According to the team led by Jeff Meli at Barclays, in order for Italy to have a fighting chance to reform its economy and repay its obligations, its borrowing costs need to be lower than 5.5%. Wednesday, 10-year Italian bonds hit a high of 7.5%, as shown above.

Traditionally, higher yields bring fresh demand from investors looking for bigger returns.

But in situations like this, higher yields act as a repellant, since they lessen Italy's ability to actually pay its bills. In this case, lower bond prices (and higher yields) make Italian bonds less attractive.

The path forward is narrow. Europe is quickly falling into a new recession with Purchasing Managers Index surveys for the Eurozone and Italy pointing to GDP drops nearing minus 0.5% and minus 1.5%, respectively. The Eurozone bailout fund, to which Italy is a 19% contributor, just isn't big enough. And the anti-inflation German hawks at the ECB are terrified of the prospect of simply printing money to save the spendthrifts — thereby releasing the specter of Weimar Germany hyperinflation and the economic turmoil that gave rise to Adolf Hitler, the Nazis and World War II.

The only way out may be to follow the road map created during the Oct. 26 effort to save Greece: Allow overly indebted countries to conduct an orderly default on their debt (50% or more) and backstop the banks to prevent a credit crisis.

With Europe's debt woes entering a new, more dangerous phase, I continue to recommend a defensive position. Conservative investors should be in cash or U.S. Treasury bonds. I don't like gold here because of its sensitivity to currency fluctuations. More aggressive traders should be looking at leveraged short ETFs to profit from the fall. Emerging-market stocks in particular look weak, since they get hit hard when, like now, the U.S. dollar is strengthening.

As a result, I'm adding the Direxion 3x Emerging Market Bear (EDZ) to my Edge Letter Sample Portfolio. This is a high-risk, high-reward pick that's not suitable for everyone but should perform very well in the dark days to come.

I found EDZ with the help of technical screens developed with Fidelity's Wealth Lab Pro back-testing tools, which you can find here. (Fidelity sponsors the Investor Pro section on MSN Money.)

Update:

The downturn continues in afternoon trading with the S&P 500 down more than 3.4% as I write this. Although the Italian bond market is now mercifully closed, the bad news continues to roll out.

*The discussions over a new, technocratic compromise government in Greece have broken down and will be restarted in the morning.

*Wall Street analysts are beginning to realize that the political path forward for Italy likely involves new elections, which in the words of RBS analysts is the least market friendly outcome since it will result in policy paralysis and another fragmented coalition government.

*And the real bombshell to hit the headlines today comes from Reuters, which reported that French and German officials have started discussion on plans for a "radical overhaul" of the Eurozone that would create a smaller, more fiscally integrated union that would cut ties to problematic countries like Greece. We're talking the end of the Eurozone as it stands now.

The endgame in Europe is moving closer now as unsustainable debt loads and untenable political choices mix into a toxic brew of uncertainty and fear. Key assets like junk bonds and copper are moving down and out of "pennant" reversal patterns — suggesting that not only that the market drawdown is likely to continue, but that market participants are marking down their economic growth forecasts.

With the U.S. Congress, and the U.S. credit rating, poised to reenter the national psyche as the deficit "Super Committee" hits "a bit of an impasse" according to Senator Kyl with just two weeks until the November 23 deadline to find $1.2 trillion in budget cuts— watch for lots of "double-dip" recession chatter in the days to come. And lower stock prices.

"Will It Be 'Arrivederci' for Euro?" by Bill Fleckenstein, MSN Money

Nov. 11, 2011, (http://money.msn.com/investing/will-it-be-arrivederci-for-euro-fleckenstein.aspx?page=0)

(The psychodrama has shifted from Greece to Italy. As the powers that be struggle to contain the problem, they are just delaying the euro's inevitable demise. Plus: Caught up in MF Global.)

As I noted Nov. 8 in my daily column at FleckensteinCapital.com, anyone who bought stocks in the big rally sparked by the news that Silvio Berlusconi would resign as Italy's prime minister was asking to lose money. Sure enough, it didn't take long for them to get what they deserved for being so silly, as the next day brought a bloodbath here and abroad.

The proximate cause for Europe's weakness was a near-total collapse in the Italian bond market, as the yield on the 10-year blew through 7% and traded all the way up to 7.30% — a gain of about 60 basis points. It has been mind-boggling how rapidly the Italian bond market has seen its yields rise from a little over 6% to north of 7%.

They shoot turkeys, don't they?

The situation in Europe has almost totally spun out of control, as it took almost no time for the markets to shift their focus from Greece to Italy. I don't know how the Europeans are going to get ahead of this problem, save for massive money printing on the part of the European Central Bank. And it had better come soon, or the euro and the European banking system are not going to make it to Thanksgiving.

The powers that be could not have made the situation worse if they had tried. In the two years since Greece started to implode, there has been no debt restructuring, the banks have not been required to raise capital, and, of course, the ECB has resisted money printing — as if the countries that were let into the Eurozone (including even Germany and France) were prudent enough to operate without it.

In addition, they have banned short selling and are making sure their actions don't allow people to get paid off on their credit default swaps, so the only avenue for folks to lower their risk is to sell first and ask questions later. And that is exactly what is exacerbating the decline in Italian — and all other — debt.

ECB seeks double-binding arbitration

In sum, we are rapidly approaching the time when either the ECB prints like mad or the euro fractures and the Eurozone countries get their currencies back, and then they print like mad. Whichever way this is resolved, at some point the markets will take a look at the United States — and you can just imagine the world of hurt we are going to be in when our bond market starts to tank like Italy's has. Though the U.S. won't be punished for not using the printing press (but rather because we are using it), the outcome will be the same.

While it is not today's problem, make no mistake, going through such a crisis is going to be ugly and painful. But the silver lining will be that it will force us to address our problems, and hopefully it will occur in a timely enough fashion that the 2012 elections will see some intelligent and less-political types head to Washington. (A guy can dream, can't he?)

Caught up in MF Global

On an even more bothersome note (at least to me), even after being as careful as possible my entire life by having my cash in only Treasury bills or government debt, and keeping my assets in a custodial bank whenever I could, I have been caught in the nightmare of MF Global. (This affected only my personal assets, not those of my fund.)

I had believed (based on conversations with very knowledgeable industry veterans) that I was fully protected, but I never spoke to a financial industry bankruptcy lawyer (until this week). Had I done so I would have known that I bore this risk, and I would have closed my MF account two weeks ago, when it was obvious the company was in deep trouble.

My account was 100% collateralized by T-bills, as I was led to believe that protected me in all cases, as the collateral was held in my name. But, it turns out if there is fraud — and fraud has been alleged in the MF Global case — T-bills do you no good. (In such cases, all assets and all accounts are equal, and share losses proportionate.) The only protection they offer is that they have no credit risk.

What's more, Securities Investor Protection Corp. insurance does not apply to futures accounts, because cash is supposedly segregated and thus not at risk. So if there is fraud at a commodities firm, you have absolutely no protection for any of your money. That raises the question, if SIPC doesn't protect your cash and securities up to $250,000 and $500,000, respectively, as it would in the liquidation of a stock brokerage firm, why is it handling MF Global? (And why does MF Global's futures statement say "Member SIPC"?)

On the subject of stock brokerage firms, unfortunately, if a firm is involved in fraud, your T-bills (or any other securities) will be treated just as mine have been at MF Global, though you will have SIPC protection up to the limits stated. The bottom line: If you are in any brokerage firm where there turns out to be fraud, you have no protection for your cash or securities, outside the SIPC ceiling. Of course, if there is no fraud, you don't need any protection. Can anyone stay safe?

As for exactly where this leaves us in terms of how to be 100% safe, it would appear (subject to change as this process works itself out) that you should have the smallest amount of money possible against any futures positions and not hold securities at a brokerage firm in excess of $500,000 if you are worried about any sort of fraud.

Having said that, I don't know that we should all go through our lives thinking that the brokerage firms we are involved with are engaged in fraud. Getting caught in an MF Global-type meltdown might be the one-in-a-billion chance, but nevertheless, here we are. In theory, it could happen again. I don't know that more regulations are the answer, as the regulators were examining MF Global in one way, shape or form as recently as a couple of days before it filed for bankruptcy.

This may all blow over, and the missing money may be found, however unlikely that seems. But the lesson survives: It appears that there really is no protection above SIPC limits at any kind of a securities firm if there is fraud involved.

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20111114-01	10:27	Pam	Re: Obamacare Exposed (reply to Dale, FotM Newsletter #16)

I can't open your attachment. My computer (Apple) is making funny noises. Hmmmm.

I only have a skektchy idea of what's in Obamacare, certainly not the whole 1000 pages. But I'd agree that I don't want small businesses put in a bind. That is why I favor a national, universal system—or a regional universal system. Everyone pays in—like Social Security—and it's not tied to the employer.

20111114-02	10:28	Pam	Re: Obamacare Exposed (reply to Dale, FotM Newsletter #16)

Car insurance is mandatory.

20111114-07	10:55	Art	Re: Obamacare Exposed (reply to Dale, FotM Newsletter #16)

From Art (10:55 am) – reply to Dale, 11/13/11, ref: Obama Care Exposed, Healthcare

Dear Dale,

This is old. Read it about a year ago and didn't think much of it then and less now. Below is one quote from this little paper:

> The United States Healthcare system is the best in the world, bar none. Others come to this country to receive health care they cannot obtain in their own. They don't go to Canada. Or to Cuba. Or to Russia. Or to Britain. Or to Sweden.

If you believe this, I have a bridge you might be interested in.

It is not a breakdown of the law, it does not quote sections of the law. Rather to me at least, it is a broad based swipe reflecting someone's overall political philosophy, and not much more than that.

Just my opinion.

20111114-03	10:29	Art	Re: "Congressional Trading on Advance Info Not Illegal: SEC" (reply to Dale, FotM Newsletter #16)

"60 Minutes" ran this last night. It is simply outrageous.

20111114-04	10:38	Pam	Re: "Congressional Trading on Advance Info Not Illegal: SEC" (reply to Art, above)

The article says straight out, it's just speculation. There is no evidence apart from post hoc ergo propter hoc. Even so, I agree that politicians should not be able to use non-public information when they invest. That is so patently wrong it's difficult to imagine it's legal. The article also says both the Congressional and Senate ethics manuals prohibit such trading. It APPEARS that the Dems have done better. The principle of equal treatment under the law is, of course, a no brainer, but there is no concrete evidence in this article to point the finger at anyone. I'm sure insider trading goes on. Lord knows, plenty else does. But let's not be too hasty in our conclusions without proof. Show me the money. :-)

20111114-05	10:41	Art	Re: "Congressional Trading on Advance Info Not Illegal: SEC" (reply to Pam, above)

One thing the "60 Minutes" piece noted was that Congress persons who arrived with only a few hundred K left worth millions. How'd that happen on $170K a year?" Still like you say, it is harder to find the exact smoking gun. I think proposed law requires a quarterly financial disclosure statement. Why not?

20111114-10	11:19	Pam	Re: "Congressional Trading on Advance Info Not Illegal: SEC" (reply to Art, above)

I used to think people went to Washington because they craved power. Now I think it is the prospect of great financial rewards. This is a big change in America. When Harry Truman left office, he barely had enough to live on. Congress had to vote to grant him a retirement income. Statistics from everywhere clearly show a growing gap between the 1% and the 99%. But even if the numbers were different, the perception that things are grossly unfair would still be destabilizing. People need to believe their government plays fair. Clearly, most of us don't.

20111114-13	11:42	SteveG	Re: "Congressional Trading on Advance Info Not Illegal: SEC" (reply to Pam, above)

"60 Minutes" had a segment on last night about this issue and a professor at Stanford with 8 students are researching the issues also. According to the report both sides take advantage on a regular basis and most if not all house/senate members leave office with more wealth than when they entered.

20111114-06	10:52	Pam	Re: A Dose of Reality (reply to Dale, FotM Newsletter #16)

The CWA did work. A huge amount of "culture" was produced, from murals in Post Offices to theater productions to the Blue Ridge Parkway to dams and roads and schools. Yes, it was a quick fix, and that's what's needed now. No one is talking about making the government the employer of choice forever. Forget about "shovel ready." Hire people first, find work later. There's plenty to do, even if it's just raking leaves. Of course, the taxpayers pay for it, but they'll get a lot more return on their money than they have through the bank bailouts. More people working means more money in the economy. Our nation has a fever; we need to do whatever it takes to bring it down and prevent convulsions. We can figure out the future once we have the present under control. I'm sure we all agree that finding jobs for the unemployed is something we all want. Where we differ is in how to go about it. Well, we've seen what lower corporate taxes, lower capital gains taxes, and loosened regulation have produced. A big fat NADA. Republicans aren't running on a record of what they've done. All they do is prattle on about how "pure" their conservatism is. In four years I want to be able to look around and say, look at that and that and that (real things). People working, making things, spending money and living within their means. I don't want to keep seeing empty food pantries on the local news and massive layoffs everywhere. The pain is trickling down right now. We need to stop it.

20111114-09	11:09	Art	Re: A Dose of Reality (reply to Dale, FotM Newsletter #16)

If I could just add a small point here. If someone were to ask me to characterize my political philosophy I would label myself a conservative. Heck, I'm still a republican. I only bring that up to point out that the poll chart below may not exactly reflect all that much

I also pretty much agree with all the views expressed below from both e-mails except for the Tea bunch. I am a historian and like some of of my field always look for parallels. The two that leap out at me are the Know Nothings in the US in the 1850s and the National Socialists (SA Brownshirts) in Germany in the early 1930s. Both groups were really founded on negativism. The Know Nothings got overcome by the new Republican Party and the American Civil War. The SA Brownshirts took one of the most civilized nations on earth and drove it into insanity. So far, I have nothing of any remote value from the Tea party. Dale, if you have some of their illuminating philosophy, I would love to see it.

20111114-11	11:27	SteveB	Re: A Dose of Reality (reply to Dale, FotM Newsletter #16)

While interesting and amazing, if the numbers in the chart meant much…no Democrat would ever be elected President and the Democrats would never control Congress. Considering how few "liberals" there are, their ideas must be very persuasive with those "moderate" thinkers…

20111114-12	11:36	Art	Re: A Dose of Reality (reply to SteveB, above)

Makes ya think, doesn't it?

20111114-08	11:08	Pam	Re: 2012 Republican Primaries (reply to SteveB, FotM Newsletter #15)

Thanks, SteveB, for your summary of the debates. I can't bear to watch them, but I do like to know what was said. We have been very focused on domestic issues, which are pressing, but foreign affairs have monumental consequences. Obama has brought us back from the brink as far as the world hating us goes, but we need to make sure we have someone smart enough and experienced enough to know what to do when the next crisis hits. The only Republican who makes any sense AT ALL is Huntsman, and I disagree with him on many things. At least he has a handle on China. The Republican road show would be highly amusing if the stakes weren't so high.

20111114-14	12:08	Art	"The FDIC Fights Back Against BofA's Attempt to Put the Taxpayer on the Hook for Trillions of Dollars of Derivatives"

From Art (12:08 pm) – ref: FDIC Fights Back Against BofA, Economics, Banking

And here is a big part of the problem…

"The FDIC Fights Back Against BofA's Attempt to Put the Taxpayer on the Hook for Trillions of Dollars of Derivatives" by Eric Platt, *Business Insider*

Nov. 12, 2011, (http://www.businessinsider.com/fdic-fights-fed-over-trillions-in-bank-of-america-derivatives-2011-11?utm_source=alerts&nr_email_referer=1)

Regulators may keep Bank of America from shifting derivatives from its Merrill Lynch unit to its consumer retail division, Bloomberg reports.

The Federal Reserve and Federal Deposit Insurance Corporation are discussing whether to allow further transfers between the two units. Bank of America Corp., the holding company of BofA's retail and institutional services units, had moved the derivatives to take advantage of a higher debt rating in its consumer division, which allowed it to post lower collateral levels.

In a 460 page SEC filing made after it reported earnings this October, Bank of America noted that these derivative moves could be limited by regulators, without naming either agency.

"Our ability to substitute or make changes to these agreements to meet counterparties' requests may be subject to certain limitations, including counter party willingness, regulatory limitations on naming [Bank of America NA] as the new counter party, and the type or amount of collateral required," it wrote. "It is possible that such limitations on our ability to substitute or make changes to these agreements, including naming [Bank of America NA] as the new counterparty, could adversely affect our results of operations."

FDIC officials have objected to the move as it increase the potential risk of collapse, forcing the agency to pay depositors. The Fed, however, believes the additional capital requirements would cripple the bank at a difficult time.

Bank of America held nearly $75 trillion in notional derivative contracts in June. The transfers it has already completed have allowed it to avoid nearly $5 billion in collateral postings. A reversal, or additional downgrade, would add to the banks woes. The bank said it could be forced to post an extra $1.7 billion if it was hit by a second incremental downgrade, based of derivatives held on September 30.

Bonus: The complete guide to why everyone's freaking out over Bank of America: http://www.businessinsider.com/your-complete-guide-to-why-everyone-is-freaking-out-about-bofa-and-feds-newfound-friendship-2011-10.

20111114-15	12:38	SteveG	Re: “The FDIC Fights Back Against BofA…” (reply to Art, above)

Heard of this three weeks ago. BOA is a piece of work. Deregulation of banks goes back 30 or more years – so both parties are guilty over time. Republicans more so, in my mind, as they are currently yakking about how regulations are hurting the economy. Hope there is some way this is all a nightmare, but really doubt it.

20111114-18	19:13	Dale	Re: “The FDIC Fights Back Against BofA…” (reply to Art, above)

I read this some weeks ago and was just as repulsed. I have watched closely for the last 18 years as the financial community, "Wall Street" if you prefer, stays one to two steps ahead of regulators and watch dogs. One of the big problems is that the SEC is filled with lawyers and not people with financial markets expertise.

There is a whole culture of amoral people who treat finances as a game. They are as slimy as the computer hackers that plant viruses for the sport of it. It is nearly impossible to keep these financial manipulators from creating new ways to beat the system, but we have to do a better job of analyzing "new products" before allowing them to be used or at least monitoring them to put clamps on before they grow into massive bubbles. Our Congressmen and Senators don't have a clue, but seemingly neither do the staffs they rely on. As a result, the laws they pass and the priorities they impose for financing the SEC are totally inadequate, often resulting in more harm than good. These financial instruments are really complex; however, I don't accept that they cannot be studied before acceptance and their impact tracked once they are unleashed.

20111114-19	19:29	Art	Re: “The FDIC Fights Back Against BofA…” (reply to Dale, above)

Not to be argumentative because I really look forward to your analyses, but earlier, we sort of determined that the sole function of any business when you get right down to it, is to make a profit, period. If that is true, and I have no argument with that, then we should expect things like this from business I would think. Why not? By that standard they should and will try to get away with anything they can pull off. Look at all the cigarette adds, well after everyone except an idiot knew that they contributed to lung cancer.

The role of government then is to keep this in some sort of bounds, safety standards, food standards, truth in advertising etc etc.

Seems right to me. I think problem with the SEC is that most are bought off , again business is out to make a profit, if bribery works, why not? The problem is that people move back and forth. I watched for years, especially USAF guys, line themselves up for jobs with defense contractors as soon as they retired, when they were supposed to be watching for fraud and protecting the taxpayer. Same with political types.

Just food for thought.

20111114-23	21:23	Pam	Re: “The FDIC Fights Back Against BofA…” (reply to Art, above)

If the likes of us can figure this out, why are the pols so clueless? I know, they're not clueless, just interested in feathering their own nests. I'm sure they're not all bad, but enough are amoral/immoral to ruin the economy for everyone. Damn and blast!

20111114-29	23:55	Dale	Re: “The FDIC Fights Back Against BofA…” (reply to Art, above)

I take issue with the extension in your comments. Businesses are made up of people, just like schools have teachers and administrators who are individuals, fire departments are made up of individuals, hospitals are managed and staffed by individuals, unions are run by individuals. Decisions are not made by companies, they are made by people. I accept that men and women working for businesses are paid to make decisions and act on behalf of the organization, but that doesn't mean they check their ethics or their values at the door when they come to work. I see great examples of mentorship and compassion all the time from colleagues working for private enterprise companies. To say, the sole function "...is to make a profit, period..." does not capture humanness exhibited every day at work. Contributing to and supporting employees involved with local and national charities is not all about making a profit, period. Sponsoring Junior Achievement or internships for students is not all about making a profit. I could go on with examples, but I think you get the idea.

Decisions are made by people. It is no fairer to say that union leaders are solely motivated by getting the best possible deal for their members, even if society is screwed by that "win." Is it? Although, their primary job is to represent their members and in doing so, their interests may be in direct conflict with the investors who put up the money to create and grow a business.

Decisions are not made by governments...they are made by people.

I believe that most people are honest, moral and seek fairness for themselves and those around them. Maybe that is a failing of mine. "Fairness" may be defined differently for each of us, but my point is that most people are not greedy, self-centered, selfish and larcenous to the point of not caring how their actions damage others.

Unfortunately, there are people who are not so virtuous. I don't need to detail all the bad stuff they do. Also, unfortunately, it not always so easy to sort out those people. I suspect they are in all parts of society, but it is ones who behave badly and have access to and/or control of power and money that really cause major damage. The bigger the company, the bigger the government position, the bigger the union, etc. the bigger the damage. Big banks/banking needs tighter regulation. (IMO the repeal of Glass Steagall has turned into a nightmare, because of lack of supervision. It might have been a bad idea, even with greater supervision.) Securities and financial processes need tighter oversight and maybe better regulation (not more, the SEC doesn't even enforce the rules/laws on the books.) I agree with Art's limitations on people shuffling between government/military and related private companies and lobbying. That's an ugly mess.

Finally, we need to hold the people who make illegal, immoral decisions accountable. I think it's disgusting that no one has been convicted from the mortgage bubble, from the banking debacles, from the pension abuses and on and on. I just read another report that the SEC says they "settle" on most cases without admission of guilt....because they don't have enough money to follow through with prosecution. That's BS! C'mon man...do you job. The will of the public needs to come down on our elected officials, so that they fund and require enforcement. (I'm really tough on the SEC tonight.) Government PEOPLE need to be held accountable. Business PEOPLE need to be held accountable.

At one time, our press filled a role in being a watch dog. Now, they are bought by special interests — left leaning and right leaning — and have turned into marketing arms of one cause or another. They are more interested in producing entertainment than seeking truth. We need to hold these PEOPLE responsible too.

I'm done....worn out.

20111114-16	15:47	Beth	'For Profit' Education

Our health care system is a mess because it is a "for profit" system. If our children's education is no longer public, but "for profit", i.e. charter schools, we will be visiting disaster on our children and the future of our country.

20111114-17	19:02	SteveB	Re: 'For Profit' Education (reply to Beth, above)

I think you are completely right and I don't know why we would want to make the grand experiment anyway. Inequality in healthcare only results in the deaths of some people (ya, I know, not good). But inequality in education would result in the death of our democratic nation, as you point out.

I think the parallel with healthcare holds true. If you can pay for it, you can get very good healthcare in the US. There will always be expensive schools that do a good job too, I hope.

We have never truly achieved equality of educational opportunity. We have given it a lot of effort over the years and most of us think that is a good thing.

Even this degree of equality will go out the window if we don't figure out how to save our precious public schools. Maybe the government should try listening to the TEACHERS as closely as it listens to the BANKERS.

20111114-22	21:20	Pam	Re: 'For Profit' Education (reply to Beth, above)

You are so right about the "for profit" thing. Making health care and education "for profit" is a bit like making a church for profit. Some things just aren't about the bottom line.

20111114-20	19:37	Walt	Republican Primary Debates, China, Torture, Geithner

[Note: Walt is our newest of now over 100 subscribers and already a contributor! Welcome aboard, Walt (and thanks to Art). Thank you for your contribution and opinions. –SteveB]

The debaters and moderators ignored the elephants in the room. How to solve the problem (bail out?) of homeowners underwater and Wall Street misdeeds such as the recent article I sent on Bank of America moving risky assets (derivatives) to the banking side of the balance sheet so the FDIC, i.e. taxpayers, can bail them out. Do you think Wall Street should be subject to regulation with regard to this practice? This is a question that should have been asked by these moderator clowns.

On China, Huntsman, former ambassador to China has it right. We were there in April and pleasantly surprised by the many young people in their early and late 20s being so friendly, trying their school English and asking to take pictures with us. (I'll send some if I get around to it.)

Art, many of the Chinese younger generation look to the West for fashion, trends and values. Their second language is English, not Russian as is the case with the older Politburo. Many of these young Chinese think differently in a positive way. Let's not waste this chance to build bridges of understanding. Not saber rattling, but dialogue and engagement is needed. Yes, China is repressive and has its own idea of a South China Sea Monroe doctrine as it seeks to quench its thirst for energy. We have to be very careful not to give the Politburo a propaganda advantage by over playing our hand.

With regard to torture, during the revolution, the British were torturing the captured soldiers of Washington's Army, if my recollection of history is correct, Washington refused to torture British prisoners on moral grounds. We as a nation have always been admired for taking the high moral ground. Kennedy once said that every generation has to bear the torch of freedom and values. It seems that this generation is especially greedy and ruthless.

Yesterday the *New York Times* had an article on Obama's quest to retain Geithner. If only Europe had heeded Geithner's advice, things might have been different for the Euro according to the article. Are you kidding? Geithner coming to Europe to advise Europeans on the Euro was the pot calling the kettle black. U.S. news did not pick it up, but Geithner was ridiculed. A commentator on Germanys First TV Program (ZDF) said, "People who live in glass houses should not throw stones!" We really look stupid with the Lehman Brothers fiasco, housing foreclosures and uncontrollable debt stepping in to offer advice to Europeans on how to keep their house in order when we can't do the same. By the way, I remember when W was driving Putin around his ranch in Texas, W crowed about the US being an "ownership society." Now an ownership of debt society. I bet Putin is laughing up his sleeve.

The OWS is missing its motto. Here it is: WE ARE THE PEOPLE! Read my President's letter at http://www.agbcbonn.de.

Regards from Bonn, Germany. --Walt

20111114-21	20:50	Art	Re: Republican Primary Debates, China, Torture, Geithner (reply to Walt, above)

The email above is from a friend who now resides in Germany. Walt is a real entrepreneur so he brings both the experience of a retired Army Colonel and an entrepreneur who did very well in his second life.

Just one comment. As another former Army officer, water boarding is torture, period. Americans don't do that. Who are these idiots who propose such a thing?

20111114-24	21:28	SteveG	Education & Health Care

The government is not going to listen to teachers, instructors, professors – they do not make enough money and we do not value education. If we as a country valued education K-12 would have a maximum of 22 students/class, computers would be issued, textbooks would be free and 2 year and 4 year degrees would within easy reach financially for all students. There is a community college in town – students who pass the entrance tests can start at 14 years of age. There are 2 four year colleges within 30 miles. Some students are graduating from high school one weekend and from college the next. Not a bad deal.

Health care is the same – as a country we do not value health care. If we did our infant mortality rate would be the best, our life expectancy would be higher, our cost of health care would be lower. Again, in Yakima (79,000 population and 220,00 metropolitan area) there are 2 hospitals with one CEO making $3million a year. You can see a nurse practioner in a clinic (building owned by the hospital) and be billed $303 per hour by the clinic and $176 by the hospital for the use of the office. Such a deal

20111114-25	22:27	Jim	How Rich Are the 1%?

My Greencastle students and friends must be doing VERY WELL if they are in the 1%!!

I mentioned before the difference between income and wealth, which is also featured in a story from the *LA Times* this morning.

To be in the top 1% in income last year you needed $700,000 or more per year.

To be in the top 1% in wealth you needed to own $9,000,000 more than you owe.

20111114-26	22:50	SteveG	Fw: Letter from an Employer

I got this e-mail today and copied it here as I found it interesting and something to think about. See what you think.

[This email also appears in the group archive from 2008, but is reprinted here for newer members. Source of original email unknown, but was apparently a genuine blog or forum posting. Snopes.com knows nothing. See: http://www.rense.com/general84/letter.htm) –SteveB]

To All My Valued Employees:

There have been some rumblings around the office about the future of this company, and more specifically, your job. As you know, the economy has changed for the worse and presents many challenges. However, the good news is this: The economy doesn't pose a threat to your job. What does threaten your job however, is the changing political landscape in this country.

Of course, as your employer, I am forbidden to tell you whom to vote for - it is against the law to discriminate based on political affiliation, race, creed, religion, etc. Please vote who you think will serve your interests the best.

However, let me tell you some little tidbits of fact which might help you decide what is in your best interests. First, while it is easy to spew rhetoric that casts employers against employees, you have to understand that for every business owner there is a back story. This back story is often neglected and overshadowed by what you see and hear. Sure, you see me park my Mercedes outside. You've seen my big home at last year¢s Christmas party. I'm sure; all these flashy icons of luxury conjure up some idealized thoughts about my life.

However, what you don't see is the back story. I started this company 12 years ago. At that time, I lived in a 300 square foot studio apartment for 3 years. My entire living apartment was converted into an office so I could put forth 100% effort into building a company, which by the way, would eventually employ you.

My diet consisted of Ramen Pride noodles because every dollar I spent went back into this company. I drove a rusty Toyota Corolla with a defective transmission. I didn't have time to date. Often times, I stayed home on weekends, while my friends went out drinking and partying. In fact, I was married to my business — hard work, discipline, and sacrifice.

Meanwhile, my friends got jobs. They worked 40 hours a week and made a modest $50K a year and spent every dime they earned. They drove flashy cars and lived in expensive homes and wore fancy designer clothes. Instead of hitting the Nordstrom's for the latest hot fashion item, I was trolling through the Goodwill store extracting any clothing item that didn't look like it was birthed in the 70's. My friends refinanced their mortgages and lived a life of luxury. I, however, did not. I put my time, my money, and my life into a business with a vision that eventually, some day, I too, will be able to afford these luxuries my friends supposedly had.

So, while you physically arrive at the office at 9am, mentally check in at about noon, and then leave at 5pm, I don't. There is no "off" button for me. When you leave the office, you are done and you have a weekend all to yourself. I unfortunately do not have the freedom. I eat, shit, and breathe this company every minute of the day.

There is no rest. There is no weekend. There is no happy hour. Every day this business is attached to my hip like a 1 year old special-needs child. You, of course, only see the fruits of that garden — the nice house, the Mercedes, the vacations... you never realize the back story and the sacrifices I've made.

Now, the economy is falling apart and I, the guy that made all the right decisions and saved his money, have to bail-out all the people who didn't. The people that overspent their paychecks suddenly feel entitled to the same luxuries that I earned and sacrificed a decade of my life for.

Yes, business ownership has is benefits but the price I've paid is steep and without wounds. Unfortunately, the cost of running this business, and employing you, is starting to eclipse the threshold of marginal benefit and let me tell you why: I am being taxed to death and the government thinks I don't pay enough. I have state taxes. Federal taxes. Property taxes. Sales and use taxes. Payroll taxes. Workers compensation taxes. Unemployment taxes. Taxes on taxes. I have to hire a tax man to manage all these taxes and then guess what? I have to pay taxes for employing him.

[I have an idea for you, Mr. Businessman. Why don't you simply pass those taxes on to your customers in the price of your product or service? Your competitors face the same business environment, hence the same taxes. As to your allegations of problems with "uncertainty", I say you are a p*ssy. –SteveB]

Government mandates and regulations and all the accounting that goes with it, now occupy most of my time. On Oct 15th, I wrote a check to the US Treasury for $288,000 for quarterly taxes. You know what my "stimulus" check was? Zero. Nada. Zilch. [Because you're rich! The stimulus part is that poor people will spend the money and stimulate demand for goods and services like yours, dummy businessman. What a whiner! –SteveB]

The question I have is this: Who is stimulating the economy? Me, the guy who has provided 14 people good paying jobs and serves over 2,200,000 people per year with a flourishing business? Or, the single mother sitting at home pregnant with her fourth child waiting for her next welfare check? Obviously, government feels the latter is the economic stimulus of this country.

The fact is, if I deducted (Read: Stole) 50% of your paycheck you'd quit and you wouldn't work here. I mean, why should you? That's nuts. Who wants to get rewarded only 50% of their hard work? Well, I agree which is why your job is in jeopardy.

Here is what many of you don't understand ... to stimulate the economy you need to stimulate what runs the economy. Had suddenly government mandated to me that I didn't need to pay taxes, guess what? Instead of depositing that $288,000 into the Washington black-hole, I would have spent it, hired more employees, and generated substantial economic growth. My employees would have enjoyed the wealth of that tax cut in the form of promotions and better salaries. But you can forget it now.

[Sorry. It doesn't and can't ever work like that, sucker. –SteveB]

When you have a comatose man on the verge of death, you don't defibrillate and shock his thumb thinking that will bring him back to life, do you? Or, do you defibrillate his heart? Business is at the heart of America and always has been. To restart it, you must stimulate it, not kill it.

Suddenly, the power brokers in Washington believe the mud of America are the essential drivers of the American economic engine. Nothing could be further from the truth and this is the type of change you can keep.

So where am I going with all this?

It's quite simple. If any new taxes are levied on me, or my company, my reaction will be swift and simple. I fire you. I fire your co-workers. You can then plead with the government to pay for your mortgage, your SUV, and your child's future. Frankly, it isn't my problem anymore.

Then, I will close this company down, move to another country, and retire. You see, I'm done. I'm done with a country that penalizes the productive and gives to the unproductive. My motivation to work and to provide jobs will be destroyed, and with it, will be my citizenship.

While tax cuts to 95% of America sounds great on paper, don't forget the back story: If there is no job, there is no income to tax. A tax cut on zero dollars is zero So, when you make your decision to vote, ask yourself, who understands the economics of business ownership and who doesn't? Whose policies will endanger your job?

Answer those questions and you should know who might be the one capable of saving your job. While the media wants to tell you "It's the economy stupid" I'm telling you it isn't.

If you lose your job, it won't be at the hands of the economy; it will be at the hands of a political hurricane that swept through this country, steamrolled the constitution, and will have changed its landscape forever. If that happens, you can find me in the South Caribbean sitting on a beach, retired, and with no employees to worry about.

Signed, Your Boss (Michael A. Crowley, PE)

20111114-27	23:33	SteveG & Fred	Fw: Letter from an Employer (Part 2)

from Fred:

http://joetapias.com/2011/10/17/ceo-letter-to-his-employees-michael-a-crowley-of-crowley-crisp-associates-inc/

This second letter, allegedly from Mr. Crowley, looks like it was written by someone else with a very conservative axe to grind.

Fact is...

Crowley, Crisp & Associates, Inc
1906 S Main St Ste 122
Wake Forest, North Carolina 27587-5033

View full company profile

Stock Symbol:	Crowley, Crisp & Associates, Inc
Line Of Business:	Engineering Services
Estimated Annual Sales:	$500,000
Estimated # of Employees:	6
Year Founded:	1998
Estimated Employees for This Location:	6

Mr. Crowley is a professional engineer and has 6 employees. The company's annual gross sales are $500,000 from which he has to fulfill his company's projects and make a profit. From his profits (what.. 25% of $500,000 ?) he has to pay himself and his staff [No, salaries are paid <u>before</u> profit, but we could use your 25% figure for the sake of argument. –SteveB] and build his company. I give him full credit for having the initiative to do what he did. At his pay level he will do nothing but benefit from Obama's plans for taxes and for health care.

The letters that he wrote, if he did write them, represent someone whose personal income is more like $500,000 per month. That person does not want to pay additional taxes and would be concerned about an employees health care plan. Mr. Crowley would not.

20111114-28	23:45	SteveB	Re: Letter from an Employer (reply to SteveG, above)

I hadn't thought of it before, but I think your friend Fred is exactly right. The real Mr. Crowley could hardly have written this letter unless he is fantasizing about his income. Maybe he has portrayed his dream situation, not his real situation.

—Friends of the Middle,
Steven W. Baker (SteveB), Editor/Moderator

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