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Bikers Meet The Kids

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Last Thursday evening, my wife had plans with a group of like-minded Moms for dinner, chat and relaxation away from the family. Of course, being the supportive husband that I am (sic), I encouraged her to go as I would take care of the three little angels!

Knowing the best way to keep the troops under control was through good ole fashioned bribery, I packed everyone up and headed to the local ice cream shop for some treats and running around. When we arrived, I noticed a packed parking lot, not from one of the local little league games that usually play, but rather from a biker get together!

My first reaction was to turn around and go home, telling the kids that the ice cream shop was closed. On second thought, why not just go in and mind our own business. After ordering our ice cream, my kids chose a table very close to where some of the motorcycles are parked.

Needing napkins from the mess we were all making, I quickly got up to grab some. When I got back about a minute later, I found my five year old and three

year old in deep discussion with a small group of long haired, leather clad, tattooed bikers! My kids wanted to know why they drove motorcycles and not cars. Could they have a ride? My son asked what their favorite ice cream was and if they wanted some of his vanilla with nerds on top!

I just shook my head. Before long, my kids had this small group of bikers trying to make the baby laugh with funny faces and sounds, as I sat dumbfounded! When it was time to leave, the two kids said good bye to their new friends, letting them know they would be invited to their next party!

The cliché certainly apply here. Never judge a book by its cover!

Now on to the markets with that not-so-perfect segue. I want to talk about the current state of the stock market, in light of the apparent rescue of Fannie Mae and Freddie Mac by the government over the weekend.

### **Paulson & Schatz On The Same Page**

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For the past few months, it became obvious that neither Fannie or Freddie, two government sponsored enterprises, could continue in their current form. Without some type of intervention, they would eventually become insolvent, threatening not only the mortgage and housing markets, but global financial markets as well. It's the classic case of being too big to fail, a topic for a different conversation.

A few months ago, in this newsletter, I briefly talked about my own idea for a rescue of the ailing entities and got to air a sound bite of that on CNBC here, [CNBC Interview](#).

Nothing in my mind has changed. By not wiping out or severely injuring the stock holders and corporate management, the government would only encourage more reckless behavior that led to this calamity.

Although I am about as far from an expert on this topic as possible, I favored a Chrysler type rescue that had both up and downside for the government. From my brief read of what's taking place, it looks like more or less what Hank Paulson had in mind. I'm just wondering why he didn't consult me earlier?????

There will be a cash infusion now with much, much more over time, preferred stock and warrants, leaving the government with total control through a conservatorship. It's too early to estimate what the ultimate cost might be, but it should certainly exceed \$100 billion.

That's the bad news. The good news is that IF the Fed's plan works and the mortgage and housing markets begin to stabilize and recover before the money runs out, then the government and tax payer could actually recognize a significant profit from this plan! So we all have risk and reward.

What Does This Do And Not Do?

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In the short-term, I believe mortgage rates will begin to trend lower as domestic and foreign investors will buy Fannie and Freddie mortgage backed securities without demanding large premiums. It also acts as another weapon in the war against the credit crisis by providing much needed liquidity and moving of assets to unclog the system.

Additionally, this should boost confidence in the financial markets overall as the Armageddon scenario has been averted, at least for 2008. Ain't election year events interesting?

What doesn't this rescue accomplish?

This does not cure the housing debacle. It only softens the blow and prevents a complete and utter global meltdown. Time is the only thing that will cure our illness. With very little new residential construction for the foreseeable future, organic demand alone will eventually sop up the excess inventory on the market and begin to restore stability.

The government plan also won't cure our economic malady. That's another thing that is going to take time. The interesting things to be on the lookout for are any more shoes left to drop. Will credit cards or auto loans be next? What about commercial real estate?

The longer we go without these areas collapsing, the more likely it is that the economy can begin to strengthen for good. But that's putting the cart way before the horse!

### **What Does This Mean For The Stock Market?**

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In the very short-term, you can expect a huge surge in stocks, led by the

financials, tomorrow morning, somewhere between 2 and 3% as relief sets in and shorts run for cover. As big as that seems, it just takes the indices back to the levels before Thursday's collapse. But these kinds of rallies have failed miserably for most of 2008 and we should expect the same until proven otherwise.

Friday's action was somewhat constructive and I believe that the stock market was going to rally no matter what early this week. In the throes of the decline Friday morning, the major indices breached levels that analysts viewed as critical.

In my 20+ years in the business, I have been wrong enough times to fill a book. But in most cases, I have used these as learning experiences. When the masses view certain prices levels as crucial, I just don't believe it's coincidental that they often get breached and then immediately reverse course. That's what happened on Friday and should continue higher Monday morning.

For this to be the beginning of something more than just a hard bounce, we absolutely must see volume jump and leadership reemerge. I want to see broad based participation and stocks build day after day.

Otherwise, this rally will be doomed to fail and seen as yet another selling opportunity before rolling over to exceed the summer's lows in the coming few weeks.

Friends And Family Plan

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