

# G-2

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It's a snowy and frosty morning here in Santa Fe and there is much to cover in this Issue #14 of G-2, my finance intelligence newsletter. Response and feedback from last issue was positive and several of our readers even now look forward to each issue to keep them informed and wired into current business events and happenings. With each issue of G-2, it seems that I am becoming more critical of the Obama administration handling of the Great Recession and the current every so slow Great Recovery that hopefully is underway. The Wizards in DC are hard at work daily crafting more taxes and novel fees to levy on the small, medium and largest businesses. Reality will one day set in and enlightenment will come to this administration and Congress that businesses not government create new jobs and if you choke them with a plethora of new taxes and chop off any hope for a bottom line, they just resist any new hiring or expansion plans. Obama's new plan for a "Responsibility Fee" of \$50 billion on the Big Banks is absurd and counter-productive. This new tax would start June 30 and would hit BofA, JP Morgan/chase, Wells Fargo and Citigroup the hardest and they were the biggest beneficiaries of TARP. Most have paid back the TARP monies. Current losses in TARP are \$117 billion. My read is that this new "Tax" on liabilities is aimed at an unpopular industry and will end up hurting most citizens. GOP Chair Michael Steele calls it "nothing more than another tax on the American People". The administration believes that this new Responsibility Fee will raise \$90 billion over 10 years and \$117 billion over 12 years. This new tax and coming substantial increased fees for FDIC insurance will assure that most banks will be forever burdened and their long term health & profitability is in deep question.

This new legislation is authored and written by Rep Barney Frank and soon departing Senator Chris Dodd. No two members of Congress did more to encourage the current financial crisis by preventing the reform of the government-sponsored housing behemoths Fannie Mae and Freddie Mac. This new proposed legislation needs to be shot down as anti-capitalism, arbitrary and capricious. After losses of 7.2 million jobs since December 2007, this regulation and new tax is out of order. Impose the tax and watch for more government capital required to keep the banks healthy and alive. This over-reaching and socialistic tactics will backfire on the Obama administration.

24 Banks went down and we closed by the FDIC in GA in 2009 and the FDIC now has restocked its insurance fund and expects to be more aggressive in closing banks in 2010. The real wild card in 2010 is commercial real estate with banks holding

nearly half of commercial real estate debt and \$500 billion coming due annually through 2013. New Mexico with only a population of 1.8 M citizens and only 140 banks, seems like it has escaped the massive bank failures of GA, FL and NV. No major NM bank failures and Friday afternoon visits from FDIC officials occurred in 2009. Five of the NM banks are on the watch lists, have had supervisory actions taken against them while all are increasing capital reserves, limiting loan exposure, making fewer new loans and seeking more deposits. These five banks and other Community Banks once concentrated on residential construction and land development but both sectors have been smashed by the recession.

Congress is pushing for the creation of a single bank regulator, the proposed Consumer Financial Protection Agency. Many have said that 2009 was the year of placing banks in a deep freeze to stabilize the patient and 2010 will be the year to commence serious surgery by removing the cancer of toxic assets and moving forward to the hoped for recovery. The Feds are ordering many weaker banks to raise Tier-1 capital or sell themselves or the FDIC will do so for them. Insiders have predicted 2000+ bank closings in 2010. Buckle your seat belts and if you are a shareholder in a bank of any size, do check their Texas Ratios monthly.

Charles Blow of the New York Times had a most provocative Op-Ed piece this week on Sarah Palin, former VP candidate and calls her Lady BlahBlah and suggests her move to Fox News a shrewd one because she is made for TV, is very telegenic, and her timing is impeccable. This certainly is good prep for her anticipated campaign for the White House in 2012. Face time on TV and interviews will sharpen her already sharp sword and should be good for Fox as well. Their #1 TV ranking will be enhanced by her addition. Go Sarah Barracuda!

The price of providing life support for Freddie and Fannie keeps going up as Treasury removed the \$400 billion dollar cap. These limping GSE (Government Sponsored Enterprises surely rank for the US Taxpayers as one of the worst policy disasters in our history. Most of the damage was done from 2005-2007 when both GSEs went bonkers on risky mortgages. By the end of 2008, Fannie and Freddie held or guaranteed 10 million sub-prime or Alt-A mortgages and mortgage backed securities (MBS) with a total principal balance of \$1.6 trillion dollars. Rep. Barney Frank's decision to "roll the dice" on subsidized housing will haunt us for decades to come. The first and most assuredly not the last victim was Bear Stearns, the smallest of the five major Wall Street Houses but one that invested heavily in risky MBSs. The roots of this crisis go back to 1993 when Freddie and Fannie began stocking up on sub-prime and risky loans while reporting them as prime. These two GSEs are walking wounded and need to be retired to Antigua.

Nike today introduces its new line of clubs for 2010 and most surprising is the fact that golfing great Tiger Woods is missing from their sizeable promotional efforts. The new Victory Red STR8-FIT Tour fairway woods are on sale Jan 28 for \$299 with input and promotion from all of Nike's golf stars except Tiger. Nike Golf booked revenues of \$648 million in 2009 but it appears that 2010 will be without

their main man. They look forward to his return to play but plan to keep him on the bench for some period. Tiger made Nike golf over the last 14 years after signing in 1996 when Nike was a upstart in the golf business and he was just a just a 20 year old. Time will tell if Nike remains as one of his shrinking list of sponsors. Earlier rumors of an un-named condom company replacing Nike are fallacious sources reveal.

On the New Mexico investment front, losses continue to mount from advice taken by the State Investment Council (SIC) from Chicago based Vanderbilt Capital. Losses have grown to \$155 Million dollars and could reach \$200 M. The SIC invested in collateralized debt obligations (CDOs) and over 90M has been written off as worthless to date. Bob Jacksha, interim State Investment Officer has likewise been under fire after the firing of Garry Bland, former SIC Officer. New subpoenas are flying and the SEC and FEDs have landed in New Mexico with special bulls-eye Tee shirts for the Governor and several of his cronies called “Friends of Bill”. More on Boss Hog as meaningful events unfold. The NM Legislature opens today for a short session with Richardson’s last State of the State address. To further distance himself from SIC decisions & SEC scrutiny, Richardson no longer attends monthly SIC meetings that he is the Chair. Go figure.

Announced today Jan 19, Warren Buffett of Birkshire Hathaway is splitting his Baby B shares 50 to one thereby reducing the hefty price of B non voting shares from \$3247 per share to more like \$65 per share at Fridays close. . No as a B share holder you can not vote but you do get to attend the annual love fest in Omaha annually that last year attracted 35,000 people. This stock split also benefits new shareholders from his acquisition of railroad giant Burlington Northern Santa Fe allowing them to take stock instead of cash. Read [Snowball](#) for more on Warren Buffett, one of my favorites.

The Prozac inspired US Economy continues to limp along with few bright spots. Employment is hanging at 10% and should move higher as we move into 2010. The real engines of job creation, true entrepreneurs, are in the “bunker” and finding financial support most difficult from Friends & Family who no longer answer their calls, banks that have shut the loan window for start-ups and VCs who are nursing walking wounded portfolio companies and increasing less interested in start-ups. Business Angels may well lead the hoped for recovery and be one of the few remaining sources of seed and early stage capital.

With the belief that “The mind can only absorb what the seat can endure”, we’ll close this Issue #14 and welcome as always your comments and very gentle critique.

Tarby Bryant, Editor & Chief  
The Big Stick in the High Desert