

G-2

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Good Morning from Santa Fe. In this long delayed November Issue of G-2, my Finance Intelligence Monthly Newsletter, we'll discuss the recovery from the Great Recession, the credit crunch, jobless recovery, the new startup prospects, bank crisis and why only 2% GDP growth in 2010. Recent developments in China and Dubai are worrisome as all economic engines, not just ours, seem to be sputtering. With a hyper active new Obama administration and a willing and supportive legislative branch, the intervention of government into the financial crisis is well documented. The economic stimulus injection of the last 18 months is unprecedented and history will record its pure effect as the \$12 billion dollar national debt and \$383 billion in annual interest, which is much beyond my comprehension. We have clearly opened the door to inflation coming soon.

We need to get ready and prepared for a "Jobless and Half Recovery" where the bigger companies are laying off folks and cost cutting. The only sectors adding jobs are government, education and medical. Many predict that the recovery will not arrive until mid to late 2010 and will not exceed a 2% increase in GDP. I suspect that any true increases in employment will come from small business and new startup businesses but this will be constrained by the current credit crunch and lack on lending to small and medium sized businesses by our banks. Many new businesses are now turned away from both bigger banks and community banks still shell shocked from losses in residential and commercial real estate and dangerously high "Texas Ratios". 124 banks have now failed in 2009 YTD and the destruction of wealth caused by closing these banks to shareholders and principals is taking it's toll. WAMU was the largest to go down in 2009 and later absorbed by JP Morgan Chase. Atlanta, Ga. has been the hardest hit by bank closures and is called the "Circle of Death" with more closures anticipated as the Atlanta's residential market sputters.

I have just finished Last Man Standing by Duff McDonald and this story of the rise of Jamie Dimon, Chairman of JPMorgan Chase is a well crafted and insightful coverage of his ascent and role as the "Go To" Man of the current Great Recession of 2008-2009. This new book is excellent reading on cold winter nights.

As the unemployment rate surged from 9.8 in September to 10.2 in October and expected to go even higher early next year, we need to assess what can be done to put America back to work. In depressions and recessions of the past, public works projects created jobs and small business creation was the engine of growth. To prevent a renewed double dip downturn, stimulus spending and government programs must be created and implemented. The Fortune 1000 companies are in survival mode, cutting costs and adjusting to reduced demand for their products and services and are not hiring but laying off additional workers every quarter. 7.3

million FTEs have been eliminated since the Great Recession began in December of 2007.

I contend that New Businesses, not Small Businesses are what really create jobs. Some have suggested expansion of the current “Entrepreneur’s Visa” and I support this and a dropping of the \$1 million dollar capital required for immigration. We are looking for “job creators” and new technologies to solve the worlds numerous problems. I also support programs to bring technologies out of our National Labs and Universities through licensing and royalty sharing. These new businesses also need unfettered access to capital for expansion and growth. The Obama administration is planning to expand the Small Business Administration loan programs, increasing the amounts, reducing fees and speeding the approval process for 7A loans.

Angel groups, clubs and forums play a critical role in capital sourcing for these new business engines as VCs and Investment Bankers have pulled back and are rarely investing today in seed and early stage companies. We also need to make it easier for young companies to go public and reduce the compliance with Sarbanes-Oxley Act of 2002. The very expensive requirements for auditing of internal controls and requisite paper work are an unnecessary time and financial burden on these job creating dynamos. A recent FED study revealed that 35% of all banks have tightened their loan standards and 65% are charging more for loans and most have decreased their lines of credit to commercial customers. The credit crunch is real if you are a small growing business with deals failing to get done due to newly imposed bank policies. Credit card limits and merchant accounts are constrained and further add to challenges of growing a young business.

I expect this 2010 recovery to be a “Jobless Recovery” with many constraints on new hires. Any pickup in growth should be belated and weak. Many businesses I talk to are seeing some light at the end of the black tunnel but are not planning major new hires and are planning to keep head counts down. The next big shoe to drop is in the Commercial Real Estate Sector where limited demand for goods and services has created vacancies in malls, retail shops, hotels and in demand for office space. The Fall of Lehman Brothers in mid 2008 was most damaging as they were the prime securitization vehicle for commercial real estate ventures and developers. In October 2009, Capmark declared bankruptcy and they were the major lender to developers of office towers, retail malls and hotels. The community banks are out of the real estate lending business and are in survival mode and looking to increase their Tier 1 capital, not make loans.

The 2007-2009 Great Recession has impacted all corners of the economy including the very wealthy who have lost 25-40% of their portfolio value due to the market decline. Additionally, they are unsettled with the general economy and general feelings of being over taxed and unsure where to deploy their capital for appreciation and safety. This uneasy feeling will further delay the recovery as discretionary purchases and even elective surgeries are delayed or postponed forever.

More later.....Remember: “Life is not about how you survive the Storm...but how you dance in the Rain.”