ANOTHER BLOW FOR FREE MARKETS
WEB BUZZ 2007.10.15

It was just announced this week that a group of banks headed by Citigroup are forming a new entity called the Master-Liquidity Enhancement Conduit. This organization was created to purchase some $100 billion of an estimated $400 billion plus of "toxic waste" debt securities held in the off balance sheet units of these very same banks.

What we would like to know is why did the accounting firms allow Citigroup, Bank of America, and JP Morgan Chase, among others, to hold these assets and their corresponding liabilities without disclosure to their stockholders? Is $400 billion not a material item that needs to be accounted for?

The express reason for the new entity is to prevent the banks from having to sell these assets at distressed levels. By doing so, they can hold them to maturity and hopefully get their money back.

We wonder, how can you come to a reasonable or, better said, *proper* market price for these assets when you are negotiating with yourself? It just seems to us that we have two worlds out there when it comes to financial matters. Participants such as Central Plains Advisors, which we would term "Main Street" firms, play by one set of rules, and Citigroup et al play by a set of rules made up day by day in concert with the Treasury Department, the Securities Exchange Commission, and the accounting profession. Main Street firms are too small to save, and Wall Street bankers are too large to fail. Main Street people follow fundamental and technical research. Wall Street people speculate with black box computer driven voodoo mathematical formulas and collect high fees while trying their best to pass along the risk to the naïve investor.

We are beginning to believe that the 1999 repeal of the Glass-Steagall 1930's Act, which separated the commercial banking industry from Wall Street investment banking, was a big mistake. The financial markets are just too important to leave to bankers.