

PLEASE CHECK YOUR HOLE CARD

The plot thickens as it concerns the “superfund” being set up by Secretary of the Treasury, Hank Poulson. As you may recall, this fund is a price-fixing mechanism to keep the banking industry—both commercial and investment—from going broke. Our Web Buzz of October 15 was on this same subject, as you might remember. If not, please read it by visiting our web site, clicking on the Economic Writings link on the left-hand side, then selecting Web Buzz archive, then the October 15, 2007 link.

According to information received October 19, 2007, Pimco and Fidelity have joined Citigroup, Bank of America, and J.P. Morgan Chase in this conglomeration. As we are writing this, we suspect Pimco may opt out, but we are not sure yet. Others worldwide are being asked and/or coerced into joining.

My friends, if you and I were doing this, it would be blatantly illegal. There are also ethical reasons for not colluding in such a manner. Without government sponsorship, anyone doing this would go straight to jail and be embarrassed out of their industry. Investment bankers have sliced and diced as much as \$1 trillion worth of bad loans. This toxic waste mostly resides with mutual funds, pension funds, charitable foundations, and other so-called sophisticated advisors and pools of money. However, billions did not get distributed, and thus resides in bankers’ portfolios. They want us, the taxpayers, to pick up the tab. We say no!

As we have in the past, we again encourage you to check all your investments and banking (both commercial and investment) relationships. This mess is not going away. Trust is what the investment business is based on—when it’s gone, there may be nothing left.

As an aside, we would like to relay an actual experience that Don Peters, our chairman, had in the 1980’s. One of the banks—that his then firm became a consultant to after the fact—ran into trouble with the State of Kansas Banking

Commission. The man who handled the government and municipal portfolios had made a bad decision in his government portfolio. At the time of examination, when marking the government portfolio to market, there was a huge paper loss. On the other hand, he likewise had a similarly sized gain in the municipal portfolio. Don suggested they sell both portfolios, thereby creating cash, having no actual losses. The bank would actually be stronger by doing so, and have no impairment of capital. The Commission said no. Their reason, among other things, was that if they took Don's advice, it would still leave in place someone they perceived as having poor judgment. That person was also the owner of the bank.

How does this apply to the superfund? Through government interventions and antitrust execution, there will remain in place people with poor judgment. And guess what? We will probably have to bail them out again--this extends the moral hazard, which will likely deplete our hard-earned savings.

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We are very concerned about the current state of the economic and financial markets. As there are thousands and thousands of "experts" in the financial community, undoubtedly pulling you every which way as to asset allocations, we strongly urge you to at least hear what we have to say.

Please feel free to contact CPAI at any time--night or day--concerning any issues you may have about the economic conditions we face. Our clients are spread over 34 states, which makes it difficult to see each one of you face to face. Once again, let us reiterate that we encourage you to call us with any questions or concerns you may have at any time.

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