

## **THE FED HAS CALLED TIME OUT**

**2008.06.30**

For the first time in many months, the Federal Reserve has decided to put a hold on interest rate reductions. We agree with their decision, as lower interest rates will not solve this country's problem. Let us repeat it again: the major banks in this country are broke—if you and I owned them, that is. The primary dealers who buy the government debt will be kept alive no matter what. Large regional banks are also coming under pressure, and only time and additional capital will save the day.

Warren Buffet has been in the news lately looking for investments all over the world. We would suggest he save his money. He—and possibly Bill Gates—may be needed to become the modern-day equivalent of J. P. Morgan, who saved the U.S. financial industry during the panic of 1907. J. P. Morgan was later the primary instigator in creating the Federal Reserve in 1913—apparently he did not want to be the savior the next time around. Isn't it ironic that this institutional savior is the major cause of the problem we find ourselves in now? *What goes around comes around.*

Of course, the above is just part of the problem. The larger concern is that the American consumer is under extreme financial pressure. We would invite you to do an internet search for the Marlin Company Attitude Survey just recently completed by John Zogby. It's quite possible Wall Street does not understand what's going on with the average American, but you will after viewing this survey.

There are a lot of reasons why we do not expect the economy to quickly rebound. The above two—weak banking systems and the financially stressed consumer—are, of course, primary. The weak banking system also accounts for other problems. The first is the debt liquidation phase, which is going on now, and the other is the fact that their capacity to lend will be limited for some time to come. For example, to date they have lost \$300B with much more to come. Bank analysts suggest this will

**limit their lending capacity in the future by trillions of dollars. Remember, we have a fractional banking system.**

**Things could be worse, of course. But we're not sure how.**