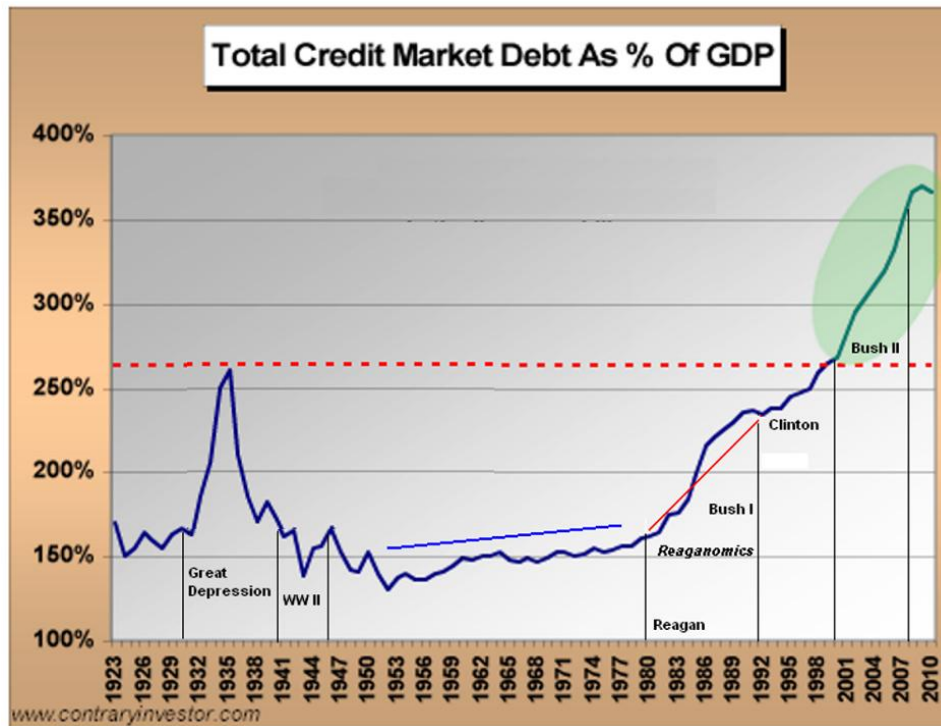


WHAT DELEVERAGING?

WEB BUZZ 2010.09.07

A look at this chart shows that we have a long way to go to reverse our country's over indebtedness.



This chart includes household, corporation, and government debt. Interestingly enough, although the chart does indicate a small reduction of credit market debt to GDP, it is somewhat misleading. For example, government debt is increasing at a rapid pace, as we all know. Corporate debt has increased over the last several years to an all-time high of \$7.2 trillion (as of 3/31/10 - the numbers for the close of business 6/30/10 will be announced on 9/17/10). Only the household sector has shown any reduction, that being the miniscule amount of \$300 billion over the last two years, which is only 2.2% of their debt. But even here there is a catch - banks have charged off some \$800 billion; therefore, on a cash basis, households have added \$500 billion in debt. The

result as we stand here today is that we have an economy still dependent on debt which must be reduced if we are ever to have a robust economy.

On the income side, household real disposable income has not increased at all over the two months ended July 2010. In the corporate sector, profits have been quite good - better than expected. And, of course, we all know that the federal government is running \$1+ trillion deficits, and state and local governments are having to lay off people and cut other expenditures. All of this adds up to no to slow growth in GDP numbers for the period ahead. Another measure of income is that there are 41 million people on food stamps and over 10 million receiving unemployment insurance. If one counts social security, approximately one in six people in this country are receiving some form of government payment.

The point we are trying to make is that we are on an unsustainable track which will bring this country to its knees if things are not changed over the next five to ten years. Adding more debt when you already have too much is not good for anyone. Pay down debt!