



Those who cannot remember the past are condemned to repeat it. Santayana

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WINTER WARNING



They Behave as Though Ignorance Were a Virtue

During recent hearings held by the U.S. Congressional Committee on Oversight and Government Reform, credit rating agency executives were questioned about their corporate roles in assessing the risks of mortgage-backed securities. Raymond W. McDaniel of Moody's Investors Service, Deven Sharma of Standard and Poor's and Stephen W. Joynt of Fitch Ratings all denied that conflicts of interest impaired their judgment in their failure to evaluate mortgage-backed securities on a realistic basis. Indeed, these agencies employ long-established and detailed business models for the purpose of risk assessment. Therefore, what is the reason why, in the words of Committee Chairman Henry Waxman, *"the story of the credit rating agencies is a story of colossal failure."* The answer is that their actions were motivated by the high expectation of reaping excessive profits. By awarding derivative products with unrealistically high credit ratings that they knew were unwarranted, *"the rating agencies broke the bond of trust"* to quote Mr. Waxman.

Alan Greenspan, former Chairman of the Federal Reserve Board; Christopher Cox, current Chairman of the Securities and Exchange Commission and John Snow, former Secretary of the Treasury, were also questioned by Committee members about what gaps in their regulatory roles abetted the current global credit crisis. Mr. Greenspan (who lost all my respect during the Asian and Russian currency crises of 1998) said that *"he had made a mistake in presuming that the self-interests of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders and the equity in the firms ... I have been going for 40 years or more, with very considerable evidence that my ideology was working exceptionally well."* Unfortunately, harbouring his view of the world, as an economist who never worked at a financial institution prior to his becoming the U.S. central banker, obviously, Mr. Greenspan failed to appreciate the depth and range of the banking industry's culture of avarice. What we have been witnessing recently in the financial markets of North America and around the world is the unraveling of the super greed of the investment bankers, the massive conversion of assets into U.S. dollars as a result of panic selling and the deleveraging of hedge funds on a massive scale, due to worldwide redemptions.

The More Corrupt a Republic, the More Laws

Now that details of the U.S. Government's Troubled Asset Relief Program (TARP) initiative have been determined and disclosed, the American financial system is waiting for the other shoe to drop, in the form of new and revised securities regulations early in 2009. Indeed, Mr. Greenspan noted *"I think that it's interesting to observe that we find failure of regulation all the time."* Moreover, he said that he saw *"no choice"* for regulators, but to impose legal quality requirements for certain types of securities and added that other regulatory changes would have to be made. By a similar token, Mr. Cox stated that *"the best thing that we can do is to infer lessons from what happened and prevent anything like this from happening again."* Even Harvey Pitt, a former Chairman of the Securities and Exchange Commission, is calling for *"a major overhaul of the U.S. regulatory system."*

Coincidentally, at the recent Asia / European Conference in Beijing, China, world leaders endorsed motions calling for major reform of the international financial system and for improved regulatory processes wherein *"oversight is more important than innovation."* Accordingly, U.S. President Bush has invited the leaders of the G20 countries, as well as the heads of the International Monetary Fund (IMF), the World Bank, the Financial Stability Forum and the Secretary General of the United Nations, to an Economic Summit in Washington, D.C. on November 15th. Outlining an agenda, Mr. Bush said the leaders will *"discuss the causes of the problems in our financial systems, review the progress being made to address the current crisis and begin developing principles of reform for regulatory bodies and institutions related to our financial sectors."* At the same time, Congressional leaders are contemplating the creation of a special bipartisan panel in the new year, in order to draft legislation which will revise financial services regulations. Be assured, U.S. regulatory changes for securities are coming in 2009 and one can only hope that the new regulations will not represent overkill. However, as history has shown us, the penchant for overdoing things is embedded in the American psyche and, particularly, within the current situation, because America, custodian and guardian of the world's reserve currency, is financially embarrassed on the global stage, to say the least.

Gird up Thy Loins, the Worst Is Yet to Come

As stated in my October 6th. newsletter, *the U.S. is on the verge of leading the world into a severe global recession.* Forsooth, the global economic recession is now unfolding before us in spades. Country after country is revealing some aspect of economic malaise, be it currency devaluation, falling industrial production, reduced consumer demand, soaring unemployment or seeking out loans from the IMF, to wit: Japan, China, Ireland, France, Germany, Italy, Iceland, the United States, South Korea, Australia, India, Greece, Great Britain, Iceland, Russia, Belarus, Argentina, Hungary, Pakistan, Switzerland, Canada, Serbia, Denmark, the Netherlands, Kuwait, Saudi Arabia, Romania, Ukraine and Turkey are all affected. These countries and others can expect an inevitable rise in their unemployment months ahead.



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Currently, in America, well known corporations such as Merck, Yahoo, General Electric, Xerox, Pratt and Whitney, American Express, Motorola, Goldman Sachs, Whirlpool, Bank of America, Alcoa, Coca-Cola, Starbucks, Hewlett Packard and Dell are all experiencing significant layoffs and downsizing. Moreover, a General Motors / Chrysler merger would, not only, result in many plant closures, but also, take a huge toll on auto supplier companies; resulting in the loss of several hundred thousand jobs, on a national basis.

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