

The King Report

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“Independent View of the News”

Most of the financial media attributed yesterday's rally to hope that the bailout will soon pass. There was no mention that yesterday was the end of Q3 so institutions, hedge funds and traders marked up positions to game performance...And markets were thin due to Rosh Hashanah.

That's why we stated in yesterday's letter that barring ugly news, performance gaming would occur.

Once again the credit market diverged from the stock market. Funds traded as high as 7% due to insatiable credit demand, particularly from Europe. This pushed the dollar sharply higher.

The Times with a different perspective than the US media: **Wall Street rally hinders attempts to save bailout** [What about the increase in consumer confidence for September?]
http://www.timesonline.co.uk/tol/news/world/us_and_america/article4853975.ece

We now understand why Hank, Ben, solons and Street shills are applying extreme pressure and the most grotesque financial scare tactics in US history in order to get the big bailout passed ASAP.

The more we contemplate the bailout, the more flawed and deceptive it appears.

When the public dismissed the duplicity that the bailout was to buy mortgages, the bill backers shouted 'your credit will be cut off' and 'your jobs will be lost'.

But the big bailout plan asks people that pay taxes - a preponderance of people that don't pay taxes are not qualified to get credit - to cough up a dollar and in return something less than a dollar of credit MIGHT be generated. Hedgies, private equity, brokers and some foreign entities do not provide credit.

And if bailout apologists aver that credit will be supplied even to people that are not credit worthy, you can ask them, 'Isn't that how we got into this mess in the first place'? The cure is the disease?!?

Another thing that bugs us about the bailout is the nonsense that the taxpayers almost surely will make money. This logic assumes that there are stupid buyers as well as stupid sellers in the market.

The stupid sellers will hit the taxpayer bid even though Congressmen, Street shills and their financial media acolytes told them that the paper will be sold at a higher price because the fund will find some stupid buyer to pay up for the toxic merchandise that he could've bought cheaper directly from the seller.

Where do these people trade? We'd love to fade them... Please recall one of Warren Buffett's favorite witticisms that pertains to investing. "If you're in a poker game and after thirty minutes you cannot figure out who is the patsy - you're the patsy!" Who's the patsy in the big bailout? Americans know.

Let's look at some facts instead of hype, hope and abject threats. Mr. Buffett invested \$5B in Goldman, reputedly the smartest firm in the known universe. St. Warren said he did so because he expects the big bailout. Goldman then becomes a commercial bank and takes control of a Utah commercial bank.

What is Goldman intention? Does Goldman assert, ‘We’re gonna pump credit out to consumers like Easy AI on steroids’? From our Monday report: *The FT: Goldman Sachs is seeking to acquire up to \$50bn in assets from ailing US banks as part of its push into commercial banking, Goldman executives say...* <http://www.ft.com/cms/s/0/07c04856-8d87-11dd-83d5-0000779fd18c.html>

So why do Street shills, politicians and their financial media acolytes tell people that the bailout will create credit for them? Yep, you know...Facts are always an impediment to hype, hope and agendas.

Hank, Ben, solons, numerous pols and various Street leaders have been deceitful about the condition of the financial system for over one year. How many times did Street leaders assure the public that their firms were sound; capital was adequate, and then days later issued stock or bonds?

How many people bought into Lehman’s 143 million share issue at \$28 only to see the company bankrupt one month later? Do we have to get into John Thain’s assertions? How about Citi issuing stock at \$31 and change, and then several points lower? This is why SWF buying has disappeared. They were burned much higher and now they don’t trust The Street.

And this is why the credit market is in turmoil: the smartest guys in the world do not trust the big banks’ financial condition. Heck, the big banks don’t trust each other. So let’s see if we can once again force US taxpayers to play the patsy.

Oh, and while we’re taking sophistry to new all-time highs, as long as the big guys don’t trust the financial condition of each other, why don’t we suspend mark-to-market and other measures that might supply a hint as to the financial condition of a company.

We actually saw a business news commentator make the ridiculous assertion that mark-to-market accounting was not made for markets where asset prices fall! You can’t make up stuff like this!

In other words, it’s okay for financial firms and hedge funds to mark up derivatives, SIVs and other crappy paper to generate better-than-warranted earnings so their stock prices will soar and they can benefit. But if asset prices fall, they shouldn’t have to tell anyone.

Long-time readers know that we advocate that hedge funds, banks and brokers be required to divulge ‘realized’ and ‘unrealized’ trading gains so regulators and the public can see the quality of earnings.

How about this? In order to ensure that taxpayer bailout money will indeed be used to provide credit to average Americans the bill will mandate that for every dollar of crappy paper sold to the bailout fund, the seller must provide an equal amount of credit to Americans? Then there is no need to issue warrants.

This would ensure that foreigners who tap US taxpayers return the favor. The problem will be Street firms that do not provide credit to consumers. But then why should taxpayers bail them out?

Isn’t it creepy that so many people with vested interests in the bailout keep hurling threats at Americans? The word ‘extortion’ comes to mind. US history is punctuated with episodes of domestic and foreign solons threatening and actually administering financial calamity to garner something that they desire.

Several paragraphs ago you realized we were agitated. Anyone who saw our Fox Business interview realized the same. The reason is that the Congressman ahead of our segment not only spewed the duplicitous talking points for the big bailout, he also told the media that they should convince the public to back the plan. When did it become the media’s job to pimp for Congress and Wall Street?

Okay, you get partial credit for answering ‘since Bubblevision during the Great US Stock Bubble’...Why would anyone try to out-bubblevision Bubblevision?

Robert Morgenthau, NY District Attorney, in a WSJ op-ed piece: **Too Much Money Is Beyond Legal Reach** *New York-based funds are abusing 'secrecy jurisdictions.' Reports say there will be no vote on the bailout plan until Thursday.*

The \$700 billion in Treasury Secretary Henry Paulson's current proposed rescue plan pales in comparison to the volume of dollars that now escape the watchful eye, not only of U.S. regulators, but from the media and the general public as well. There is \$1.9 trillion, almost all of it run out of the New York metropolitan area, that sits in the Cayman Islands, a secrecy jurisdiction. Another \$1.5 trillion is lodged in four other secrecy jurisdictions. <http://online.wsj.com/article/SB122273062657688131.html>

Judy Shelton's WSJ op-ed piece: **Loose Money And the Roots Of the Crisis** *No one can believe in the omniscience of central bankers anymore.*

If capitalism depends on designating a person of godlike abilities to manage demand and supply for all forms of money and credit -- currency, demand deposits, money-market funds, repurchase agreements, equities, mortgages, corporate debt -- we are as doomed as those wretched citizens who relied on central planning for their economic salvation...

Think of it: Nothing is more vital to capitalism than capital, the financial seed corn dedicated to next year's crop. Yet we, believers in free markets, allow the price of capital, i.e., the interest rate on loanable funds, to be fixed by a central committee in accordance with government objectives. We might as well resurrect Gosplan, the old Soviet State Planning Committee, and ask them to draw up the next five-year plan. <http://online.wsj.com/article/SB122273029076687929.html>

Fox Business asked us to return today, so we will. Same time (12:15ish ET), same Bat channel.

BTW, we asked our driver to the TV station, the makeup person, the stage manager and one other person whose job we didn't know what they thought of the big bailout. They all voiced disapproval.

Today – SPZs are down 7.10 because of more trouble across the pond. The Telegraph: **Financial crisis: Ireland's banks are rescued** *Ireland has launched a full-scale rescue of its financial system, issuing a state guarantee worth €400bn (£316bn) to cover the key liabilities of its biggest banks and mortgage lenders...The state guarantee exceeds 200pc of Irish GDP, marking a new phase in the escalation of the crisis.* <http://www.telegraph.co.uk/finance/financetopics/financialcrisis/3111122/Financial-crisis-Irelands-banks-are-rescued.html>

Unless stocks turn very ugly traders will play for a late rally on the MOC buy orders that normally appear to start the month. And once again equity jockeys will ignore the condition of the credit market because its plight is too horrible to contemplate. Equity players might hope that Europe remains anxious over their banks because the fear is providing ephemeral support for the dollar and dollar-denominated assets.

And once again big bailout proponents will litter the media with warnings and threats of theatre-wide thermonuclear financial annihilation and endless loops of Geico Caveman commercials if the big bailout plan is not passed immediately or two weeks ago, whichever is first.

We'll rap up this rant. Not because we are exhausted at inveighing against the flawed and deceitful big bailout plan, but because we just returned from the thrilling White Sox game and we're spent.