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Economic plans for 2009 - Creating GBBRTC2

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December's Top Headlines...

*Buy Coal! Santa Set to Corner the Market

*Frosty the Hedge Fund is Melting - 40% Redemptions by 1Q '09

*To Avoid Further Elfin Unemployment, Santa and Reindeer approach Capitol Hill

*Rudolph Missing! Santa Paulson can't Navigate Christmas Storm Alone

Seriously, does anyone remember when earlier this year many said the equity and debt markets won't stay frozen for long... because there is unprecedented liquidity on the sidelines? Well, the sidelines are looking a bit parched now aren't they? The only way to turn things around is with strong fiscal policy. A fiscal jumpstart to commerce will energize job creation, end deflation, restore consumer confidence, and propel household creation. You can bet the Obama Administration is duly focused on such a fiscal solution.

As terrible as all the news has been recently, I think we are really at the bottom of this cycle and although we may be bouncing along the ocean floor for a while as more bad news is certain to come there are some very positive economic developments that have been severely marginalized by the press.

First, we need look no further than the oil and gas market. Steven Weiting of Citicorp has calculated that the precipitous drop in oil and gas prices will inject \$200 billion of unintended fiscal stimulus into American consumers by July of next year. Second, thanks to Paulson, Bernanke, and Bair, mortgage rates are dropping as they have finally produced an elixir that may begin to help the housing market. Weiting also calculates that a 1% drop in interest rates to all U.S. mortgage holders would give the U.S. consumer \$80 billion more in spending power. In reality, of course, this would never happen, but rates are falling and the combination of lower mortgage cost and higher home demand will result in an improving, yet apathetic, housing market next year... and let's face it, unlike the Japanese, we are a society that spends our spoils so, with our government leading the way, we will spend our way out and begin to rebound.

We are probably more than half way through this recession and by mid to late next year the efforts of the fed, congress, treasury, and team Obama quartet will begin to take hold and start to change our economic indicators from red to green. By the end of 2009 the U.S. economy should then shed its global patina of gloom and begin to show a glimpse of its lost luster.

#1 on all of our holiday lists should be the creation of GBBRTC2, or "Good Bank-Bad Bank Resolution Trust Corporation, Take Two".

I will write more on this in the weeks to come but the creation of such a paradigm is the only way to un-freeze our financial markets. Born by the government, RTC Take Two would establish a price floor for toxic assets, harvest them, and then redistribute them to the private marketplace. The importance of creating "Good Bank-Bad Bank" policy simultaneously is that by transferring assets to

RTC2 a mark to market basis would be established for all banks to appropriately mark their balance sheets. Those banks that become insolvent as a result would be diluted; good assets would be sold to solvent "good" banks and the bad assets transferred to the RTC2. By purging the toxic assets in such a way private capital would be more enticed to invest in good banks; possibly co-invest with the government in RTC2, and invest in the auctioned toxic assets. Essentially, GBBRTC2 would trifurcate risk in a transparent way so that investors looking to invest in the financial sector will know for the first time in a long time just what they are investing in.

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