

EMAILBLAST

An Ongoing Dialogue from
The Delta Group

REVENGE OF THE 1% LOAN (part IV) May, 2008

Crying out loud! When will this story end? What started so innocently with lax mortgage lending standards has become near terminal for the global financial system. With losses mounting for major Wall Street financial institutions, excessive hedge fund short selling (betting on the downside) was squeezing weakened investment banks (Lehman Bras / Merrill Lynch) and insurance companies (AIG) into bankruptcy. Big Brother finally stepped in last week to stop the nonsense and prevent our banking system and financial markets from collapsing.

Better late than never perhaps, yet the steps were long overdue. Short selling of financial institutions is no longer allowed. Money market funds are now guaranteed. An RTC (Resolution Trust Corp) type of agency that was used to absorb failed savings and loans in the early 90's was proposed by the Treasury to purchase the "toxic" mortgage debt from banks and brokers. The totality of the government action is designed to ease the panic in the credit markets, and restore the quickly evaporating confidence and faith in our financial system.

Last week's 8% stock market decline and subsequent rebound with the Treasury's announcement was the antidote to the market ails, at least in the short term. The long term elixir for a sound financial system is a decline in foreclosure rates and a bottom in the housing market (2009?). Oil and commodity prices have come back to last year's levels as speculators ran for cover. Gas prices, though, have not, at least yet. The US dollar rebounded 10% from its lows, and mortgage rates dropped 1/2 percent. These are all positives for the economy and the stock market, although a new bull market remains in the distance.

As always, diversification of risk remains essential for capital preservation. The markets will remain confusing and frustrating but fluctuate with less mind numbing volatility. Regardless of daily anxieties, the long term theme of investment in hard assets, including energy, industrial and materials companies remains our focus on the global infrastructure expansion in the emerging markets.

Please respond with your questions, concerns or comments.

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