

EMAILBLAST

An Ongoing Dialogue from
The Delta Group

REVENGE OF THE 1 % LOAN (Part V) Sept. 2008

Extra-Extra

*Dow chopped hundreds of points in biggest-ever point drop; S&P loses \$700 billion as
Wall Street reacts to failure of bailout legislation*

Congress' latest approval rating is 17%, while their disapproval rating stands at 73%. Their inability to pass the \$700 billion rescue plan lies at the feet of those representatives whose constituents felt that a bailout would benefit those who created the mess, while pushing the cost onto those who didn't.

Yesterday's website headline above reads what I've been saying to myself for the past week, with sickening irony. A single day's market decline on the news of the bill's failure equals the initial cost of the bill itself (the total market decline was actually \$1.4 trillion). Agonizing simple math, with continued market declines that could send the real cost spiraling upward.

Aside from the cost of inaction, the bill would enable the Treasury to issue notes at ~3% to purchase discounted mortgage pools yielding 10%+. That's a positive 7% for taxpayers. Simple math again.

The \$700 billion Treasury workout fund would purchase the mortgage "cess-pools" at 20 to 40 cents on the dollar that potentially could be re-sold to private enterprise at 40 to 60 cents when the mortgage/real estate market recovers.

The Governments' unlimited balance sheet offers a real means to secure the crumbling banking system all the while holding the potential for turning a profit. Banks and financial institutions don't have the luxury of holding these assets to maturity. Time is their enemy.

And we haven't discussed job losses and further price declines in the real estate market that would affect us all, as economic conditions worsen. Everyone's on the hook anyway. Pay me now or pay me later, someone said.

Oh, and didn't Washington Mutual and Wachovia disappear over the weekend. I thought they did. The rational financial strategy of the week (as well as the 1930's) has been to go to your local bank and take the money and run.

Uncle Sam needs to reverse this. Otherwise, game over. Fortunately, the 777 point downdraft on the Dow has got their attention.

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