

EMAIL BLAST
An Ongoing Dialogue from
The Delta Group

REVENGE OF THE 1% LOAN (Part VIII) July, 2009
The IOU

The great state of California has long been noted for its progressive attitudes, living on the cutting edge of society. In fact, during the late 90's, the State experienced a new currency, in the form of stock certificates issued by the profit-less dot.com cons. Lacking for profit, but not ingenuity, these firms issued stock to keep their organizations solvent. That creative scheme lasted until bubble-headed investors ran out of foolhardiness, and the charade ended badly with the tech heavy NASDAQ index falling 80% over the next three years.

Now ten years later, the late great state itself has (re)invented a new currency, that of the IOU. Like the dot.com geniuses, the California legislature has spent \$26B more than collected and has run out of money. While waiting for our elected representatives to complete remedial math courses, the shortfall has necessitated the issuance of IOU's to vendors and creditors in lieu of real cash.

In the meantime, the state's credit rating dropped two states, falling from 48th to 50th place (last). Playing along, the SEC deemed that the IOU itself is a security and thus would be subject to anti-fraud provisions. For the second time in as many decades, we indeed have our own currency. We are indeed a creative lot!

After almost doubling over the past ten years, the State budget suffers from excessive bloat. In play are various entitlement programs and pay rates and benefits to union employees. Although currently furloughed three days per month (-14%), the pay scale of public employees still remains ~25% higher than their privately employed counterparts. One virtue to our mini-economic depression is reeling in bloated and heretofore uncontrollable unionized bureaucracies.

"We live in interesting times," our often spoken minor revision of the old Chinese proverb, continues to bear fruit, in that our direction forward should NOT be guided by our past. The 80's and 90's have come, gone and won't be repeated. The new Millennium is setting its own rules and the sooner we figure them out, the better.

The last great bear market ran 20 years, from 1962 to 1982, with very little gain in the averages. It ran through both Democrat and Republican administrations alike. Currently, the Dow Jones Industrial Average is down ~25% from the 12/31/99 peak, necessitating a 33% jolt to break-even for the decade. With the economy and profits waning and unemployment rising, the feat appears problematic, if not impossible, in the near term.

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