

When Will the Banks Ever Learn?

Welcome to part two of my "who's going to bail you out" article.

What have bankers & brokers learned from the current crisis?

It seems they have learned nothing.

You would think they would have learned something after having had to crawl in what should have been disgrace to the U.S. government to be bailed out when they were injured. Now, the U.S. Government as a major shareholder in the largest banks today repeats the mantra of the last election commanding these failed institutions to "Change". One item of change for these institutions is to stop excessive executive pay and bonuses. But the "same old, same old" listens to no one especially not to the major shareholders.

Morgan Stanley (MS) actually announced that it was boosting executive salaries. In fact, the company announced that it intends to double its CFO's pay.

Bank of America (BAC) said the company is boosting salaries as much as 70% for its senior executives. This is after they received \$45 billion in taxpayer bailout money. They justified these salary raises by saying bonuses would become "smaller". Of course this certainly is not the case.

Citigroup (C) expects to raise base salaries in compensation for reduced bonuses as well. They state this is necessary to keep key employees from resigning. The same investment bankers who orchestrated Citigroup's \$8.29 billion loss in the fourth quarter of 2008, along with another \$966 million in first quarter of 2009? Yes, that's right these are the same guys that desperately needed \$45 billion in bailout funds while at the same time purchasing a \$50 million, 12-seat plane for themselves?

Goldman Sachs (GS). What a sweet deal! They borrowed a cool \$12 billion from taxpayers and then received an additional \$12.9 billion from **AIG**, all bailout money. Goldman Sachs has just announced that they will spread the wealth by setting aside 50% of its revenue for salaries, bonuses and benefits. That's up 48% from one year ago. The amount is approximately \$4.7 billion or \$168,000 per employee. Know of anyone needing a good paying job?

Now under the scrutiny of public opinion and political oversight of the Federal Government many of these institutions have repeatedly talked about their "duty" to repay the bailout money. Is it really because of a sense of duty or because once the money is repaid the government control of bonuses is over. Hence fatter bonus checks for the guys at the top.

Well, last week US treasury secretary Tim Geithner got to play the hero. On the morning of June 9, he notified 10 financial institutions, including JPMorgan Chase, Goldman Sachs, Morgan Stanley, US Bancorp, and Capital One Financial, that they were "eligible to complete the repayment process" for the capital they received under the Troubled Assets Relief Program (TARP).

The pay-back agreement frees the banks from restrictions on executive pay or, worse, their general practices, but it still allows them to keep the cash they've received through non-TARP venues like the FDIC Temporary Liquidity Guarantee Program- or the massive sums the banks recovered from AIG (thanks to its own federal bailout) to cover their losses on credit derivatives. Not to mention any cash provided by the mother of all cheap loan programs-the Federal Reserve.

Not only will the repayment of the bailout money remove the government oversight restrictions. But, now they will be returning the funds at below market prices. Imagine if you were offered a loan like that.

When the Government bailed out banks they received warrants from the banks in exchange for the original loan. Those warrants gave the government the option to buy bank stocks at a set price over 10 years. Now that the value of the bank stocks have more than doubled, adding significant value to those warrants the banks want to repay the loans and, in so doing, buy back their warrants.

Perhaps the banks need to be reminded that, if it were not for the taxpayers, those warrants would not be worth the paper they were printed on.

Now it was Treasury Secretary Tim Geithner who sold the U.S. taxpayers on bailing out the banks because he said that once the banks recovered, taxpayers would benefit from long-term stock gains. If we give Geithner the benefit of the doubt we would just have to say he's not very smart or we could just say he is smart just like a fox.

We are being told by the Treasury Department, "These repayments help to reduce Treasury's borrowing and national debt. The repayments also increase Treasury's cushion to respond to any future financial instability that might otherwise jeopardize economic recovery." Can the Treasury really be this naïve... or once again just smart like a fox?

Just listen to common sense. How can this reduce the national debt when these financial intuitions are only allowed to pay back \$68.3 billion, even though they really owe \$229.7 billion? Also it conveniently ignores the fact that TARP accounts for a fraction-about \$700 billion-of the government's \$13 trillion banking stabilization scheme. The second part of the Treasuries statement tells the banks if you need the money back, it'll be waiting for them right there at the Treasury Department.

What could the banks or should they be learning? We would hope they would learn Fiscal responsibility or that the price of risk-taking has consequences for all Americans. They should be learning humility in just knowing that size and salary do not equal brilliance or even competence. Maybe now they might understand that there is no such thing as too big to fail. We hope that they might catch a glimpse of reality and display at least an occasional flash of rationality.

Speaking of "too big to fail" how is that fair to the smaller banks who did not get themselves into trouble. Imagine that you own a small business and a larger competitor down the street was deemed "too big to fail" by the government. They would never go out of business, while you still could. How is that a free market?

It's time for the banks to grow up or at least learn to change their own diapers. That's really not the job of the American taxpayer. We don't have a \$13 trillion federal insurance policy to fall back upon. What we can do is to speak up and hopefully we will be heard. It is our constitutional right to be heard. As individuals we must too become financially responsible by taking back control of our own personal finances.

I'm already financially set, so ultimately what they do does not affect me much. Because I know how to trade, I'm not too concerned what happens to the US dollar, stock market or real estate prices in a general sense. But, in the sense of right and wrong as you can tell from this article I'm not happy. And if your American there is a high chance you agree with me.

What are your thoughts?

To slow and steady growth,
Big A

Who is going to bail you out?

I've wanted to write about the government bailouts for some time, but have been busy trading and teaching new students.

This short note is not about me or my system being your bail out ticket. Yes my system can help you. Yes I want to help you. But, yes you must want to bail yourself out. Bail yourself out of a losing IRAs and 401ks. Bail yourself out of a bad job. Bail yourself out of the recession. It's all about taking responsibility.

I tell my kids a quote, "The more responsibility you take, the more rewards you get in life." It's also true for us adults. No matter how good my ETF Trend Trading system is (and it is good), it does not mean anything if you don't want to change your situation.

The reason many people are not financially free is because they gave their responsibility to someone else. The true way to any type of freedom and success, whether it is in work, marriage or investing is to take full responsibility. If you take responsibility you are granted authority. With authority comes freedom. There really is no short cuts or ways around it.

If you are looking for a government bailout, get in line. I'm sure it's a long line and moving very slow for anyone foolish enough to wait in it. I don't know about you, but I'm not expecting any help. I'm not expecting a dime from social security. I'm not expecting the dollar to hold its value long term (over the next 30 years). I'm not expecting low inflation.

Don't get me wrong, I'm not here to bash the government. I'm an American and want the best for my country. More importantly I want the best for all who want to take personal responsibility of their future. If you will do that, my system (when followed correctly) can do the rest.