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OCTOBER WAS THE CRUELLEST MONTH

Beginning on the first line of his classic poem, *The Waste Land*, T. S. Eliot (1888-1965) wrote "April is the Cruellest Month."

Although I often found much of Mr. Eliot's poetry difficult to understand, I did enjoy that which I was able to understand. But now I have discovered a pardonable error on T. S. Elliot's part, despite his having been educated at Harvard, the Sorbonne and Oxford.

April, in fact, is not the "Cruellest Month." Simply stated in American-English and spelling: "October, 2008 was the Cruelest Month."

<u>Markets</u>: Those of you who have been reading our Commentaries and Clients' Reports over the years know that we have anticipated the events which have so devastated the financial markets over the last many months which history will probably credit the beginning date with the 85-year-old investment banking firm Bear Stearns' collapse on March 14, 2008 when J P Morgan bought the company for $2 a share. The stock had traded over $150 within the previous twelve months.

For example, for the year-to-date the Dow Jones Industrial Averages are down almost 35%, the S&P 500 almost 39% and the Nasdaq down almost 40%.

While our forecasts, unfortunately, have proven to be accurate, it has been impossible to predict the timing and degree of the problems that have been created first by the Credit Crisis that was then followed by the Economic Crisis.

The problems have largely been caused by what people refer to as "Wall Street," and "Wall Street," as you know, has been hurting mightily as a result! "Wall Street" includes many more people than just bankers, lawyers, brokers, accountants, consultants, and buyers and sellers of every imaginable financial instrument, the total value of which cannot be calculated --- but is known to amount to trillions and trillions of dollars. "Wall Street's" personnel and products are global.

What is perhaps most disturbing is the fact that many of those responsible for the Crisis have literally gotten away with financial murder. On the other hand, millions have suffered financial losses in their investment portfolios, pension plans and 401Ks. Include university endowments and retirement funds. Hundreds of thousands of decent people in the investment industry have also suffered and a great number are out of jobs through little or no fault of their own.

The ripple effect cannot be calculated and ultimately will affect everyone. We are seeing this in the Housing Crisis and with the collapse of the American automobile industry if it does not receive US government financial aid immediately.

The Big 3: GM, Ford and Chrysler are likely to declare bankruptcy if they do not receive additional government assistance in the very near future. Their figures are awful and show no signs of improvement. GM alone has lost over $50 billion in the last three years. At its current "cash burn rate" the company is "burning" cash at the rate of $2 billion a month to keep operating. To repeat, GM will have to declare bankruptcy in a few months unless a miracle happens. The moment of reckoning has come as on November 7th GM reported a $2.5 billion loss for the quarter on a drop in revenue of 13%. These conditions are expected to continue as the company (and industry) looks to a significant worsening in the first half of 2009. The company's total value in the market place is under $2 billion.

For the first time in my life I have seen a price target on a stock of zero this morning, November 10, 2008 when a Deutsche Bank analyst put a price target of $0 on General Motors' common stock. It now trades at $3.02 per share while Ford sells at $1.90 per share.

Not only are the automobile companies' workers, who belong to the UAW – the United Auto Workers, going to be out of work if they do not get $50 or so billion from the U.S. government, but their families' medical benefits and retirement funds will also evaporate. Note that the "Big 3" automobile companies got a $25 billion U.S. government loan only several weeks ago. The ripple effect of their bankruptcies will produce the same results for all of their suppliers and for the suppliers of their suppliers.

Meanwhile this is an issue verging on socialism --- the government "saving" individual privately owned corporations with taxpayer money. Should the government bailout these companies that have been poorly managed by very highly paid executives and very highly paid unions with our money? Rick Wagoner, GM's Chief Executive Officer, takes home $20 million a year. We do not have the current figures for the head of the United Auto Workers, but a safe bet is that it is a very substantial figure.

Can anyone show that a government bailout is simply not throwing good money after bad? To repeat: The US Government has recently provided American car companies with $25 billion, and the auto companies are now asking for another $50 billion. How long do you think that will last?

While we are sympathetic to this enormous problem to a degree, we do not want your or our taxes going to the auto company fat cats and their highly paid, non-competitive UAW workers. These companies and their unions have been non-competitive for years. The successes of foreign non-union auto companies having plants in America must be compared with their American counterparts. Furthermore, the Republican administration will not be replaced until January 20th, and I do not recall a majority of union workers ever voting for a Republican administration. The proposed bail-out is largely driven by politics, i.e. Pelosi and Reid to name a few.

Employment: November 7th's unemployment figures were awful. Jobs were down another 240,000, and the unemployment rate jumped from 6.1% to 6.5%. Adjusted job losses for last month were increased to 280,000 for total job losses of 500,000 in the last two months and 1,200,000 since the beginning of the year. At the moment there is no end in sight. The remaining question is how long will this recession last? Will the current problems ultimately become a full-fledged depression? Once again we need not be reminded that we are operating in a global economy. Europe, for example, is not far behind this country, and many think things will ultimately be worse there than here.

So much for the "good" news. And we have not even mentioned AIG.

We have, however, learned over the decades that things do change, and they often

change for the good in unimaginable ways and/or for reasons that nobody can foresee.

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P.S. The Wall Street Journal's November 7, 2008 article "*Hedge Fund Selling Puts New Stress on Market*" provides valid insights into what is taking place in today's markets and what is driving their often totally irrational fluctuations. It is an important read.

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INFLATION AND GOLD – Some thoughts from Brock Hamilton regarding what will be the coming inflation fueled by the amount of dollars and other countries' paper money that has been and will continue to be printed in order "cure" this country's and the world's financial and economic ills.

The very brief thesis below is why we believe gold deserves serious consideration. The timing is difficult as we are usually early to the party, and we are in deleverage/deflation mode right now.

"The trillions being spent today won't show up in the economy immediately. Neither will the current low Fed Funds rate of 1%. It may take a year or two before today's massive injection of dollars into the banking and business system shows up in the economy. But when it does surface, it will reveal itself as raging inflation.

Before inflation resumes, the US dollar is going to get the chills. The Fed has covered the world with a blanket of Federal Reserve Notes. These dollars are needed now, but in the period ahead these dollars will set off a wave of inflation. When there's too much of any item, that item loses value. When the supply of anything --- stocks, champagne, cars --- becomes excessive, the value of those items declines. Yes, it can even happen to a currency. Too many dollars are now being created. Somewhere ahead, the dollar is going to lose its value against other currencies. Our overseas creditors won't accept a trillion more dollars, and that's what gold is now beginning to take into account. The intrinsic value of gold does not fluctuate in terms of dollars. The number of dollars required at any given time to purchase an ounce of gold fluctuates."

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