

## Finally a Plan

After one of the most turbulent periods in the history of our financial banking system, the US Treasury, the Federal Reserve and SEC finally announced a two step plan to address the recent turmoil created by the credit freeze and the slowing global economy. The two main components of this plan are:

- The Treasury proposed a massive bailout of bad debt (estimated to be as much as \$500 billion) on the balance sheets of US financial companies through a creation of an RTCesque institution.
- The SEC announced a prohibition on short selling of 799 financial institutions for an interim period of ten days.

The Treasury's plan, which is currently in the formative stage, will allow banks to have a fresh start. The devil will be in the details, as the Treasury and Congress look to finalize this bailout plan. Though certain banks can begin anew, they will probably need to take large losses on certain parts of their portfolios when they sell to the government. More importantly, their old business model - using high leverage and esoteric products - is gone. The heightened regulatory environment will probably reduce earnings and growth for most financials stocks for the foreseeable future. There will be long-term ramifications on the US dollar and interest rates resulting from the US government accepting half a trillion dollars in questionable debt. Beyond the details of the plan and the long-term consequences, the **immediate impact** has been to inject some certainty into investors' minds and to take the US financials (and the rest of the market) out of the death spiral that many were experiencing.

The new regulations regarding the short selling of financial companies have established an artificial floor on the prices of many banks' common stock. The **immediate impact** has been an abrupt reversal, in which the equities of many banks have risen significantly. The overall stock market has moved in concert with the financial sector. This ban was for a very finite period so without amendment the selling of financials could begin anew in a couple of weeks. We do know that with the bailout plan in place, many financial stocks do not have the same liquidity risk they faced just one week ago. However, their valuations might also become distorted (and be overpriced) in the meantime because of the ban on short selling.

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## What's next?

The government action this week has removed some of the panic around global markets. As mentioned in our 9/15 letter "The Attack of Fear", we were poised for a rally after so much decline. We still believe we are approaching the end of this bear market; however, we will probably re-test the lows and have several nervous bouts along the path to recovery. We all would prefer if the market only went straight up. Unfortunately, bear market bottoms are seldom V shaped, they are usually more like a W, retesting lows before they take off for a new bull market. As always the key to success for any investor is discipline and patience, and keeping emotions in check. Historical weeks like the one we just experienced are a great reminder to stay within your comfort zone and to work with your advisor implementing a master plan you can live with for your entire lifetime. Thank you for your trust and confidence.

Kelly Trevethan, CIMA®  
CEO & Managing Director

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