



Congress Gives Thumbs Down

October 5, 2008

In our opinion, the Paulson plan was ill conceived and had questionable economics. Couple this with an election year where elected officials do not want to be viewed as "squandering" taxpayer funds and we have a recipe for a sharp stock market sell off.

The plan that makes the most sense to us is a dusting off of the Reconstruction Finance Corporation plan of the 1930's. In that plan, an independent corporation was set up to inject capital into financial institutions, including the issuance of above market interest rate preferred stocks and let the banks and insurers work out the bad debts (or write them off if required). This allowed time for the process to resolve itself.

Eventually, much of the borrowings were repaid. The RFC was in existence for more than two decades before dissolution.

Sound familiar? It is much like the "Sage of Omaha"s investment last week in Goldman Sachs...high yield redeemable preferred.

We do not know what Congress will finally pass, but it is likely to be within a few days.

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