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**The gentle government that promises to hold your hand as you cross the street refuses to let go on the other side.**

Theodore Forstmann

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The news today is not without humor despite the dire headlines and confusing signals from the White House. Obama trashes the investment bankers at one news opportunity and then has to play nice when he realizes that his grand reconstruction plans for the economy requires the help of those same bankers. Since the beginning of 2007 and the meltdown of the banking system, government has been busy creating all kinds of programs to hold the banker's hands as they cross the street. We have the Troubled Asset Relief Program (TARP) and the Public-Private Partnership Investment Program (PPIP) and the Term Asset-Backed Securities Loan Facility (TALF), all of which are designed to increase credit availability to get the economy moving again. Not to be outdone by the Federal Reserve and Treasury, Congressional banking committees, headed by Congressman Barney Frank and Senator Christopher Dodd, have ordered their staffs to create a Government Accounting Group (GAG) that will establish a National Underwriting Testing System (NUTS) to assure the safety of the country's banks and their financing. It is expected the staff work will dovetail with the President's Comprehensive Resource Assistance Program (CRAP) to justify additional funds for the Broken Asset Recovery Fund (BARF).

It is truly funny that a few of the major banks didn't want the TARP money but were forced to take it. I believe it was Wells Fargo that protested the loudest (according to the press). The logic, government logic, was that banks that didn't take the money would make the banks that did take TARP money look weak which could cause a run on the banks. Most of the nation's bankers say they want to buy back their freedom as fast as possible but the Feds don't seem to want to sell it to them. Obama says more recovery is needed and it is important the banks keep the money for a while. The hand that helped cross the street now holds a crushing grip once on the other side. It should be obvious to all that the longer the Feds refuse to take back the taxpayer's money, the longer the Feds can bluster about the irresponsible behavior of the bankers justifying control of executive pay and bonuses. Here is a question for readers who happen to have a legal background. On every Federal Reserve Note in your pocket is the statement, "This note is legal tender for all debts, public and private." If a bank "tenders" (offers to pay) the Feds and the Feds refuse to take the money, does that negate the debt? If so, does the TARP money then belong to the bank with no strings attached? Just asking.

No one seems to appreciate the irony that Congress, which has been passing laws for years to regulate banking, now finds that the laws didn't work or were ineffective. They must pass more regulation that, in my opinion, will be found to be as equally weak and ineffective ten years from now. I recall my bout with the regulators in 1994 when Arizona decided to require registration of investment advisers. I vigorously protested that registration was simply a tax and that regulation would do nothing but trap the honest in a bureaucratic web. One incident with an assistant chief accountant at the Arizona Corporation Commission proved me right but made me cave in and get with the program. Advisers had to submit a balance sheet as of the end of the prior fiscal year with the application. My business was new in 1993 and I had a bank account with \$1000 cash (asset) and \$1000 owner's equity (equity). The state rep called and wanted to know why I hadn't included footnotes with my balance sheet. I told her there was nothing to footnote. She demanded (and finally got) a balance sheet with a "Summary of Significant Accounting Policies." I manufactured a few footnotes to get her off my back and got registered in Arizona. (By the way, my Arizona license number is 0000003-IA. I always wondered who got numbers 0000001-IA and 0000002-IA.)

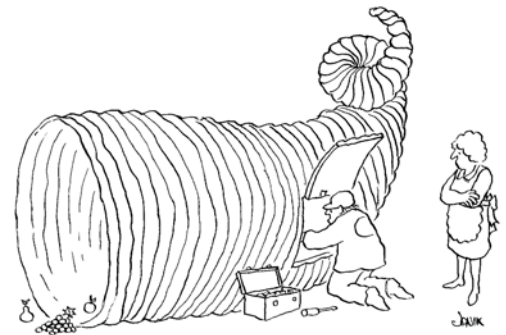
I was asked by a client a few weeks ago if his portfolio was set up to take advantage of the Obama presidency. I told him I don't know how to invest money in a way that we would benefit if Obama succeeds and, frankly, I hoped his economic programs fail to become law for the sake of my portfolio. We have money in healthcare stocks, for example. The push to "control costs" means that the prices, and therefore profits, will be lower under nationalized healthcare than now. We own oil and energy exploration stocks. The "climate change" policies being discussed want to limit oil exploration and energy consumption in a carbon-based world. We own defense stocks. Defense has always been the easy target for Democrats who don't see national defense as a priority. We own consumer stocks which will suffer under the heavy taxation expected for the people who spend money on discretionary items. We own industrial stocks that will experience lower demand for intermediate goods if overall prosperity flags. What we don't own are banks and utilities, banks for the obvious reasons. Utilities, particularly coal-fired utilities, will be punished for burning coal as the "cap-and-trade" laws bite into profits. And almost all companies have a strong international exposure that is being threatened as we seem to go out of our way to offend our trading partners like Mexico and China.

But what about all those “shovel ready” jobs the stimulus program will encourage? You mean all those “high paying shovel ready” jobs frequently talked about at news conferences? I don’t know about you but I never heard of a high paying job that required the use of a shovel. Caterpillar Tractor would certainly be a beneficiary of the infrastructure spending but CAT’s last public act was to lay off a few thousand more people.

Readers who believe all the hype about these new education, healthcare and clean air initiatives need to think about our experience with current government programs. Let’s start with the United States Post Office, recipient of billions of dollars of subsidies annually, that now admits it will be broke later this year unless more subsidies are forthcoming. A year ago the post office started selling the cute little “Forever” stamps with a Liberty Bell picture on it. The theory was that the Liberty Bell stamp would last “forever,” always usable and never be subject to a rate increase. Well, evidently the USPS took our Forever stamp money and spent it long before the Forever stamps ran out. In a non-government world, this would be seen as theft or, at the least, would require bankruptcy proceedings. What is different between what the post office does regularly and what GM did?

How about Amtrak, the Federal money pit that was supposed to be profitable twenty years ago? Every ticket purchased includes the equivalent tax subsidy of \$200 to keep the railroad running. And how about government-mandated ethanol to save our air? Costs more to make than they can sell it for besides making grain more expensive in the manufacture of food. Low income housing is a perennial disaster in every major city in the country. We can’t spend enough to make the high-rise hovels drug free and habitable. Education, always a government ward, can’t get the test scores up no matter how much taxpayer money is poured into the system. Our kids don’t seem to learn regardless of how high teacher salaries go. With all the non-teaching government mandates, schools have become expensive baby sitters. Is it any wonder why the charter school kids and the home schooled kids surpass the public school kids in national spelling and math competition. Even Obama thinks so little of the Washington, DC public schools that his daughters go to an elite private school with the children of other Washington politicians and dignitaries. And let’s not leave out the management of Hurricane Katrina’s aftermath. Now that was a well-managed government rescue if there ever was one. We still have people living in moldy trailers almost four years after the disaster. Why anyone wants the government to run anything is beyond me.

One final chuckle in the overreaching, overarching government takeover of virtually everything. GM product owners now have Obama’s assurance that government, yes government, will fix their cars. “Your warrantee will be safe,” says he. “In fact, it will be safer than it’s ever been. Because starting today, the United States government will stand behind your warrantee.” (What about Honda and Toyota? What about the Constitution?) I believe this is a new angle on Obama’s “LEMON” program (Ludicrous Exercise Making Owners Nervous). Folks will put up with the nationalization of their health care but “don’t you dare mess with my car.” Imagine servicing your vehicle at a Government Motors dealer where the order taker has the personality of an IRS agent. He orders you take a number while you fill out a six-page form detailing your warranty problems. You are required to sign a statement that, “under penalty of perjury,” yes, your new car really does rattle. You are comforted to know the repair shop only employs Federally Approved Repair Technicians. You can either sit and wait safely in a room that resembles a hospital emergency room (no free coffee or donuts) or you can request a bus ticket. Courtesy car rides are out because of cutbacks. With all the speed of the post office, your car is ready three days later. You must pay cash because your claim has to be checked for authenticity in the vast government data base. The clerk says reimbursement will be sent to you in six to eight weeks because IRS computers print the checks. Six months after the service, you receive a certified letter denying your claim because you filled out the form wrong. And the car still rattles. If I had a GM car, I’d sell it.



All of this “change” doesn’t say much for the legal training or priorities of Obama who seems to have lots of time to badmouth contractual bonuses, fire the head of a private corporation and replace a board of directors without a vote of the shareholders. Personally, I don’t want government’s helping hand in every facet of my everyday life. Each time another program emerges, the stock market tanks and people get cautious again. I do believe the economy will recover, and the market too, without government meddling.

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