



“Mortgages that allow consumers to put little if any money down when buying a home have largely disappeared as a financing option available from private lenders. But they are still available – and growing more popular – through a government-backed program.”

June 24, 2008 *Wall Street Journal* article about FHA lending practices.

I know I'm not the first person to write that what we have in this country is a crisis crisis. Everything is a crisis: energy crisis, food crisis, inflation crisis, mortgage crisis, health care crisis, political crisis, foreign policy crisis, monetary crisis, financial crisis, environmental crisis, currency crisis, climate change crisis, public education crisis, budget crisis, housing crisis, flooding crisis and on and on and on. The dictionary definition of “crisis” is “a turning point in the course of anything; decisive or crucial time, stage, or event . . .” In my opinion, not one issue listed above is anywhere near a “turning point.”

A realistic view of our crisis crisis will show that every one of them has been caused or exacerbated by government intervention or meddling. For example, the food and inflation crisis was created when Congress mandated and then subsidized turning food into fuel. The climate change crisis supposedly is caused by burning fossil fuels, particularly coal. If President Carter hadn't meddled, our electricity could have come from clean nuclear power plants. The mortgage crisis was created by Congress, pressing lenders to offer affordable mortgages to people who should have stayed renters. The budget crisis was caused by Congress, spending far beyond our means with neither party showing any restraint and a president who is unwilling to use his veto power. And the mortgage crises continues as the FHA keeps making “no money down” loans.

Now we have \$4.00+ a gallon gasoline and Congress continues to dither, pointing fingers everywhere but at Congress itself. A majority of American voters believe we must start drilling to find more energy. A recent political cartoon shows a boy standing next to his newspaper-reading father.

Boy: Dad, can we go to Disneyland?
Dad: Nope! Even if we left right now we wouldn't get there until Friday.
Boy: Dad, that excuse doesn't make sense!
Dad: It seems to work for Barack Obama.

According to Senator Obama, we can't drill now because it won't produce immediate results. This is typical of Congress, looking for short-term solutions to solve long-term problems. The current idiocy involves blaming speculators for the high price of gasoline. When it comes to speculation, we are all guilty. If you are driving and see a station selling gas for \$3.85 a gallon, you would stop to fill up, hoping the next station isn't selling it for \$3.50 a gallon. When you see the next station selling gas at \$4.25 a gallon, there's a certain feeling of satisfaction that you beat “the system.”

The word “speculate” is from Latin *speculari* meaning “to view.” A speculator looks at the world today and makes a forecast of the world tomorrow. An oil speculator sees \$135 oil today and understands that oil could be either \$200 or \$70 in a year. If you think oil will be \$200 in a year, buy oil for \$135 today so you can use your \$135 oil later when others have to pay \$200. If you're right, you pocket \$65. If you're wrong, and oil is \$70, you lose \$65. For every contract that is written to buy oil for \$200, another speculator has to be willing to sell oil for \$200. There is a fable being circulated today that the pension funds are buying oil futures contracts and holding them. This doesn't wash because all contracts have expiration dates. They must be renewed when they expire. In commodities, there is no “buy and hold.”

The vast majority of commodity contracts are bought or sold by organizations that need the commodity. Southwest Airlines, for example, is profitable today solely because they bought long-term futures contracts when oil was below \$65 a barrel. Their jets are flying on \$65 oil when the rest of the industry is flying on \$135 oil. Is it any wonder that Southwest is the only airline not charging for coffee and snacks? The poor slug who thought oil was going down sold it at \$65 and now must replace it at \$135. For every commodity contract, there is a winner and a loser.

Speculators who overstay their speculative position get burned, whether oil or grains or real estate. No amount of congressional intervention will eliminate human greed. But that doesn't stop Congress from trying. Among the more stupid comments I have heard lately was uttered by Congressman Maurice Hinchey, Democrat from New York, who stated “We (the government) should own the refineries. Then we can control how much gets out into the market.” Now, this comment should scare the scales off a fish. We all know how well government manages the Post Office, Social Security, Medicare, disaster response and education. Now they want to get greasy twisting the valves on refineries.

The most recent way Congress can stall domestic exploration is to blame the oil companies for not drilling on their existing leases. The government sells leases and profits from the sale. The lease allows drilling but that doesn't mean there is any oil

on the leased land. In fact, in the past, government has sold leases off Florida, taken the money, and then prohibited the winning bidders from drilling. Holding a lease proves nothing. In the early 1970s one of my clients at the bank owned an oil lease near Roscommon, Michigan. At the time, Shell Oil was drilling all over the state and finding natural gas wherever it went. Gas was so plentiful, in fact, that on April 19, 1973, natural gas started bubbling up through the ground around Williamsburg, Michigan, creating craters and geysers. My client decided to drill on his lease expecting to find gas at just a few hundred feet. He drilled more than 5000 feet deep. If the natural gas structure were a doughnut, he drilled in the hole. He had nothing to show for his \$250,000 investment. The story gets worse. He had to fill his mile deep hole with concrete to prevent the kind of gas leak experienced at Williamsburg. That cost an additional \$200,000. And those dollars are 1974 dollars. He speculated and he lost. Just like Exxon that spent \$3.6 billion in the last three years on exploration and dry holes.

The great American farmer is a wonderful example of a speculator. The farmer plants in the spring and harvests in the fall. Even Congress can't mess that up! Obviously, since grain is in abundant supply in the fall, the price would be low. During planting season, grain is in short supply and the price would be high. Using futures contracts, farmers are able to sell their expected fall crop in the spring for a price that they think could be lower in the fall. Farmers can't know in the spring if there will be sufficient rainfall to produce a good crop for fall harvesting so they hedge their bets. If the growing season is unfavorable, grain would be in short supply during harvest season so the contract price of the farmer's crop could be higher than he sold it for in the spring. By hedging, the farmer did not maximize his profits. On the other hand, if he hadn't sold and grain was abundant, he would have to sell his crop at the prevailing price which could be lower resulting in a loss. In short, hedging and speculating are not evil. They help people plan and make business transactions more orderly.

Congressional Democrats are unusually shrill in their condemnation of speculators. This is ironic considering the largest supporter of the Democratic Party and its liberal causes is George Soros who made his billions manipulating currencies, hitting it big by betting against the British pound. Soros stated in a 1998 interview on 60 Minutes, "I am basically there to - to make money. I cannot and do not look at the social consequences of - of what I do," and "I don't feel guilty. Because I'm engaged in an amoral activity which is not meant to have anything to do with guilt." At least he is consistent. He has also been convicted of insider trading in France. A role model for all of us.

Senator Obama cannot be trusted with the economy. His one private sector job was at a multinational corporation in New York City. He was hired as a research assistant in what may have been a clerical pool. "Like a spy behind enemy lines, I arrived every day at my mid-Manhattan office and sat at my computer terminal." Spy? Behind enemy lines? It was a job and you, Senator, were paid to do it. He really wanted to be an "organizer," to justify to himself that he belonged in the African-American community. "Organizers didn't make any money; their poverty was proof of their integrity." Money is evil and those who have it are without integrity? No wonder you want the "rich" 3% of the population to support the rest of us. During an interview this week on Fox News, the Senator stated that the "rich did all right in the 1990s when we had high taxes and they will do all right again" (after he gets through raising taxes). My strong feeling is that George Soros is behind the Obama candidacy which makes Senator Obama even scarier.

Senator McCain, on the other hand, has been running for President for at least eight years and has flipped from one side of the political spectrum to the other and back. He recently stated that he would drill for oil off the coast of Florida. This is new and is a reaction, not a part of a thought-out energy plan. The senator seems proud of his ignorance of economics and doesn't appear to want to remedy his ignorance. He will pander to the conservative wing of the Republican Party, get the nomination, and then go do his "maverick" thing, whatever that is. The best description I can come up with is "unreliable."

If we are to believe our candidates, it is time for "CHANGE" because "America is on the wrong track." OK. Wrong track. No one will tell us what and where the right track is and how we get on it. Please listen to both candidates during the next four months and I do mean listen. Senator McCain must get organized. He can't keep throwing things at the voters, hoping something sticks. Senator Obama needs to put some meat on the soaring rhetoric. When he gets away from a written speech, he stumbles worse than a college freshman in speech class. On the Fox interview, he was asked to give his one word reaction to several different words. When "OPEC" was mentioned, his first reaction was to think for several seconds and then start making a speech. Facts seem to get in the way of grand ideas. I can see why he doesn't want to get on the same stage as Senator McCain. If Senator McCain starts reading the study guides, I think he will eat Senator Obama alive.

My fear is that the track we are headed toward is socialism, much like the UK or France, even as those countries recognize socialism's failure. According to the Tax Foundation, 41% of the US population in 2006 paid no taxes. Since someone else is paying for the benefits, let's get more benefits! And let's vote for the guy who promises more benefits!! Free health care! Free gas! Free food! Free housing! Not an encouraging picture. But have a safe and happy July 4 anyway.