Call to Action

I wish I had a crystal ball filled with answers to all of your questions regarding the financial markets, but I don't. However, what I do have are insights and finally, recommendations you can use.

We have seen significant changes in the financial markets since our firm's founding in 1987. The "Dow" climbed from an average of 1500 to a high of approximately 2000 in October 1987, only to drop about 25% in one day! From then until March of 2000, the "markets" experienced a tremendous upswing, hitting a high of over 11,000 in early 2000, only to slide backwards to the mid 7000s in 2002 when once again it rose peaking at over 14,000 in October 2007.

You and I are all well aware of the disaster that followed, leaving the markets again in the 7000s.

Historians, economists and pundits will be analyzing this period for years to come. No doubt, innocent people have been hurt and, as in the case of AIG, the poster child for much of what went wrong, the guilty seem to be rewarded.

Reviews, debates and discussions can be helpful. If nothing else it is comforting, in some strange way, to know that virtually all of us are in this together. Still, what can you and I do to help move things forward in a positive way?

In my professional opinion, three issues merit attention and action:

- Short sales uptick rate
- Mark-to-market accounting
- Regulation akin to the "Glass-Steagall Act"

1) Short sales
In 2007, the Securities and Exchange Commission, (SEC) in its deregulatory zeal, rescinded the "up-tick" rule which had been in place since 1938. Congressman Gary Ackerman of New York has introduced legislation to reinstate the uptick rule, a depression-era regulation that required a stock to increase in price before a short sale could be executed.

For an excellent explanation on short sales and the problems attributed to this practice, see the video "Phantom Shares". Please go to http://video.google.com/videoplay?docid=4490541725797746038

2) Mark-to-Market accounting

In 1935, President Franklin Roosevelt urged Congress to support legislation that suspended the accounting practice of having to value all assets at current prices. FDR wisely concluded that this practice, for "regulatory capital purposes" was forcing banks into insolvency because they couldn't sell certain assets at a moment in time to raise capital, even though the value of the assets would likely return to fair value in the future.

Warren Buffett said the government's decision to reinstate mark to market accounting in 2007 greatly contributed to the banking crisis. His exact words were mandating mark to market accounting is "gasoline on the fire in terms of financial institutions."

Suspending this practice could help otherwise sound institutions to regain solvency without the need for bailouts.

3) Glass Steagall Act return

In 1933, Congress enacted legislation prohibiting commercial banks from collaborating with full service brokerage firms or participating in investment banking activities. The goal of this Act was to protect

depositors from the additional risks associated with securities transactions.

The Act was dismantled in 1999. Heavy lobbying by Citibank, AIG, Merrill Lynch and others persuaded Congress to "tear down the walls so capitalism could flourish". These same firms promised to "police themselves" and not repeat the mistakes caused the Great Depression.

Apparently, the fox in the hen house still doesn't work, does it?

Here is what you can do:

Consider writing, calling and/or emailing your elected officials and ask them to immediately do the following:

- Pass legislation reinstating the uptick rule

- Pass legislation suspending mark to market accounting for regulatory
  capital purposes

- Pass legislation bringing back the safeguards that were key elements of
  Glass Steagall.

For over 70 years since the Great Depression, the US, despite wars, assassinations, oil crises and more, enjoyed relatively stable markets. Difficult times were addressed using the wisdom gained from the dark days of the Depression. It only seems to be reasonable to bring back what worked so well for so many generations. We experimented with doing without and we all got burned.

It's time to act wisely. Acting on just these three issues could save billions in unnecessary bailouts, restore confidence and build a solid foundation for the future.

Thank you for caring.

##