FOIA Marker

This is not a textual record. This FOIA Marker indicates that material has been removed during FOIA processing by George W. Bush Presidential Library staff.

Records Management, White House Office of

Subject Files - FI003 (Bonds, Stocks, Investments)

Stack:	Row:	Sect.:	Shelf:	Pos.:	FRC ID:	Location or Hollinger ID:	NARA Number:	OA Number:
W	11	11	1	3	12176	25039	12220	12010

Folder Title:

732324

PARKER_D

732324
FI003

Barcode Scanning Sheet

Collection Code:	**SECLOG**
Staff Name:	
Document Date:	**7/31/2007**
Correspondent:	**AL HUBBARD**
Subject/Description:	**BEN STEIN - STOCK MARKET**

SCANNED
BY
ORM

THE PRESIDENT HAS SEEN
7/31/07

BEN STEIN – STOCK MARKET

Here's a fact. The speculators and hedge funds who run today's stock market have to see market volatility to make money. They cannot make enough money if the market stays flat or moves only a bit. They like extreme and unexpected price movements to make money. They especially like sudden, surprise movements down when they can make money off stocks they borrow and sell, or, as they say, "sell short."

This is what's happening now. Only it's not interesting to say that the speculators are whipping the market around to satisfy their money lust. So the speculators themselves make up reasons why the market is fluctuating, flog those reasons to the media, and then profit if some other speculators believe the jive reasons and jump in the way the manipulators want them to do.

That is exactly what we are seeing now.

Supposedly the market is 'correcting' because of worries about the housing slowdown and also because of fears that the debt markets that support mergers and acquisitions is drying up.

These are interesting theories, and people who don't know a lot about the stock market or the economy might find them beguiling.

But here are some truths that show how shallow these "reasons" for the stock market moves are:

*Yes, the housing market has slowed from a spectacular bubble level to a simply pretty good level. Housing sales and starts are now about what they were in 2002, and no one thought we were in a housing depression then. In any event, housing is only about 5% of the economy. If it falls by fifteen per cent, that would represent a fall off of about .75%, which is not trivial, but not the stuff of which recessions are made.

And, the fact is that there is no recession. The economy is suffering from a labor SHORTAGE, not a surplus of unemployment. The FED is worried about excess demand, not slack demand.

Corporate profits set new records every day. Whatever is happening in residential sales and building is simply not slowing down the economy. Why should a Boeing or a Merck or a Pfizer have any reaction to housing at all? Because the speculators sell everything they can when nervousness sets in–and for no other reason.

*Subprime is a mess. But it's a small mess. Subprime mortgages account for roughly 20 per cent of mortgages even in the most heavily exposed states. About 20% of them are delinquent in some way. That's four per cent of mortgages. Of these, maybe half, or two per cent, will go into foreclosure. There will be roughly 50% recovery on sale of these. This is a loss of one per cent in the mortgage market–a sum which the lenders have already made many times over because of the hefty fees on these deals. In the context of the size of the US financial sector, it's nothing.

And why should a crisis in subprime drive down stocks in Mexico and Thailand? Again, because the speculators seek to create panic to make money selling short, and they sell short everything.

There is simply no connection between subprime and developed or developing nation stocks. This by itself shows the thin context of the selling wave last week.

*What about the supposed drying up of loans for M & A by private equity firms ? Well, here's a good simply test of just how valid that explanation is of stock market moves: the majority of P.E. takeovers are financed with junk debt. If there really were a major shortage of funds for these deals, the interest rate on the junk would skyrocket. Instead, while the rate has risen by about 150 basis points in the past month, the spread between junk and investment grade is now about 290 b.p.s. This very much lower than the year end average of the spread from 2002 to 2006, and far below the almost 800 basis point spread during a true interest rate crunch like the one after the tech meltdown in 2000-2002.

So that's a phony, too. Interest rates have risen, but not anything like what they have done in real crises. And besides, the Dow fell by about 550 points last week: yet not one of the Dow stocks is involved as either acquiror or acquiree in a private equity deal. In a word, money isn't virtually free as it was for P.E. deals in the last year. But it's not expensive by historical standards either.

In other words, it's all the speculators trying to panic us so their sell programs will make money. And they will make money as long as they can spread their panic. When they can't do it any longer, they'll work the long side, and they'll make up reasons for that, too.

In the meantime, the economy is strong. Profits are great. Interest rates are low and they will stay that way. Don't sell. With all of the shrieking about the market, it has only fallen to what it was about four weeks ago–and we didn't think we were poor then. Let the speculators shout fire. As of right now, there is just not anything but smoke being blown.

ENDIT.
ENDIT.

From
Al Hubbard?