Market Report

18 March 2009

Where is all the AIG Bailout Money going?

If you do a Google search of "AIG outrage", you will get 621,000 hits.

Under pressure, **AIG revealed what it did with the bailout money.** It came as no shock to discover that Goldman Sachs was standing at the top of the list of recipients. Goldman's main man was in the room with the Fed, the only representative of Wall Street, when the decision was made to rescue AIG. What's more, the Fed's main man at the time, Hank Paulson, also used to be the top dog at Goldman. The government gave money to AIG, and AIG passed it on to a long list of speculators - including Goldman!

Now the politicians in the US are feigning shock and horror. Senator Grassley even said AIG management should "resign or commit suicide." He later calmed down and said he didn't really mean it.

Barney Frank added that "maybe it's time to fire some people. After all the Fed own 80% of the insurance giant now."

The rally paused Monday as the Dow lost 7 points.

Some members have asked me "Could this meltdown be over?" Our research shows that it is more likely to run for a few months. My personal belief is that, gradually, some people will come to think that this rally is the real thing. They will begin to imagine that it is 2003 all over again. My comment is that of course it is not over! This market has nothing in common with the Great Rebound of 2003-2007.

In fact, do you remember 2003? After a phony recession in 2001-2002, there came a phony boom in 2003-2007. In 2003, stocks had driven into a ditch following the crash of the NASDAQ and the Dow had fallen down to about 7500.

I would simply point out that, in 2003, there was no collapse of the financial sector banks. They didn't fail, nor did major companies face bankruptcy. Consumer spending didn't fall, house prices didn't collapse, savings rates didn't go up, and capitalism wasn't called into question. There were no US tax rebates, there were no bailouts and not even a stimulus plan (though the Fed did spend more money and cut the interest rate to 1%.

In 2003, a quick cut in interest rate, along with a boost in federal spending, produced a fast turnaround. Within months, prices were rising again. Consumers did not even pause they kept spending and borrowing all the time. In contrast, the market today has been given stimulus efforts of such huge magnitude that the world has never seen before, and there is still no real upturn. This time, consumers are running scared, they are losing their jobs, and spending has come to a halt. This is real and it will not end quickly or easily.

The market this week

A quick look at the market, and we see Oil traded at $47 on Monday. It is moving back toward the $50 level. The Dollar has also been slipping. It has been losing ground against the Euro, now trading at $1.29/$. However, it is mostly steady against gold, which seems to be holding in the $900-$950 range for now. It is going to go much higher before all this is over.

Industrial production fell 1.4% in February, and credit card defaults are at a 20- year high and rising.

Even Warren Buffet has seen his fortune dwindle to $25 billion, and Bill Gates has also lost heavily with his holdings shrinking to $18 billion. No one is safe!

The market is downsizing fortunes fast. Over the past 12 months, I would estimate that many rich people have probably lost half their wealth or more. Many owned millions worth of stocks and real estate. Some previously known as the privileged few entered apparently good deals on derivatives, SIVs, hedge funds and private equity: many since have witnessed massive losses.

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