

# The Bailout Bill Will Do Nothing for the Real Economy

Credit Crisis Market Commentary

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We are on the edge of pure fear and panic when it comes to the stock market. By just about every indicator you may use to measure the market it is extremely oversold and ready for a bottom. The number of stocks below their 20, 50, and 200 day moving averages are at extremely low levels not seen in decades. The ratio of down to up volume on the Nasdaq was over 95% two days last week, hitting 97% last Monday, which is a level I've never seen before. The VIX is above 40 and has been at an elevated level for the past three weeks. According to the Investors Intelligence Survey there are more bears than bulls in the market, which is a positive from a contrarian standpoint.

I read through lots of commentaries and listened to several podcasts over the weekend and just about everyone is saying this. And when it comes to the general public the fear is out there. I have had several people call me out of the blue worried about their retirement funds and mutual funds. These are people who never call me about the stock market.

The fear is growing and this is the type of fear you see at important bottoms. The technical indicators are off the charts.

I do expect some sort of bottom to come in sometime this week, but I am concerned that this bottom may come after a waterfall decline. The fear and panic could morph into terror. This would be something I had never seen happen before, but we saw a glimpse of last Monday.

I believe the President, Treasury Secretary, and Fed Chairman may have created an extremely dangerous situation. All three of them - and throw in the Democratic Congressional leadership - claimed that the stock market would collapse and the economy would go into a depression if the Wall Street bailout bill did not pass. This talk succeeded in terrorizing Congress into caving in to Wall Street and has also disturbed the American people. It has created a sense of unease and insecurity in the United States.

You can see the scare talk used in this video below:

Some desperate people have convinced themselves that all will be fine when the bailout bill passes. FOX News has been running 2-hour news "specials" with titles like "Saving the American Economy" in support of the bailout bill this weekend. If the stock market falls hard in the next few days it is possible that these people will panic. The fear created by those in support of the bill could turn into terror and irrational panic as unreasonable expectations have now been created for what the bailout bill can do.

George Bush played with fire when he gave a primetime speech to the American people in which he said if you do not pass the bill the stock market will crash. He may have created a self-fulfilling prophecy.

I was against the bailout bill, because I do not believe it will fix the situation and believe that it will pile up so much more debt on to the Federal government that we may see a full blown dollar crisis down the road.

We have already seen multiple bailouts this year and not a single one of them has stopped the credit crisis or put an end to the bear market in stocks. At this moment the costs of all of the bailouts totals \$17,000 per every single American household. You will pay for this through higher taxes or higher inflation.

Take a look for yourself and these are conservative estimates, because I believe the bailout of Fannie and Freddie and last week's bailout bill will cost in the trillions. No one knows how much it will cost in the end. But this is how things stand as of now:

Bailout type Cost to taxpayers (Source: Reuters) Financial bailout package approved this week up to or more than \$700 billion Bear Stearns financing \$29 billion Fannie Mae and Freddie Mac nationalization \$200 billion AIG loan and nationalization \$85 billion Federal Housing Administration housing rescue bill \$300 billion Mortgage community grants \$4 billion JPMorgan Chase repayments \$87 billion Loans to banks via Fed's Term Auction Facility \$200 billion+ Loans from Depression-era Exchange Stabilization Fund \$50 billion Purchases of mortgage securities by Fannie Mae and Freddie Mac \$144 billion

POSSIBLE TOTAL \$1.8 trillion+ NUMBER OF HOUSEHOLDS PER U.S. CENSUS 105,480,101  
POSSIBLE COST PER HOUSEHOLD \$17,064+

The bailout bill is not going to fix the economy. As Reuters reports, "experts say the most important thing that needs to happen before the \$700 billion bailout even has a chance of working: Home prices must stop falling. That would send a signal to banks that the worst has passed and it's safe to start doling out money again."

The problem is that housing in the United States is in a bear market and the bear market in housing is not over. There is still too much excess inventory in what were the "hot markets". You can find actual ghost towns outside of San Diego and in Nevada. Take a trip from Las Vegas to Laughlin Nevada and you can go off the main road and find a ghost town.

When the Fed lowered rates in 1998 to bailout the Long-Term Capital hedge fund on behalf of Wall Street they created an artificial bubble in the stock market. They pumped excess money into the economy and that money flowed into technology and Internet stocks. As a result they created an unsustainable bubble and when that bubble burst the Nasdaq went into a two and a half year bear market.

That bear market ran its course despite the Fed lowering interest again to the lowest levels seen in decades. The rates were so low that banks went crazy lending money. As a result a bubble in real estate formed in the United States as speculators bid up the price of condos and homes in a dozen or so hot markets. Prices went to irrational levels and of course when this happens a bear market follows.

That bear market will not end just because the Fed bails out banks. It will end when the excess inventory created by this real estate bubble is slowly bought off the market and

prices come down to a level that makes sense from an investment standpoint. Home prices are not going to bottom because people all of a sudden start to throw money at houses with the thought they are going to make a big return when they appreciate in value. The bottom will come when investors can buy properties with the intention of making a profit from renting them. The condo flipping game is over and is not coming back.

We are probably a year away from the bottom in real estate.

What this means is that the bailout bill will do absolutely nothing to help the real economy.

That is why after the bill passed the stock market fell anyway.

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