

G-2

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A good fall morning to you all from Santa Fe and apologies for the break in publication of G-2. As a disclaimer, we are not owned nor controlled by Conde Nast that just closed 4 of their magazines but we have been occupied with affairs of state here in Santa Fe and with some new changes in schedules and priorities, we will again be authoring the weekly issues of G-2 from my global & galactic headquarters here in Santa Fe at #4 Hawthorne Circle.

Much has happened since the last Issue #9 on March 9,2009. The economic landscape has been reshaped by the Obama administration and its actions to right the good ship America. We are still taking on water but the holes in our sides are smaller and have been isolated. All hands have been called on deck to get America moving again and some are working, others are modified or recast to fit the needs of the moment. Approved TARP dollars have gone not for toxic asset purchases from the banks but to equity infusions and balance sheet enhancements. Not only big banks but big corporations were recipients of TARP funds and with it, a lot of restrictions, oversight and blatant interference in the corporate activities and compensation of key executives and structure and makeup of corporate Boards of Directors. Seasoned CEOs have been made redundant and retire early when the kitchen is not only too hot but not yours any more. The new Pay Czar is planning substantial adjustments to executive pay and compensation to all those quasi-controlled firms and banks that have taken monies from the government. Some might call this a left wing conspiracy to take over or socialize big business and certainly the biggest banks in this great country.

There is much to discuss and comment on in the long delayed Issue #10. We'll cover the new Pay Czar Kenneth Feinberg, the current jobless

recovery, FDIC and bank takeovers, The Credit Crunch among small businesses, and the disgorgement the TARP funds.

Pay Czar Feinberg is planning clamp down on salaries of executives receiving large sums from the government and much like a young firm getting VC monies, the golden rule applies---he who has the gold, makes the rules. Feinberg plans to shift large annual salaries to more modest salaries along with stock that can not be accessed for several years. 50% of current salaries could be shifted to stock compensation. I suspect this will cause an exodus from TARP funded corporations to those without TARP monies and a serious brain and talent drain will occur. Bank of America CEO Ken Lewis is just the first big bank CEO to decide to move on.org. More will follow as government gets more involved in corporate America. Feinberg's guidance memos look like dictatorial oversight and will have a deleterious effect on corporate life and governance and will stall or slow the already floundering recovery.

The 2009 recovery is underway but is moving at a snails pace I suggest. This recovery as it happens will also be a jobless one with unemployment close to 10% nationwide and higher in many areas with Blacks and Hispanics hurt the most. With sluggish consumer demand and slow retail sales, many companies are cutting back and not hiring until revenue increases again. Yes, plants are closing, shops are shuttering and even white table cloth old line 5 star restaurants are serving their last meals. Small business will lead the recovery if they can access capital to grow and expand and hire new folks. Businesses in their first 90 days of life account for 14% of hiring in the US between 1993 and 2008 according to the Bureau of Labor Statistics. With new business starts down 9% in 2009, the new jobs will be hard to find. Old line businesses are cutting domestic employment and shipping labor intensive work, offshore or just reducing the labor pool. Entrepreneurs and their new ventures hold the magic key to job creation and are not well served by this current administration. Bank lending to start ups is non-existent today and many VCs are out of the market and often returning capital to investors instead of funding new ventures.

In 2008 the FDIC closed 25 banks in the entire year but with 95 banks shuttered and closed by the FDIC to date in 2009, one would not be surprised to read that the failures of these banks has strained the insurance pool provided to depositors. Currently the FDIC is down to

\$10.4 billion dollars with more bank failures looming as the commercial real estate sector heads to the toilet. The FDIC is proposing 3 year pre-payment assessments from banks of their annual fees which will further strain the capital base of these already weakened banks. When a bank fails, the deposits are insured but as shareholder equity goes to 0, a huge amount of wealth is being destroyed with these bank failures and more are expected in 2010. Job losses are also impactful and even when sold to a larger stronger institution, human capital is displaced or disregarded.

Credit Cards will be the next shoe to fall and losses could equal the recent sub-prime crisis with less security and less hard assets behind credit card debt. Most small business owners have financed their start up dreams into young entrepreneurial companies with credit cards and this essential source is now drying up like bank finance. When savings are exhausted and other capital sources stop answering your calls, many small business owners just go into the bunker and stop hiring, thin staffing and often close their businesses. Angel finance may be the remaining source of seed and early stage capital still available to young companies.

If small business can find capital for growth and increased hiring, they will lead us out of this lingering recession. Regulation and government oversight is less for smaller businesses and any real employment growth will come from this sector and not from big business or big banks. The landscape is ever changing and strategic thinking and razor sharp execution is required for economic survival in these choppy waters. America is always resilient and when unfettered by government oversight and over-reaching, will recovery but many of the novel plans, schemes and policies originating in Washington find their origin from politicians & their trusted economic advisors who have never run a business nor made a payroll and their business tool box is untested.

The next 12-18 months will be uncharted and choppy sailing and as 2012 approaches, the sky may clear and robustless recovery could be at hand. I hope to be reporting weekly on these finance and economic issues and as always welcome your thoughtful comments and constructive critique.