

Written By: Peter J. Altman, President

***“IF A LITTLE KNOWLEDGE IS DANGEROUS, WHERE IS A
MAN WHO HAS SO MUCH AS TO BE OUT OF DANGER?”***

Thomas Henry Huxley (1825–1895)

The recent news on both Merrill and Lehman Brothers once again highlights the changing nature of the financial landscape. Having spent much of my career of over 30 years at Merrill Lynch, the approval by the Board of Directors to sell the firm to a commercial bank is indeed a melancholy day. One has to ponder the question of what might have happened had the U.S. Congress not repealed the Glass Steagall Act in 1999. The result of which allowed commercial banks into the business of investment banking, which provided regional banks and mortgage companies the access to the capital markets to finance these highly leveraged transactions and potentially compete with their larger counterparts. This does not minimize or excuse the excessive risk that the Bear Stearns', Merrill's, and Lehman's of this world engaged in by supporting these transactions, but may offer an explanation for what happened.

The sagas of Washington Mutual, Wachovia, and AIG have yet to come to fruition. The active role the Federal Reserve plays in stabilizing the banking system and smoothing out the current business cycles will become clear in the next several weeks. *A Keynesian solution*: using government spending at the bottom of these cycles should help stimulate the U.S. economy and prevent a harsher decline. Looking forward, there are several things for us to consider:

- ❖ Can the mega mergers in the financial community be completed in a way that successfully blends the various cultures between investment banks and commercial banks?
- ❖ Will the housing industry bottom out in the foreseeable future? In some regions of the country home prices have stabilized and buyers have been stepping up to purchase “bargains.”
- ❖ Europe and the UK are witnessing their economies decline rapidly. As they slow will U.S. exports contract to the extent that the U.S. economic rebound is delayed into next year?
- ❖ Will the U.S. election results this coming November indicate a new direction for the U.S., both economically and geopolitically? And if so, what will that mean?

There appear to be as many forecasts as there are people making them. In October of 1987 many thought that the financial system as we knew it would never recover. In 2000, as the technology /internet boom fell from grace, many believed that the stock market would not survive. What we do know today is that economies are cyclical and the most opportune time to invest or add to investment positions is when times appear to be the worst. We certainly have this kind of environment today.

While earnings will come under close scrutiny in several months, the standard of living globally is still rising and therefore, over time, good quality companies both in the U.S. and abroad should continue to meet the needs of these economies and be superior investments.