



# CSA Wealth Management, LLC

(276) 634-0000  
(276) 634-5100 (fax)  
(866) 634-0018 (toll free)

729 Country Place Road  
Axton, Virginia 24054

email [cindi@csawm.com](mailto:cindi@csawm.com)  
[www.csawealthmanagement.com](http://www.csawealthmanagement.com)

## IS IT OVER YET?

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No. But we are seeing the things being done that need to be done in order for this market to get back on its feet. I said in a letter to you a few months ago that we need not worry about the sub-prime fiasco any longer because people recognize what the problems are, are paying attention, and will finally address the situation. That has been the case. It continues to be the case. But it will take time and we are feeling the effects of it.

For the last few months, the market has been speaking loud and clear. Fear is everywhere. Fear of losing jobs, homes, and money. Ten banks have gone into receivership so far, one major investment bank went from fine on Monday to gone on Friday, Fannie Mae and Freddie Mac were taken over by the government, and 117 banks are on the FDIC watch list for troubled banks. A meaningful number of those will also fail. IndyMac, the largest of the current crop of bank failures, was not even on the list when it died.

Commentators wonder aloud how many hundreds of billions or possibly trillions of dollars will be needed to pay for all of the damage.

Once we get past the finger pointing and playing the blame game, we will all see that nothing new or unusual or different happened. There was just more of it. Everyone was chasing performance and is now paying the price. People who couldn't afford that fine new house thought they could have it anyway. Banks who loaned them the money were rewarded with fat fees, growing profits, and happy shareholders. Those who didn't were scorned as out of touch, behind the times, or just plain mean.

The hedge funds were involved for the excellent returns they could show their investors. Just borrow money, borrow again, and again, until you have borrowed 50, or even 100 times your capital. At that point even a puny return on your capital looks enormous. It was great right up to the moment that the money was gone.

The investment banks played a role as well. They were able to slice and dice the loans into new securities that no one could recognize or understand, and then sell them for a great source of new profits. Happy shareholders, big bonuses, everyone smiling. Risk managers who had the temerity to question the securities were ignored, or even fired.

It is extraordinarily difficult to resist the pressure to participate in the same lucrative business as your competitors when they take your customers and best employees if you don't.

I'll tell you a secret. Whenever you hear people talk about how much money they made (or lost) that year, everything is fine. When they talk about how much they made this week, run for cover and bolt the door. And when they talk about how much money they made TODAY, hide in the storm cellar. It's going to be a doozy of a day of reckoning.

People tell me that I sometimes talk about the market as if it were a person. I guess that's true. The reason is that the market is a giant voting machine. It takes everything that everyone knows, everything that everyone *thinks* they know, and everything they think you *don't* know, and compiles it into the buying and selling action in the market every day.

When people buy, it is an expression of confidence that the tide is turning (early participants), or that prosperity is in full bloom (mid-stage participants), or worry that everyone is getting rich but them (top of the market participants).

People who are not in the market? Why, that's a vote as well. It expresses either their lack of funds, interest or confidence. When people sell, it's a clear vote of either a need for funds or of no confidence. What is the market telling us right now? That *everyone* is afraid.

No matter what you do, there is risk. Most of the time, people are able to fool themselves into believing that there is risk in what the *other* guy is doing, but not risk in what they are doing themselves. Think there's no risk buying a CD? Ask the people who nearly starved through the 80's and 90's as their income fell from 18% interest to 1%. I guess I don't need to tell you that real estate can go down in value, but few people believed it a year or so ago.

The point is that every once in a while we all have to suffer through these periods of punishment as yet another generation learns that there is risk in EVERY choice that you make. You can't minimize the risk if you won't even acknowledge that it exists. Once you accept that it's there, the job is much easier. Collectively, you are experiencing less than half the declines from the October peak that the market is experiencing. That is the result of minimizing risk.

Hang on. It would be unrealistic to believe that we could escape all of the pain of this, but it will get better soon and we can finally get back to the profit side of the picture again. When you make more money going up, and then hold onto more of it when it's going down, it's not too long before you pull far ahead of the crowd. That's all we can try to do.

Cindi Showalter

**Update on Michael Masters testimony before Congress regarding the impact of institutional futures investments on the price of oil: funds sold \$39 billion of these futures between July and Sept 2, and the price of oil plunged from \$150 to \$100 per barrel. Which caused which?**