



The Polar Letter

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In recent days, both presidential candidates, and indeed President Bush himself have been saying "Wall Street has used poor judgment", or language to that effect. We agree, although, we believe greed was (and is) a much larger factor than poor judgment.

The multitudes of problems our economy and investment markets face today are not trivial. Just for instance, for many years Wall Street has been on a "securitization binge". We have securitized trillions of dollars of mortgage, automobile, home equity, credit card and other loans. Some of these loans are obviously not going to be repaid, which is going to create a crisis for pension funds, banks, insurance companies, mutual funds, savers and other institutions and individuals who have invested in these securities. Naturally, this is but one aspect (but perhaps the most significant aspect) of our present economic and market problems; let us not forget the level of the dollar, present debt levels or the "open secret" that next year's deficit may top one trillion dollars.

In our view, these problems will take several years to "fix", especially in light of some of the current proposals. Examples abound, what do you suppose the present housing bill is going to do for taxpayers and/or government debt levels? Democratic congressional leaders Pelosi and Reid maneuvered to avoid a floor vote on offshore drilling prior to the August recess because they are well aware that they would lose such a vote once blue dog and oil patch democrats joined the republicans. According to a recent Fox news poll, 71% of democrats polled favor increased drilling (Nancy is trying to save the planet you know). Our elected officials and to an extent industry regulators, surely don't understand economics!

Markets:

We began writing this Monday and were troubled by Merrill Lynch's actions. We don't see the logic of a 20% dilution at these price levels, unless there was no other choice. Since Monday, numerous commentators have weighed in:

- "Merrill's share sale contrasts with CEO's comments (Market Watch)
- "What did Merrill Lynch do today? Did it actually sell something? OR just move something off its balance sheet for now? Welcome to the world of accounting. (Registered Rep Magazine)
- "The End of Merrill Lynch? (Investment News)
- "The Reign of Thain (we note Merrill chairman) has been anything but plain." (Dennis Gartman)

Naturally, we still advise avoiding the equity markets and reducing any exposure on strength. With regard to fixed income investments, we advise purchase of the highest quality individual issues (not mutual funds) and in maturities of less than three years.

Please call us to discuss these matters and your portfolio; we have programs which are profiting, yes, even in this environment.

Please visit Polarinvest1.com – [President's Corner](#) for prior letters.

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