



# *The Polar Letter*

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## **If you put the federal government in charge of the Sahara Desert, in five years there'd be a shortage of sand.**

*Milton Friedman*

We agree with Dr. Friedman, additionally, we believe that this witticism is also applicable to the securities industry.

Unfortunately, many of the larger firms, and some smaller regionals have profited incredibly, built huge and unnecessary infrastructures, sold needlessly expensive and sometimes excessively risky product, devised methodologies of stacking fee upon fee, creating outrageous bonus and incentive programs, etc. And all of this, at the expense of their clientele. So long as the bull market in equities continued, these methodologies (in some cases constituting fiduciary negligence) went unnoticed, or at least ignored. After all, a rising tide lifts all boats so to speak.

Few in the financial industry today would remember the term "customer's man." Many years ago, a retail broker was considered a customer's man, which meant that he or she put the interests of the customer above those of the firm. Time, societal ethical deterioration, greed, and profit motive at all levels of the financial services industry have changed this.

Over the course of the past three decades, give or take a couple of years, most firms have trained their sales forces to move product, and maximize commission revenue, period. With our extensive experience in the industry, examples of this "profiteering," are too prolific to examine without actually writing a book.

*Let us consider a simple example:*

A retired couple meets with a retail broker because they have a \$50,000 two-year certificate of deposit maturing shortly and the bank is presently offering about 2.5% on a two-year CD. The broker shows the retired couple an insured municipal bond issue, maturing in say eleven years and trading at a slight discount with a yield-to-maturity of say 6%. Since this is a tax-free issue, it represents an after tax return to the couple of say 7.25%. This sounds like a great deal, right? Well, maybe not. It is probable that the couple does not understand; credit risk, interest rate risk, municipal insurance system risk, and so forth. It is also, unfortunately, possible that the broker does not understand the entirety of these risks either. Had the broker sold the couple another two year CD, he would have generated a commission of about \$125, but, on the municipal sale, he generated a commission of about \$700. Since this was a principal transaction (as are most fixed income transactions), the couple has no clue what they may have paid in hidden mark up. We are not suggesting that the broker in this hypothetical example was dishonest, for it is probable that he was doing what he was trained to do – maximize revenues!

Our market views remain unchanged from those expressed in our prior letters. We believe the present strength in the equity markets is a bear market rally. We would not speculate as to the duration of the strength. However, given the present and probable governmental actions and desires, coupled with economic conditions, we believe that new lows in the equity markets are quite probable.

Please telephone us for ideas and suggestions concerning your personal situation.



Michael C. Jordan  
President

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