Steve Czech's - Anecdotes From The Road: "We Have A SPENDING Problem, Not A Revenue Problem" - Volume IV., No. 38

Ladies & Gentlemen:

Hope all is well with you and yours!

Below, please find the latest installment of *Steve Czech's Anecdotes From The Road "We Have A SPENDING Problem, Not A Revenue Problem".* The following are some very interesting anecdotes I've gleaned from reading, meetings and conversations during the past week. (A pdf version is attached hereto for iPad users).

Editor's Note: Due to several family commitments this past weekend, "Anecdotes" appears in "short-form" this week.

I hope you find the following useful and welcome the opportunity to discuss these at your convenience.

AMERICA ON THE ROAD TO RECOVERY: DAY 364

GM's STOCK PRICE AT THE IPO ON 11.18.10: $33.00/SHARE
GM's STOCK PRICE ON 10.24.11: $24.98/SHARE
ABSOLUTE % CHANGE FROM IPO PRICE: - 24.30%
ANNUALIZED % CHANGE FROM IPO PRICE: - 26.51%

WELCOME TO OUR NEW "ANECDOTES" READERS!

- I would like to welcome our new *"Anecdotes"* readers in Ireland and Finland.
- *"Anecdotes"* readers can now be found in 19 countries around the world.
- We thank you for your interest and support!

HEADLINE OF THE WEEK:

- "KHADAFY KILLED BY YANKEE FAN – Gunman Had More Hits Than A-Rod" – *The New York Post, 10.21.11.*

QUOTE OF THE WEEK:

- " It's very clear that the private sector jobs have been doing just fine; it's the public sector jobs where we've lost huge numbers, and that's what this legislation is all about" – *Senator Harry Reid (Democrat-Nevada) on the Senate floor trying to defend a new Democratic proposal to spend another $35.0 billion that the U.S. government doesn't have to help states hire teachers and other public workers (Source: The Wall Street Journal, 10.20.11).*
- ***Editor's Note: Please see "Harry Reid's Jobs Math" below***

CAN'T MAKE THIS UP!

- "Washington, D.C. edged out San Jose, CA as the U.S. metropolitan area with the highest median income" *(Source: The Wall Street Journal, 10.20.11).*
- ***Editor's Note: It would appear that Senator Reid may have his numbers wrong. Whadda you think?***

NUMBER OF THE WEEK # 1: $148.0 BILLION

- The amount spent by *Bank of America* CEOs Hugh McColl and Ken Lewis on acquisitions between 1998 and 2008 *(Source: The Wall Street Journal, 10.19.11).*

NUMBER OF THE WEEK # 2: $65.0 BILLION

- The market value of *Bank of America's* common stock on 10.18.11 *(Source: The Wall Street Journal, 10.19.11).*

NUMBER OF THE WEEK # 3: 1,450 POINTS

- The *Dow Jones Industrial Average's* trading range since 8.8.11 *(Source: The Wall Street Journal, 10.22.11).*

NUMBER OF THE WEEK # 4: +16.0%

- What the YTD *S&P 500* return through 10.21.11 would have been were it not for its three biggest daily declines *(Source: The Wall Street Journal, 10.22.11).*

NUMBER OF THE WEEK # 5: -13.0%

- What the YTD *S&P 500* return through 10.21.11 would have been were it not for its three biggest daily gains *(Source: The Wall Street Journal, 10.22.11).*

NUMBER OF THE WEEK # 6: 62

- The number of days that the *S&P 500* has moved by 1.0% or more on an INTRADAY basis in 2011 *(Source: The Wall Street Journal, 10.22.11).*

DID OBAMA'S TELEPROMPTER BREAK?

"Sotto Voce Signing":

- Republicans passed Obama's trade bills, but don't tell anyone.
- President Obama's biggest legislative success so far this year was last week's passage of three long-stalled trade agreements with South Korea, Panama and Colombia. But is he embarrassed by his accomplishment?
- We began to wonder this week when a Member of the GOP Congressional leadership mentioned in passing that the President had scheduled his signing ceremony on 10.21.11, in a week when he knew the House of Representatives is out of session. We put in a call yesterday to ask the White House if any House GOP leaders had received an invitation, but we hadn't heard back by deadline.
- Then came yesterday's terse afternoon news release from the White House press secretary announcing that "There will be a "stills only" (translation: still photography) pool spray of the signings. The President will no longer make remarks in the Rose Garden following the signings."

- This is a far cry from the crowded, camera-heavy signings for the *Affordable Care Act (translation: ObamaCare), Dodd-Frank* and so many other bills in his first two years. Then he was flanked by multiple Members of Congress and he passed out pens as mementos. It's also highly unusual for our most garrulous of Presidents, who we would have thought would want to tell Americans that one of his goals was achieved.
- Perhaps Obama doesn't want to offend unions and Democrats who opposed the trade accords, but then this is a President who keeps blaming Republicans for obstructing his economic agenda. In this case Republicans gave him a bipartisan victory, and the President seems to want only a few CEOs to notice *(Source: The Wall Street Journal, 10.21.11).*

Democrats Against "Stimulus 2.0" - The Senate Keeps Killing Obama's Ideas:

- President Truman—er, Obama—seems to be running for re-election against the "do nothing" Republicans. Which might work in the absence of a record, or not, but could he at least get his own party to go along?
- Late on Thursday night Harry Reid brought the first piece of Obama's jobs package to the Senate floor: a tax increase to fund $35 billion in aid to states to prop up the government jobs that the Majority Leader recently claimed were hurting, unlike the private sector. The goal was never to pass this bit of junior-varsity stimulus, but merely to put the GOP on record against it—and yet three Democrats used this free vote to go on record against it too.
- The measure failed 50-50 under Senate procedure that required 60 votes. The rebels were Nebraska's Ben Nelson and Arkansas's Mark Pryor, as well as Connecticut Independent Joe Lieberman who caucuses with the Democrats. Obama put out a statement claiming that it was "unacceptable" that "for the second time in two weeks, every single Republican in the United States Senate has chosen to obstruct a bill that would create jobs." He didn't mention the Democratic defections, or that last week Nelson and Montana's Jon Tester voted against his full plan.
- If Obama can't convince his own party, let alone the GOP, perhaps he could come up with some new economic recovery ideas *(Source: The Wall Street Journal, 10.22.11)*.

ECONOMIC SUCCESS – U.S. GOVERNMENT STYLE: AMTRAK'S "BANNER" YEAR:

- Even as ridership increases, it still can't cut its losses.
- *Amtrak* announced last week to great media fanfare that the national train service carried a record 30 million passengers last year. A banner year on its 40th anniversary of government ownership, right? Well, no.
- Here's what *Amtrak* didn't trumpet: It lost a near-record amount of money in fiscal 2011, with some $560 million from the feds required to cover its operating deficit.
- This isn't an operation that can make up losses with greater volume. The curse of *Amtrak* is that its operating costs are so high on most routes, and its fares so inadequate to cover those costs, that even as more people hop on board it still can't cut its losses. It currently loses about $54.50 per passenger, and the Sunset Limited line between New Orleans and Los Angeles loses $390 per ticket, according to the House Transportation Committee. Since Richard Nixon nationalized passenger rail service in 1971, *Amtrak* hasn't made money in a single year.
- Oh, and those 2011 operating subsidies are only a portion of *Amtrak*'s line of taxpayer credit. The House Budget Committee says the railroad also received nearly $1 billion in capital subsidies, $52 million in debt restructuring relief (which climbs to $125 million in fiscal 2012), and access to a $562.9 million low-interest loan with the Department of Transportation. *Amtrak*'s management has also requested $117 billion over the next 20 years to modernize the nation's tracks for 150 mph bullet trains.

- Even the 30 million passenger trips on *Amtrak* are hardly a transportation milestone. Planes carry roughly two million passengers a day, or about as many passengers every two weeks as *Amtrak* carries in a year. For every person who rides *Amtrak*, more than 100 drive their cars from one city to another. Beyond the Washington-Boston corridor, trains account for 0.5% of all intercity trips, meaning that in most parts of the country *Amtrak* is an inconsequential and anachronistic mode of intercity travel. Building more lanes on the most congested interstate highways would be a far more efficient way to move Americans than continuing to fund *Amtrak* at $1.5 billion a year—or spending $20 billion on high-speed rail, as President Obama wants to do.
- It's worth contrasting *Amtrak*'s financial performance with what may be America's fastest-growing mode of transportation: new tech-savvy buses run by companies like Megabus, Coach USA and BoltBus, whose business was up 24% in 2010. These buses typically travel between major U.S. cities—say, from Chicago to St. Louis or Des Moines.
- The fare from Manhattan to downtown Washington, D.C. can be as low as $10 or $20, compared with $150 or so for even a non-Acela *Amtrak* ticket. When Coach USA CEO Dale Moser was asked about these prices, he said, "you cut all that overhead out of your business, you find you can pass the savings on to consumers."
- That is what *Amtrak* could have been doing for 40 years, but who needs efficiency when a rich Uncle covers the overhead? *(Source: The Wall Street Journal, 10.19.11).*

HARRY REID'S JOBS MATH – A REVEALING COMMENT ABOUT PRIVATE AND PUBLIC EMPLOYMENT:

- Harry Reid carries a heavy burden these days, blocking and tackling for an unpopular President's unpopular agenda while trying to hold onto a Senate majority in 2012. So perhaps we should be forgiving when the Majority Leader says what he did yesterday on the Senate floor:
- "It's very clear that private-sector jobs have been doing just fine; it's the public-sector jobs where we've lost huge numbers, and that's what this legislation is all about."
- Then again, he really said that.
- Reid was trying to defend a new Democratic proposal to spend another $35 billion that the government doesn't have to help states hire teachers and other public workers. He seems to be under the impression that private job creation is doing well, and that happy days would be here again if we could only gin up more government jobs.
- So let's go to the videotape. According to the White House budget office, the federal executive branch had 1.875 million civilian full-time equivalent employees when the financial crisis hit in 2008. Two years later, that number had risen by 253,000 jobs to 2.128 million, a 13.5% increase.
- The budget office predicted earlier this year that the number would fall slightly to 2.101 million in fiscal 2011, which ended on September 30, but then rise again in 2012 to 2.116 million. The Bureau of Labor Statistics reported in September that overall federal government employment had fallen by 30,000 jobs from September 2010, but that's after the rapid rise under President Obama. There's been no jobs recession in the Beltway.
- So perhaps Reid is referring to state and local government jobs? Well, the *Labor Department* report for September shows that state governments have cut payrolls by all of 49,000 since September 2010, to 5.089 million. Local governments have reduced employment at a somewhat faster pace—by 210,000 workers in the last year, to 14.076 million.
- The pace of these state and local cuts have picked up this year, as the federal stimulus spending has declined. But Democrats promised in 2009 that the stimulus would be temporary—to help states get through the recession. State and local governments now have no choice but to cut workers, as they adjust to a new and reduced level of tax revenue thanks to the slow economic recovery.
- As for the private jobs market, it's hard to see what Reid could possibly mean when he says it is "doing just fine." Private non-farm employers added only 137,000 new jobs in

September and 352,000 in the last three months. That's why the overall jobless rate remains an unprecedented 9.1% two years into an ostensible economic recovery.

- Going back to 2008, the *Labor Department* reported 111.822 million employed private workers at the end of 2008. The number plunged during the recession, and as of September of this year overall private employment had climbed back to 109.349 million. But that's still some 2.5 million fewer jobs than in 2008. If this is doing fine, we'd hate to see Reid's definition of lousy.
- What these numbers show is that, contrary to Reid, the real U.S. jobs problem continues to be in the private economy. If private employers were hiring at the pace they normally do in an economic recovery, we might be doing fine.
- In any case, Reid's latest stimulus proposal isn't intended to help private employers. Its goal is to help state and local government workers, especially teachers, most of whom are unionized and pay dues that can finance Democratic Senate campaigns. The $35 billion would operate as a campaign-finance pass-through account, from Senate Democrats to unions and back to Senate Democrats.
- Reid knows his proposal can't pass the House, and perhaps not even the Senate, so his real agenda is to stage a vote that Republicans will oppose so President Obama can claim on the stump that Democrats are doing something to help create jobs and that Republicans stopped them.
- Instead, Reid's comments yesterday reveal that he and his fellow Democrats inhabit an economic universe in which government is the main engine of job creation. That's how you get a jobs crisis *(Source: The Wall Street Journal, 10.20.11)*.

THE U.S. HAS A <u>SPENDING</u> PROBLEM, <u>NOT</u> A REVENUE PROBLEM:

A New Spending Record - Washington Had Its Best Year (for spending) Ever in Fiscal 2011:

- Maybe it's a sign of the tumultuous times, but the federal government recently wrapped up its biggest spending year EVER, and its second biggest annual budget deficit EVER 9Obama’s first year in office was the highest), and almost nobody noticed. Is it rude to mention this?
- The *Congressional Budget Office (“CBO”)* recently finished tallying the revenue and spending figures for fiscal 2011, which ended September 30, and no wonder no one in Washington is crowing. The political class might have its political pretense blown.
- This is said to be a new age of fiscal austerity, yet the government had its best spending year ever, spending a cool $3.6 trillion. That beat the $3.52 trillion spent in 2009, when the feds famously began their attempt to spend America back to prosperity.
- What happened to all of those horrifying spending cuts? Good question. *CBO* says that overall outlays rose 4.2% from 2010 (1.8% adjusted for timing shifts), when spending fell slightly from 2009. Defense spending rose only 1.2% on a calendar-adjusted basis, and Medicaid only 0.9%, but Medicare spending rose 3.9% and interest payments on the growing U.S. debt by 16.7%.
- The bigger point: Government austerity is a myth.
- In somewhat better news, federal receipts (translation: tax revenue) grew by 6.5% in fiscal 2011, including a 21.6% gain in individual income tax revenues. The overall revenue gain would have been even larger without the cost of the temporary payroll tax cut, which contributed to a 5.3% decline in social insurance revenues, but didn't reduce the jobless rate.

The Obama Deficit Blowout

Federal tax receipts, spending and deficits, fiscal years 2007-2011, billions of dollars

	Receipts	Outlays	Deficit	Deficit as share of GDP
2007	$2,568	$2,729	$161	1.2%
2008	2,524	2,983	459	3.2
2009	2,104	3,520	1,416	10
2010	2,162	3,456	1,294	8.9
2011	2,303	3,600	1,298	8.6

Source: Congressional Budget Office

- The table above shows the budget trend over the last five years, and it underscores the dramatic negative turn since the Obama Presidency began.
- The budget deficit increased slightly in fiscal 2011 from a year earlier, to $1.298 trillion. That was down slightly as a share of GDP to 8.6%, but as *CBO* deadpans, this was still "greater than in any other year since 1945."
- Mull over that one. ***The Obama years have racked up the three largest deficits, both in absolute amounts and as a share of GDP, since Hitler still terrorized Europe***. Some increase in deficits was inevitable given the recession, ***but to have deficits of nearly $1.3 trillion per year, two years into a purported economic recovery simply hasn't happened in modern U.S. history.*** Yet President Obama fiercely resisted even the token spending cuts for fiscal 2011 pressed by House Republicans earlier this year.
- The table above also shows how close the federal budget was to balance as recently as fiscal 2007, with a deficit as low as $161 billion, or 1.2% of GDP.
- Those are the numbers to point to the next time some ill-informed Democrat says that the Bush tax rates and the Medicare prescription drug plan are the main causes of our current fiscal woes.
- Under those same tax rates in 2007, the government raised $2.57 trillion in revenue but it spent only $2.73 trillion. Four years later, the government raised $265 billion less in taxes thanks to the tepid recovery, but it spent nearly $900 billion more thanks to the never-ending Washington stimulus.
- The lesson for Congress's super committee contemplating fiscal reform is that faster economic growth and spending restraint are the keys to reducing deficits, not vice-versa.
- Higher taxes will hurt growth and feed a Washington spending appetite that is as voracious as ever, despite the claims of political sacrifice *(Sources: Congressional Budget Office &The Wall Street Journal, 10.18.11).*

HOW BAD IS THE U.S. CONSUMER HURTING?

U.S. Spenders Become Savers, Hurting Recovery:

- American consumers' long-running love affair with debt is on the rocks. And as they repent for their credit-driven Bacchanalia, the foundering U.S. economy is left to pick up the pieces.

- Anita Bullock-Morley, a 36-year-old speech therapist in Atlanta, is one who talks about her old borrowing habits like a recovering drug addict: "My life is so much better not having that haunting debt."
- She used savings to help pay for her wedding last year. And after wiping out the balance on two dozen credit cards—and swearing off boutique-label purchases and fancy vacations—she is working her way through $50,000 in student loans and the $215,000 left on her mortgage. Ms. Bullock-Morley is among a generation of Americans who were taught the value of saving as children but had to learn the hard way how to spend wisely.
- Since the financial crisis erupted, millions of Americans have ditched their credit cards, accelerated mortgage payments and cut off credit lines that during the good times were used like a bottomless piggybank. Many have resorted to a practice once thought old-fashioned—delaying purchases until they have the cash.
- As a result, ***total household debt—through payment or default—fell by $1.1 trillion, or 8.6%, from mid-2008 through the first half of 2011***, according to the *Federal Reserve Bank of New York*. Auto loan and credit-card balances in August had their biggest drop since April 2010, the *Federal Reserve* said.
- The national belt-tightening, known as deleveraging, comes as the U.S. economy struggles to fend off a double-dip recession. Paying off bills slows consumer spending on appliances, travel and a slew of other products and services. Home sales, the engine of past economic recoveries, remain depressed.
- Many other Americans aren't borrowing because they can't—either because of credit defaults, tightened bank standards or homes that have lost all equity.
- "Households appear to have made some progress in deleveraging, but many still face elevated debt burdens and reduced access to credit," Janet Yellen, the *Federal Reserve's* second-ranking official, said on 10.21.11 during a speech in Denver.
- Deleveraging should help the U.S. economy in the long-run, putting households on a sounder footing and easing the nation's reliance on the savings of Chinese and other foreign nationals. But there are short-term dangers.
- During the Great Depression, economist John Maynard Keynes warned of a so-called paradox of thrift: When everyone turns frugal, everyone suffers. Synchronized thrift slows the economy, according to Keynes, which hobbles income growth and makes people even stingier in a pernicious cycle.
- Some experts worry that is happening now. Since the recession ended in mid-2009, the U.S. economy has expanded at a 2.5% annual rate, far slower than the average growth of 4.3% during the first two years of the previous four recoveries.
- "Folks aren't borrowing," said Jim Ernest, executive vice president at *Provident Credit Union* in Redwood Shores, Calif. "They are paying down debt and continuing to save." Since January, 12% of the credit union's mortgage customers have made at least $1,500 in extra payments.
- Nearly 300 borrowers have made at least $1,000 in additional payments on car loans from *Provident*, said Ernest, who confessed he sometimes can't sleep—Provident's loan portfolio has shrunk by a quarter since the end of 2008.
- The change in attitude stretches far beyond Ernest's credit-union members: two-thirds of Americans polled online in July by U.K. research firm *Absolute Strategy Research* said they planned to either reduce their debt within a year or stop borrowing altogether.
- Last year, Americans spent less on appliances, cars, car maintenance, dental services, jewelry and watches, recreational vehicles, tobacco, insurance, cameras, gambling and air travel than they did in 2005, when adjusted for inflation. Finance professors Atif Mian of the *University of California at Berkeley* and Amir Sufi at the *University of Chicago* found that households with the most debt were the likeliest to cut spending on big-ticket items.
- Turbulent financial markets and turmoil in Europe also have caused some investors to retreat to the sidelines, where they plow money into reducing their debt rather than risk it in stocks.

- Historically, deleveraging after a financial crisis is long and painful. In a 2010 study of 15 crises since World War II followed by deleveraging, economists Carmen and Vincent Reinhart concluded that economic growth and inflation-adjusted home prices fell in most countries during the decade after the crisis, while unemployment grew.
- The current U.S. belt-tightening might have an unusually big impact because the last borrowing bubble was so big.
- American households closed 103 million credit-card accounts. And credit-card payments exceeded purchases made with plastic by an estimated $116 billion between the end of the first quarter of 2009 and the end of the second quarter of 2011, according to *TransUnion LLC.*
- Some economists and bankers say the deleveraging crunch has begun to ease. Student borrowing and auto loan balances are up from a year ago. Mark Zandi, chief economist of *Moody's Analytics* in West Chester, Pa., says the deleveraging process is winding down.
- Yet this month's third-quarter earnings reports from U.S. banks show how leery many Americans remain over borrowing, despite record-low interest rates. Reluctance is widespread even among borrowers with excellent credit. According to Zandi, about 25% of deleveraging is by Americans who could get new loans but are paying down debt.
- *Wells Fargo & Co*., the nation's fourth-largest bank in assets, announced meager 1% growth in loans from last year's third quarter. Loan demand remains so weak that deposits are piling up, hurting profit margins at *Wells Fargo* and thousands of other U.S. financial institutions. A *Wells Fargo* spokesman said although deposits were rising faster than loans, contributing "to a lower net-interest margin," the company was "very pleased" with its third-quarter loan growth.
- Eager for new business, *Citizens Equity First Credit Union*, based in Peoria, Ill., offers its best customers new-car loans with a rock-bottom interest rate of 2.4% and promises to absorb paperwork costs when borrowers refinance a car loan by another lender.
- American Express Co. chief financial officer Daniel Henry told investors Wednesday that "consumers have decided to deleverage more" and the shift in behavior is creating a challenge for the entire industry.
- Many people say they feel worse financially, despite shedding debt. One big reason: The value of U.S. real estate has declined by more than $6.6 trillion since late 2006, according to Fed data, prompting some Americans to feel like they are falling behind even as they tidy up their finances.
- "We're not trying to jump-start the economy. We're trying to be better off in the long run," said Charles Allen, 33, of Crofton, Md., who owes $350,000 on a house he could sell for only about $300,000. "Instead of buying a big-screen TV or an Xbox, I'd like to be paying off this debt."
- Allen puts cash in envelopes marked for food, car maintenance, clothes, home repairs and entertainment. He spends only that money, using any leftover to pay down debt. Once upon a time, he said, he used to toss credit-card bills into drawers, figuring he would deal with them later.
- Carol Ford, a consultant who lives in Redwood Shores, Calif., pays an extra $100 a month on her mortgage try to get a handle on the debt. "I realized I had been fooled by people having me refinance my house several times," she said.
- Ms. Ford said she pulled out cash when she refinanced because she believed claims that it would be easy to refinance or sell her house at a higher price. "I fell for their blandishments," she said of lenders.
- Joseph Kovar, a certified public accountant and financial planner in Danville, Calif., said two of his clients recently tapped their 401(k) retirement accounts to pay debts, even though Kovar advised them of the high tax penalties.
- Another client got a large bonus that could have made it possible to buy a more expensive home. Instead, Kovar's client paid down a portion of a 30-year mortgage and refinanced to a 15-year loan. "People are not taking those excess funds and spending them," he said. "It's why we are …treading water in the economy."

- Samir Arsan of Redwood City, Calif., who works in commercial real estate, is trying to pay at least $270 extra a month on his used-car loan. Once the $10,000 loan is paid off, he plans to step up payments on his mother-in-law's mortgage and then the loan on his own home.
- "This year, I've done well," said Arsan, 54. "But I don't know what is coming down the pike. I'm hoping to lower my debt service so I can survive any additional problems the economy might have."
- He has no plans to replace his two cars: a 1998 van and 2000 Mercedes-Benz. He isn't alone. Nearby dealership Cammisa Hyundai boosted its repair staff from 10 to 14 employees last year.
- Car sales rebounded to record highs for two months this summer, before settling back in September, said Ralph Walker, Cammisa's assistant service manager: "People are still coming in but it's more an absolute need for a purchase than a want for a purchase." He said more buyers pay cash.
- For many Americans, the process of reducing debt feels like a marathon. Jason Jacobs, 32, of Richmond, Va., wants to move to Paraguay with his wife to become a Christian missionary and open a foster home. That won't happen until he pays down a chunk of more than $180,000 in debt. He said that could take until the end of 2014 or longer.
- The debts include $4,000 in credit cards, $30,000 for student loans and an $8,000 loan for energy-efficient windows for his home. The windows, he said, were a mistake. Jacobs also hopes to shave enough off his $139,000 mortgage to have equity in the property, which has fallen in market value since he bought it for $150,000 in 2005.
- To increase the odds of hitting his target, Jacobs is embracing a frugal life. He funnels about $650 a month into shrinking loan balances.
- Automated bank payments keep him disciplined. Jacobs keeps an envelope in a desk drawer that is allocated $300 a month for food. He spends only what's in the envelope.
- Soon, a new envelope will get $160 a month for movies, clothes and other items. Instead of shopping at malls, Jacobs hunts for deals at secondhand stores or on websites like eBay and Craigslist *(Source: The Wall Street Journal, 10.22.11).*

UPDATE - THE FRAUD KNOWN AS "GREEN/CLEAN ENERGY/TECHNOLOGY":

Background:

- Recall from the 8.21.11 installment of *"Anecdotes*", that *Solyndra*, a manufacturer of solar panels, received a $535 million *Department of Energy* loan guarantee in 2009 as part of the Obama administration's economic stimulus package.
- *Solyndra* filed for Chapter 11 bankruptcy protection on 8.31.11.

Your Cash for Their Clunkers:

- Another White House energy favorite hits financial trouble.
- Here's some investment advice: When looking for tips on green technology plays, steer clear of the stock pickers located at 1600 Pennsylvania Avenue. They've made a habit of investing your cash in their clunkers.
- Following on *Solyndra*'s great success comes *Ener1* Inc., a lithium-ion battery maker also promoted by the White House. President Obama gave the company's subsidiary, *EnerDel*, a shout out in August 2009, in a speech in which he announced $2.4 billion in grants "to develop the next generation of fuel-efficient cars and trucks powered by the next generation of battery technologies."
- *EnerDel* snagged a $118 million grant, and Vice President Joe Biden toured one of its two Indianapolis-area factories as recently as January, citing it as proof that government isn't "just creating new jobs—but sparking whole new industries."

- He didn't say profitable industries. *Ener1* was founded in 2002, went public in 2008 and has never turned a profit. In August, it restated its earnings for fiscal 2010 at a $165 million loss—nearly $100 million more than previously reported. On September 27 it ousted its CEO, and its share price yesterday was 27 cents—a 95% decline from its 52-week high of $5.95 in January. Nasdaq is threatening to delist the stock, and *Ener1* disclosed in a mid-August filing with the Securities and Exchange Commission that it is "in the process of determining whether the company has sufficient liquidity to fund its operations."
- *Ener1* attributed its financial restatement to the bankruptcy earlier this year of Norwegian electric car maker Think, in which *Ener1* had invested, and with which it had signed a contract to supply batteries. Think had a long history of financial troubles and was hardly a safe investment.
- Then again, *Ener1* had to rely almost exclusively on Think after it lost its bid to supply batteries to *Fisker Automotive*, a battery-powered car maker which received a $529 million U.S. taxpayer-backed federal loan guarantee in 2010. *Fisker* chose to buy its batteries from a company called *A123 Systems*, itself the recipient of a $249 million U.S. Department of Energy grant (announced at the same time as *Ener1*'s grant).
- It's hard to sell electric car batteries when the market for electric cars is so small. Electric cars are expected to make up less than 1% of car sales by 2018, but that hasn't stopped the feds from financing a glut of battery makers. Some 48 different battery technology and electric vehicle projects received federal money as part of the Administration's August 2009 announcement, including such corporate giants as Johnson Controls and General Motors.
- Current estimates are that by 2015 there will be more than double the supply of lithium-ion batteries compared to the number of electric vehicles. This government-juiced industry is headed for a shakeout, taking taxpayer dollars with it.
- That may include Indiana state tax dollars. In recent years the Indiana Economic Development Corporation has offered *Ener1* up to $21.1 million in performance-based tax credits and $200,000 in training grants. A spokeswoman for the state agency said *Ener1* hasn't used the training money and that the tax credits were conditioned upon jobs created. She said the agency isn't at liberty to divulge *Ener1*'s use of the tax credits. The company had promised the combination of federal and state money would allow it to create 1,700 new jobs in Indiana by 2012, and 3,000 by 2015. At last count, *Ener1* employed 380 in Indiana. The company didn't return a call seeking comment.
- There's no pleasure in *Ener1*'s troubles, but there is a lesson: Better to leave commercial financing decisions to private investors and bankers who are likely to take more care with their own money. Politicians write the press releases first and worry about the taxpayer losses later *(Source: The Wall Street Journal, 10.19.11).*

BUSINESS FACTOIDS:

- ***U.S. Consumer Prices Increase Nearly 4.0% In Fiscal Year 2011:*** U.S. consumer prices rose 0.3% in September 2011, the *U.S. Labor Department* reported on 10.19.11, and were up 3.9% year-over-year. The 12 month increase – the largest since 2008 – stemmed from an increase in gasoline prices related to QE2 and the Arab Spring. Higher gasoline prices at the pump earlier this year taxed households hit by high unemployment and lower home values *(Sources: The U.S. Labor Department & The Wall Street Journal, 10.20.11).*

- ***U.S. Real Average Wages Decline In Fiscal Year 2011***: Real average weekly earnings declined 1.7% over the past year, according to a report issued by the *U.S. Labor Department* on 10.19.11. Coupled with a 3.9% increase in consumer prices over the same period, U.S. consumer purchasing power declined 5.6% between 9.30.10 and 9.30.11 *(Sources: The U.S. Labor Department & The Wall Street Journal, 10.19.11).*

- ***Sales of Existing Homes Decline in U.S. In September 2011:*** Sales of previously owned homes declined in September 2011 as Americans were hit by economic uncertainty, high unemployment and tight lending. Existing home sales declined 3.0% to a seasonally adjusted 4.91 million in September 2011, according to the *National Association of Realtors (Sources: The National Association of Realtors & The Wall Street Journal, 10.21.11).*

- ***Employment Stagnates In 47 U.S. States in September 2011***: According to the *U.S. Labor Department*'s breakdown of state and regional unemployment released on 10.21.11, 47 states and Washington, D.C. experienced virtually no change in their jobless rates in September 2011 from a month earlier. Forty-six (46) states reported flat or increasing rates of unemployment in September 2011 while three (3) states (California, Minnesota & Idaho) saw their unemployment rate decline in September *(Sources: The U.S. Labor Department & The Wall Street Journal, 10.22.11).*

Should you have any questions re: the aforementioned, please don't hesitate to ask.

Sincerely,

Stephen J. Czech
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