Steve Czech's - Anecdotes From The Road: "MF Global: Where Were The Regulators?" - Volume IV., No. 40

Ladies & Gentlemen:

Hope all is well with you and yours!

Below, please find the latest installment of *Steve Czech's Anecdotes From The Road "MF Global: Where Were The Regulators?"* 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).

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

AMERICA ON THE ROAD TO RECOVERY: DAY 378

GM's STOCK PRICE AT THE IPO ON 11.18.10: $33.00/SHARE
GM's STOCK PRICE ON 11.4.11: $23.61/SHARE
ABSOLUTE % CHANGE FROM IPO PRICE: - 28.45%
ANNUALIZED % CHANGE FROM IPO PRICE: - 31.65%

BY THE WAY, WHAT HAPPENED TO "GM FACTOIDS"?

- Many readers have been asking why I stopped including "*GM* Factoids" in each week's installment of *"Anecdotes".*
- The truth is that *GM's* stock price speaks volumes about its sub-par performance. As a result, "factoids" aren't necessary.
- But since you asked…U.S. auto sales for October 2011 were released on 11.1.11 and while sales in the U.S. market grew 7.5%, GM's sales increased at a fraction of the U.S. rate – up 1.7% for the month of October 2011 - and sales of *GM's* higher margin vehicles, *Buick* and *Cadillac,* declined at double-digit rates in October 2011, meaning that *GM* continues to lose market share and its product mix is shifting to less-profitable cars from more profitable cars & trucks (*Source: The Wall Street Journal, 11.2.11).*

SLOGAN FOR THE COMING WEEK:

- "Italy is too big to fail and too big to bail!"

HEADLINE OF THE WEEK:

- "Democrats Are Battling GOP-Backed Anti-Voter Fraud Initiatives That Democrats Say Will Suppress Democratic Voters" – *The Wall Street Journal, 11.2.11.*
- ***Editor's Note:*** *Speaks for itself and explains a lot.*

OBSERVATION OF THE WEEK:

- "The U.S. lives in an era of such diminished economic expectations that even small job gains are greeted on Wall Street and Washington with relief. That's the story of 11.4.11's labor report for October 2011, which saw the U.S. jobless rate drop to 9.0% vs. 9.1% as the economy added 80,000 jobs. The U.S. unemployment rate has been above 8.0% for 33 months *(Sources: U.S. Labor Department & The Wall Street Journal, 11.5.11).*
- ***Editor's Note:*** *Incidentally, Obama has been president for 34 months and his economic advisors (Christina Roemer and Jared Bernstein – both of whom are no longer employed by the Obama administration) prepared a report one month into his presidency (in February 2009) that said that if Congress passed Obama's $767 billion economic stimulus bill (which turned out to cost $862 billion), unemployment would fall below 8% (Source: PolitiFact, 11.5.11).*

NUMBER OF THE WEEK # 1: 515

- *LinkedIn* has seen its shares surge since they debuted at $45 each earlier this year. At their closing price of $87.50 on 11.3.11 on the *Nasdaq Stock Market*, *LinkedIn* shares traded at more than 515 times future 2012 earnings *(Sources: FactSet Research & The Wall Street Journal, 11.4.11)*.

NUMBER OF THE WEEK # 2: $3,799

- The highest asking price on *StubHub.com* for a 50-yard-line ticket to Saturday's (11.5.11) LSU-Alabama football game in Tuscaloosa, AL.
- The cost of in-state tuition for 12-16 credit hours at the University of Alabama is $4,300 *(Sources; StubHub, The University of Alabama & The Wall Street Journal, 10.31.11).*

NUMBER OF THE WEEK # 3: 19

- The average number of weeks that an unemployed U.S. resident spent receiving unemployment benefits as of the month that Obama was sworn in, January 2009 *(Source: The U.S. Labor Department & Fox News, 11.5.11).*

NUMBER OF THE WEEK # 4: 39

- The average number of weeks that an unemployed U.S. resident spent receiving unemployment benefits as of October 2011, 34 months into Obama's presidency *(Source: The U.S. Labor Department & Fox News, 11.5.11).*

QUOTE OF THE WEEK:

- "*Groupon's* bankers engaged in more unnatural acts than a *Cirque de Soleil* audition in an effort to get the stock to trade above the offer price" – *Anonymous Investment Manager Who Declined To Participate in The Groupon IPO, 11.3.11*

A MUST READ!

- Longtime *"Anecdotes"* readers know that I have been very critical of "investment strategists" who, naively, refer to the current economic recovery as being "similar to previous economic recoveries".
- Nothing can be further from the truth and the minute some "investment strategist" prefaces where you should invest your money with the phrase, "The current economic recovery is similar to previous economic recoveries…", you should run in the opposite direction.

- As I’ve said for the past three years, if the previous four recessions were the economic equivalent of a heart attack, the Great Recession of 2008 was the economic equivalent of a heart attack, stroke and cancer….SIMULTANEOUSLY. As a result, the recovery from the Great Recession of 2008 will never look like any previous recovery.
- If you’re interested in learning how bad the Great Recession of 2008 was and how long it’s likely going to take to recover (assuming Obama loses in 2012), you must read *“This Time Is Different – Eight Centuries of Financial Folly”* by Carmen Reinhart and Kenneth Rogoff.
- Reinhart (*Peterson Institute for International Economics*) & Rogoff (*Harvard University*) chronicle eight centuries of economic bubbles in excruciating quantitative detail and explain why the U.S. is headed for an irreversible economic decline if steps aren’t taken to address the structural deficiencies of the U.S. economy.

WHY OBAMA SHOULD SKIP THE NEXT SUMMIT:

- Obama traveled overseas last week to try to cajole European leaders to resolve a debt crisis that could weaken the U.S. economy.
- ***Editor’s Note:*** Obama advising foreign leaders about fiscal restraint is the intellectual equivalent of Bashar al-Assad of Syria flying to Libya last March and telling Moammar Gadhafi to be nicer to Libya’s citizens.
- After two days of Group of 20 meetings where his role was peripheral, Obama left largely empty-handed, as he has done in every previous trade and economic summit since taking office.
- The leader of the world's largest economy went into the meetings saying he wanted details of how European leaders will implement their emergency debt deal. In the end, Obama returned to Washington with many questions about the plan unanswered and as markets remained uncertain about whether the euro zone debt crisis will be contained.
- "I know it isn't easy, but what is absolutely critical—and what the world looks for in moments such as this—is action," said Obama at a news conference at the end of the meeting. He maintained that European nations needed to send a "strong signal" to markets that they would preserve their currency.
- Obama suggested on 11.4.11 that the situation in Europe could get worse before it gets better. If Greece descends into further chaos and European leaders still haven't executed a broader plan for containing the damage, the president could be campaigning for re-election amid a spreading global financial crisis sparked by Greece, an economy about 1/50th the size of the U.S.
- "Am I confident that this will work?" Obama said of the euro-zone debt deal. "I think that there's more work to do. I think there are going to be some ups and downs along the way."
- Continued uncertainty in Europe means a continued drag on the U.S. economy. A monthly jobs report released on 11.4.11 by the *Labor Department* was anemic and showed the unemployment rate at 9%.
- The president brushed off the notion that his re-election was on his mind here, saying he is focused on growing the sluggish economy. "I have to tell you the least of my concerns at the moment is the politics of a year from now," Obama said. "I'm worried about putting people back to work right now."
- The president has little leverage over world leaders given the dynamics he faces back home, where he is battling low ratings on the economy—only 39% of Americans approve of his handling of it in the latest *NBC/Wall Street Journal* poll. The economy is by far the top issue on voters' minds as they size him up against the Republican presidential candidates. And by Obama's own admission, the debt crisis in Europe is the biggest threat to the fragile U.S. economic recovery.
- He has put forward a plan to reduce the federal deficit and another that would spend $447 billion to spur growth and create jobs. But his plans have stalled in Congress and are unlikely to be implemented in full.

- In many ways, the euro zone played the role at the G-20 that Congress plays for Obama in Washington. His fate depends on what each institution does, but at the same time he can't afford to give either a full embrace. He said he was confident "that Europe has the capacity to meet this challenge," with a hint of the distance he's placed lately between him and Capitol Hill.
- Obama also found himself facing a situation abroad like the one he faces with voters at home: relying on his powers of persuasion and hoping his ideas for jolting the economy are enough to instill confidence.
- The White House dismissed suggestions that the U.S. government's debt problem weakened Obama's credibility in advising the Europeans about theirs.
- But they still repeatedly stressed that the U.S. remains the world's largest economy, and Obama has experience dealing with a financial crisis that allows him to shape the outcome by offering ideas and guidance-though no money.
- "It's our belief that our ability to contribute, our ability to lead, and our ability to influence the outcome of these sorts of issues is not tied necessarily to having the American taxpayer pay for every problem," Mike Froman, deputy national security adviser for international economic affairs, told reporters this week *(Source: The Wall Street Journal, 11.5.11)*.

CAN'T MAKE THIS UP!

- ***U.S. Airlines Can't Make Money FLYING!*** U.S. airlines look at seat fees as another way to generate revenue in the low-margin industry. These days, checked baggage, meals, early boarding and flight changes on standby all come at a price. Fees from checked baggage and reservation changes alone made up 4% of airline operating revenue in Q211, ***but 62% of operating profit in the second quarter this year*** *(Sources: The Bureau of Transportation Statistics & The Wall Street Journal, 11.3.11)*.

- ***AIG Re-Enters Business Which Contributed To Its Failure:*** Seeking to boost income, *American International Group Inc*. *("AIG")* is creeping back into the business of securities lending—just three years after missteps there helped push the insurer to the brink of collapse. The new lending activity is just a fraction of the $90 billion in corporate bonds and other securities that *AIG*'s insurance units lent to banks and brokers before the last financial crisis. To juice returns at the time, a division of *AIG* took much of the temporary cash it received for the securities and invested the money in subprime-mortgage bonds. When credit markets froze during the housing downturn and *AIG*'s trading partners returned the securities and asked for their money back, the insurer had difficulty coming up with the cash and used taxpayer money to meet its obligations in late 2008. *AIG* ultimately realized a roughly $20 billion loss from its pre-crisis securities lending activities. This time around, *AIG*'s filings indicate there are arrangements to avoid a repeat of what happened during the last crisis. The municipal bonds were lent by *Chartis*, *AIG*'s property and casualty insurance business. Banks and brokers that borrowed the securities posted collateral amounting to at least 102% of the securities' value. The collateral cannot be reinvested by *Chartis* and is being held on the insurer's behalf in a third-party custodial account *(Source: The Wall Street Journal, 11.4.11)*.

- ***Authorities Ask Victims Of Scam To Come Forward:*** *The U.S. Secret Service* on 11.3.11 asked additional victims of a "black money" scheme to step forward, saying they could have helpful information for investigators. Scam victims are typically reluctant to go to the police, but their knowledge is valuable to law enforcement, said Thomas M. Powers, *U.S. Secret Service* Resident Agent in Charge in Providence, R.I. Powers said the scheme is mostly taking place in Rhode Island and Massachusetts, and that investigators believe there are 20 scammers involved. Authorities said they already knew of three people in New England who have been taken for $170,000. Investigators say the con artists, claiming to be from Libya, persuade victims to pay for chemicals to wash bank note-size paper they say is currency that was dyed black to avoid detection by customs officials. The fraudsters say they were forced to leave their country and can't afford the materials to cleanse their cash, Powers said. In one case, scammers promised to turn $100,000 into $300,000, according to an affidavit signed by *Secret Service* Agent Jon H. Ringel *(Source: The Associated Press, 11.4.11).*

MF GLOBAL: WHERE WERE THE REGULATORS?

Editor's Note: In the interest of full-disclosure, I have good friends who are currently employed by MF Global and who stand to lose their jobs and a significant portion of their net worth should the firm ultimately liquidate.

Background:

- On 11.4.11, *MF Global's* CEO, Jon Corzine, resigned in disgrace in the wake of driving *MF Global ("MF")* into the ground in 19 months.
- Recall that Corzine was: (i) forced out of *Goldman Sachs* in 1999*; (ii)* had an unmemorable stint as a New Jersey U.S. senator; (iii) failed miserably as New Jersey governor; (iv) nearly killed himself by driving 100 m.p.h. on a New Jersey highway and crashing, while not wearing a seat belt; and (v) in less than 19 months, drove *MF Global* into the ground.
- Also noteworthy is the fact that J.C. Flowers, a former partner of Corzine's at *Goldman Sachs* and the managing partner of a private equity firm bearing his name, stands to lose millions in *MF Global's* collapse. It appears that Flowers has invested in two of the most spectacular financial failures in the past three years, *MF Global* and German bank *Hypo Real Estate,* where Flowers reportedly lost $1.43 billion of his investor's money in a matter of months *(Source: The New York Times, 4.27.09).*

Current Situation:

- Monday, October 31, 2011 offered a chance for market participants and taxpayers to reflect on their good luck that *MF Global* Chairman and CEO Jon Corzine was not running a bigger firm—or the U.S. Treasury.
- While the collapse of his company was big enough to cause major headaches in the futures market where *MF* provided clearing services for a long client list, almost nobody considered it too big to fail.
- Like *CIT* before it in 2009, *MF* was considered "too small to matter".
- Similarly, although *MF Global* this year became one of the 22 "primary dealers" for the *Federal Reserve Bank of New York* to buy and sell Treasury debt, bond markets shrugged off the bankruptcy filing.
- These facts allow policy makers who are paying attention to glean some relatively painless lessons from the firm's demise.
- For example: As ever, regulation by the *Securities and Exchange Commission ("SEC")* and the *Commodity Futures Trading Commission ("CFTC")* does NOT prevent reckless risk-taking and financial trauma.
- In a document related to its bankruptcy filing, *MF Global* said its regulators "expressed their grave concerns" after a series of negative headlines about the company last week, including news of a large quarterly loss and a credit downgrade.
- **Last week ?!?!** Anyone reading *The Wall Street Journal* (even if they only read Section C) knew more than that.

- These are the same regulators who: (i) were at the helm when the firms they were responsible for regulating in 2008 imploded; and (ii) sought and received expanded powers under the 2010 *Dodd-Frank* financial reform on the premise that they can spot systemic risks lurking in our distant financial future *(Source: The Wall Street Journal, 11.1.11)*.

Where Was The CFTC? SEC? FINRA?

- How are the regulators going to explain this one? *MF Global*, the failed firm whose Chairman and CEO is Jon Corzine, has already destroyed the wealth of its investors and roiled the banking world. But now we are learning that it may have lost customer funds as well.
- A major Wall Street broker in derivatives markets with $41 billion in assets, *MF Global* filed for bankruptcy on 10.31.11 after Corzine made disastrous bets on bonds issued by European governments. It initially appeared he was (only) gambling with his firm's own capital, but a federal official tells the *Journal* that *MF Global* has admitted diverting money out of customer accounts, which may be a violation of federal law.
- This follows a report from futures exchange operator *CME* that *MF Global* was not complying with federal rules on segregating client funds. In bankruptcy court on 11.1.11 an *MF l*awyer said "To the best knowledge of management, there is no shortfall" in customer accounts. But *The Wall Street Journal* reported late on 11.1.11 that the FBI is investigating the matter.
- If reports of missing funds are true, it's a significant embarrassment for the firm's regulators at the *Commodity Futures Trading Commission ("CFTC")*.
- The *CFTC* is the primary regulator for *MF Global's* large futures-trading operation, though the securities firm also is overseen by the *Securities and Exchange Commission ("SEC")* and *Financial Industry Regulatory Authority ("FINRA").*
- *CFTC* Chairman Gary Gensler has been leading the Obama administration's chorus for years in reciting the (false) story that the absence of regulation allowed *AIG* and its credit-default swaps to wreak havoc in 2008.
- Never mind that the *Treasury Department's Office of Thrift Supervision ("OTS")* DID regulate *AIG*, and that an *OTS* official testified before Congress that the agency signed off on the swaps because it didn't expect Armageddon in the housing market.
- Gensler nonetheless succeeded in gaining for himself and his agency broad new powers over the derivatives market as part of *Dodd-Frank* in 2010.
- The *MF Global* case involves business that was unambiguously regulated by the *CFTC* long before Gensler built his new regulatory empire.
- In fact, the alleged *MF Global* failure goes to the basic regulatory blocking and tackling that the *CFTC* is supposed to perform, which includes ensuring that companies aren't raiding customer funds for their own trading.
- It is also no small irony that Corzine and *MF Global* were among the cheerleaders for Gensler's plans for new clearing arrangements under *Dodd-Frank*.
- Maybe if the regulators hadn't been so busy writing new rules, they would have checked if *MF Global* was following the old ones.
- It was always fanciful to believe that the regulators who failed to prevent the last financial meltdown would somehow prevent the next one.
- The surprise is that this mirage of regulatory competence has been exposed so quickly (*Source: The Wall Street Journal, 11.2.11)*.

The Forthcoming Fallout:

- Companies such as *Jefferies Group Inc.* and *Raymond James Financial Inc.* may come under greater supervision by regulators after *MF Global* filed for bankruptcy, said Richard Bove of *Rochdale Securities LLC (Source: Bloomberg News, 11.1.11).*

The Common Denominator:

- I've been on Wall Street now for nearly 24 years and I recently noticed that the common denominator amongst the most spectacular Wall Street crises and failures is the fact that the CEOs at the time these firms nearly collapsed or actually did collapse were traders or salesmen by training with no risk management on their resumes.
- Specifically, (i) Allan Wheat (derivatives trader) at *Credit Suisse*; (ii) Jimmy Cayne (municipal bond sales) at *Bear Stearns*; (iii) Stanley O'Neal (equity capital markets/private client group) *Merrill Lynch;* (iv) Jeffrey Peek (asset management sales & Board Member of *Freddie Mac*) at *CIT; (v) John Gutfreund (bond trader) at Salomon Brothers; (vi)* John Mack (bond sales) at both *Credit Suisse* and then *Morgan Stanley*; (vii) *Bob Rubin (*stock trader-merger arbitrage & formerly of *Goldman Sachs*) at *Citigroup*; (viii) Robert Steel (co-head equity trading & sales & formerly of *Goldman Sachs*) at *Wachovia Corp.*; (ix) Vikram Pandit (head of institutional securities & formerly of *Morgan Stanley*) at *Citigroup*; (x) Lloyd Blankfein (gold trader) at *Goldman Sachs*; and (xi) John Corzine (U.S. Treasuries trader & formerly of *Goldman Sachs*) at *MF Global*.
- While I don't know these men, I know people who know them and all of them claim that they are all "great guys".
- The aforementioned "great guys" comment notwithstanding and based on the aforementioned track record, it's time that the boards of major financial institutions start re-evaluating the domain expertise required of their CEOs to successfully run a global banking or securities firm.
- Given how frail the global economy and financial system remain in the wake of the 2008 crisis, we should thank our lucky stars that *MF Global* was "too small to matter" in the grand scheme of the financial universe. The aforementioned is cold comfort to the thousands of *MF Global* employees who will be losing their jobs as we approach the holidays.
- Finally, a word of advice to Jon Corzine: Please retire and don't try to stage a comeback. The U.S. government, state governments and global financial system can't afford it.

WHAT YOU WON'T SEE ON MSNBC:

- You probably won't be reading much about it, and don't look for the results to get a lot of airtime on *CNN* or *MSNBC,* but Colorado held a referendum on taxes on Tuesday. The tax increasers got blown away.
- By a nearly 2 to 1 margin, voters rejected a $2.9 billion income and sales tax increase ostensibly earmarked for education. Proposition 103 would have raised the income tax rate to 5% from 4.63% and the sales tax to 3% from 2.9%.
- Supporters claimed the tax would merely have been "temporary" and was needed to make up for recent cuts in state spending for K-12 and college education. Both are familiar ploys to sell tax hikes that fund higher spending and typically become permanent.
- The education gambit was a sneaky attempt to undermine the state's landmark and popular Taxpayer Bill of Rights, which was approved by voters in the 1990s and has slowed the growth of government. Tabor, as it is known, caps the state budget to the growth of population and inflation each year while rebating revenues above that limit to taxpayers. The union scheme was to erode the spending caps by exempting education spending and earmarking new tax revenues to schools, which already command 40% of the state's general fund budget.
- The Independence Institute, a free-market think tank, warned Coloradans that exempting education from the spending cap is what undermined California's Gann Amendment budget ceilings in the 1980s. California's spending and tax burden exploded in the aftermath, leading to its current fiscal and economic laments.
- Colorado's anti-tax mood was equally clear at the local level. *The Denver Post* reports that "Aurora voters rejected a $114 million tax increase for recreation centers, Douglas County voters said 'no' to school tax increases, and Cañon City voters rejected a tax for

library improvements." The paper called the overall results "a killing field for tax measures."

- Even in the People's Republic of Boulder, voters only narrowly approved (with 50.27%, a margin of 141 votes) a $1.9 million tax to finance a new a municipal electric utility to replace the state's main electricity supplier Xcel Energy. Boulder residents will now have the pleasure of paying for their anti-carbon indulgences.
- Notably, too, voters in Denver elected two reformers to the school board, while suburban Douglas County elected a slate of pro-voucher candidates. Earlier this year Douglas County began a controversial voucher program that provides Choice Scholarships for low-income students and is now being challenged in court. The election results show that the voucher advocates have public support.
- Oh, and one more burst of democratic common sense: Denver voters rejected, also by nearly 2 to 1, another union measure that would have mandated that all businesses pay sick leave for all workers. In 2008, Barack Obama carried Denver overwhelmingly and Colorado with 53.5% of the vote. Tuesday's results suggest that the 'Occupy Wall Street' mood that has so enthused Washington elites has yet to reach the Rockies *(Source: The Wall Street Journal, 11.3.11)*.

UPDATE: IMPACT OF DODD-FRANK ON U.S. BANKS:

- Elizabeth Warren has left the *Consumer Financial Protection Bureau* to run for Senate, but her interim replacement, Raj Date, is a worthy political successor. Testifying before Congress on 11.2.11, Date said the bureau's rule-makings will be "sensible, fact-based, pragmatic and effective" and enjoined members concerned about regulatory overreach to "look at what we do."
- As luck would have it, the bureau released its first major regulatory guide, the *"Supervision and Examination Manual—Version 1.0,"* on Oct. 13. The national press gave short shrift to the event, perhaps because the document is **802 pages long** and replete with the usual regulatory jargon. But even as a draft, the manual is a useful guide to the bureau's thinking and its inherently political nature.
- The bureau promises to regulate the nation's largest financial institutions with a "focus on consumers" and a "data-driven" and "consistent" approach. Some groups will get more attention than others, however—namely, "students, Older Americans, Service members, and the underserved." Underserved would seem to be a highly subjective standard.
- Most bankers want clarity on the expanded regulatory powers granted under the 2010 *Dodd-Frank* law—in particular, how the bureau will define an "abusive" act. To date, banks have been subject to a longstanding body of law that included "unfair" or "deceptive" acts. The "abusive" standard is a *Dodd-Frank* creation. Date dodged the issue Wednesday, emphasizing that the bureau will rely on "evidence-based" analysis.
- But what evidence? According to the manual, every exam "must include a review of compliance management, any potential unfair, deceptive or abusive practices, and regulatory compliance matters presenting risks to consumers" and, for lenders, "a review for discrimination." What kind of discrimination? The manual instructs the examiners to look for, among other things, business practices that have a "disparate impact" on minorities—a kind of statistical analysis the Supreme Court has declared invalid under several federal antidiscrimination statues.
- The manual also encourages its auditors to consider complaints lodged not only with the bureau, but with such political actors as state attorneys general and "on-line consumer complaint boards such as www.ripoffreport.com or www.complaints.com." Directing a federal agency to consider complaints lodged on a private, consumer-advocacy website is unprecedented. The tort bar must be delighted at all the business about to be kicked its way.
- Date was reporting on 11.2.11 to Congress on the progress the bureau has made in its first 100 days.

- Judging from what we know so far, the bureau has vast powers, no serious Congressional checks and an already-politicized agenda.
- No wonder banks are hunkering done for what may soon hit them *(Source: The Wall Street Journal, 11.5.11)*.

BUSINESS FACTOIDS:

- ***Food Stamp Usage In U.S. Rose 8% In August 2011 vs. August 2010:*** According to the *U.S. Department of Agriculture*, food stamp use in the U.S. increased 8% in August 2011 vs. 2010 *(Sources: The USDA & The Wall Street Journal, 11.1.11).*

- ***Halloween Candy Prices Surge in 2011:*** Halloween was more expensive this year. Average prices for Halloween candy and chewing gum were 5.2% higher in September 2011 versus September 2010, according to the *U.S. Labor Department*. Candy makers have been increasing prices in response to higher costs for sugar and other commodities. Interestingly, dental services increased at a smaller rate of 2.1% over the same period *(Sources: The U.S. Labor Department & The Wall Street Journal, 10.31.11).*

- ***U.S.'s Poorest Population Segment Grows to an All-Time Record Size:*** The ranks of America's poorest have climbed to a record high—1 in 15 people or 6.7% of the population, new *U.S. Census* data show. About 20.5 million Americans, or 6.7% of the population, make up the poorest poor, defined as those at 50% or less of the official poverty level. ***The 6.7% figure is the highest in the 35 years that the Census Bureau has maintained such records***, surpassing previous highs in 2009 (under President Obama) and 1993 (under President Clinton) of just over 6%. In 2010, the poorest poor meant an income of $5,570 or less for an individual and $11,157 for a family of four. Broken down by states, 40 states and the District of Columbia had increases in the poorest poor since 2007, and none saw decreases. The District of Columbia ranked highest at 10.7%, followed by Mississippi and New Mexico. Nevada had the biggest jump, rising from 4.6% to 7% *(Source: The Associated Press, 11.4.11).*

- ***U.S. 2012 Projected GDP Growth Cut In Half:*** *The Organization for Economic Cooperation and Development* ("*OECD")* said the U.S. economy will grow 1.8% next year, less than the 3.1% expansion it had forecast in May 2011, and will pick up speed only in 2013, with a 2.5% expansion. The *OECD* now expects euro-zone gross domestic product will expand 0.3% next year, far below the 2% growth it forecast five months ago *(Sources: OECD & The Wall Street Journal, 11.1.11).*

- ***U.S. GDP Per Capita Remains Below 2007 Peak:*** America's output of goods and services has finally returned to levels reached before the recession began in late 2007. But, as individuals, Americans haven't fully recovered. In Q311, U.S. GDP grew at a 2.5% annual rate. But with population growth, GDP per capita remains 2.9% BELOW its pre-recession peak (*Sources: U.S. Commerce Department & The Wall Street Journal, 10.28.11).*

- ***U.S. Manufacturing Declines in October 2011:*** *The Institute for Supply Management's* gauge of factory activity declined to 50.8 in October 2011 from 51.6 in September 2011, leaving it barely above the 50 level that indicates manufacturing expansion. The decline was mostly attributable to a decline in inventory levels (*Source: Institute for Supply Management & The Wall Street Journal, 11.2.11).*

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

Sincerely,

Stephen J. Czech
email: **sczech@sjccapital.com**