



# Black Swan Capital Currency Snapshot

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## **Economy and the Bailout Plan: Down, but Not Out!**

Yesterday the Dow Jones Industrial Average closed the day down 777 points! Needless to say that's going to get your attention when you flip on your local news and the anchors are attributing it to a House funding bill, vital in avoiding a financial meltdown, that failed.

Especially when you had no inclination there was a financial crisis to begin with.

Case in point: last night I met up with a college roommate who was back in the States from work he does in Italy, the Czech Republic and the Ukraine. We had dinner with his parents and some of his other friends. I didn't get to talk about the economy with my old roommate, but his dad (knowing I follow the markets on a daily basis) asked me, "What the heck is going on?"

I kind of laughed at first because it seems to me that the public is being absolutely inundated with this bailout package. My roommate's father lives and works in the US, but for his own good probably does not turn the TV on all that much.

He then exclaimed to me ...

"I caught a second of the news the other night after work and they were talking about some financial crisis, and I'm thinking to myself 'What financial crisis? I didn't know we were in a financial crisis.'"

Interesting.

This guy I was talking to had no idea that the House had spent the last two weeks squabbling over a last ditch effort to "rescue" the economy. Now, don't get me wrong, after I began getting into the details I learned he was well aware of the root of the financial trouble.

“A bunch of money was lent out to people who couldn’t pay it back and now it’s all coming home to roost,” he said.

Exactly. He knows how economics generally works. And he understands the serious disconnect in lending to subprime (or worse) borrowers and then making leveraged bets on the chances of them being able to consistently and responsibly pay their loans.

The thing is, he’s not one that’s going to be severely impacted by this financial crisis that we’re told will threaten EVERYONE. Sure, the fallout might be noticeable when a well-liked restaurant of his closes down or when his favorite wine boutique goes under because consumers aren’t going out to eat much and are finding cheaper substitutes for their favorite Cabernet at the grocery store.

But as far as I know, he’s not in the market for a new car, and he’s not on the verge of starting up a new business venture ... so he’s not going to need access to such loans. I’d imagine a good portion, if not the majority, of Americans are in a similar situation where they can do without a new car loan and have no immediate, new-fangled business aspirations.

Sure there are going to be those who have no car, find themselves in dire need of one and won’t be able to get an auto loan. And there are going to be those people whose entrepreneurial beginnings fatally collide with a dysfunctional lending system. And there are even going to be expendable employees who lose their jobs as companies cut costs. And that’s no fun.

But there will also be responsible citizens, with decent savings and good credit, who will be able to secure the necessary money to finance a car purchase. Those same individuals, with legitimately profitable business ideas, will find their way into funds necessary to get their good businesses off the ground.

We’re not in for easy times like we’ve become so accustomed to – that’s for sure. But it’s not the end of the world either. The lending system is going through a cleansing period. After a bubble of easy credit that’s now burst, it’s about time we get some cleansing.

And while the markets are hung-up and panicking over this failed bailout bill, perhaps it’s not such a disastrous, Armageddon-like scenario after all. Perhaps a bailout plan will intervene and stop the market’s cleansing process prematurely. What happens then after a new, artificial credit bubble is inflated? When it bursts we could be in for a far worse economic meltdown than the consensus already expects. No?

As I wrap this up, the US dollar is soaring. The reason: the credit crunch has officially gone global and economies are feeling it. The bad news is well into the buck already, though we apparently can’t say the same for Europe, UK, Australia, New Zealand, Canada and Switzerland.

When it comes to the idea of the global economy decoupling from the US economy, I've got one word: defenestration. Pretty soon it'll be a race to see who can scrape themselves up off the concrete first.

Regards,

Black Swan Capital