# The HCM Market Letter

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## Survival of the Unfittest

> "[C]an we doubt (remembering that many more individuals are born than can possibly survive) that individuals having any advantage, however slight, over others would have the best chance of surviving and procreating their kind? On the other hand, we may feel sure that any variation in the least degree injurious would be rigidly destroyed. This preservation of favourable individual differences and variations, and the destruction of those which are injurious, I have called Natural Selection, or the Survival of the Fittest."
>
> Charles Darwin, The Origin of Species (1859)

Honest to God, *HCM* is trying to find the light at the end of the dark tunnel that the U.S. economy and financial markets have become. But every time we turn around, regulators and other power brokers continue to avoid making the hard choices necessary to deal with the problems at hand. As a result, the practices that led the current credit crisis are being preserved, and changes that could lead to more stable and healthy markets are being pushed into the future (perhaps forever). The last month has provided so much grist for this mill that we hardly know where to begin, but begin we must. Our survey of what can only be described as a regulatory wasteland begins with the SEC's misbegotten short-selling legislation.

### Regulatory Malfunction

On July 21, 2008, the United States Court of Appeals for the Third Circuit overturned a $550,000 indecency fine against CBS for airing singer Janet Jackson's wardrobe malfunction during the 2004 Super Bowl halftime show. The court ruled that the Federal Communications Commission had "capriciously departed" from its policy over the past 30 years of policing the airwaves with "practiced restraint" when it imposed the fine. Importantly, the court stated that, "[l]ike any agency, the FCC may change its policies without judicial second-guessing. But it cannot change a well-established course of action without supplying notice of and a reasoned explanation for its policy departure." This demand for consistency and fair warning in the law has been absent from enforcement of the nation's securities laws for many years, resulting in botched prosecutions, inconsistent regulation, and damage to the system.

The latest example of regulatory malfunction in the financial markets is the SEC's limitations on selling short the stocks of 19 financial firms. Readers should understand that this stopgap measure will have absolutely no impact on the underlying value or the long-term stock prices of these companies. This is merely a political bone being thrown to those who would sooner blame short-sellers for the credit crisis than the institutions (and the individuals responsible for mismanaging them) who acted in a wholly irresponsible manner. Leon Cooperman, one of this generation's great investors and a man always willing to speak his mind, described the situation very frankly in a recent interview in *Barron's*: "The financial economy is in disarray and that is really a result – and you can quote me on this – of imprudent financial activity by the commercial banks and investment banks. They levered themselves up. They did things that were foolish. They should be ashamed of the way they conducted themselves, and now they have to right that, and they are de-leveraging."[1]

By engaging in selective protectionism of a few favored companies rather than re-imposing the uptick rule and treating all companies equally, the SEC furthered the appearance of favored treatment for large institutions that raises serious moral hazard concerns and dampens

[1] *Barron's*, July 28, 2008, "The Market's Down, Not Doomed," p. 35.

confidence in U.S. financial markets. The following is the list of the 19 firms that the powers-that-be decided were worthy of special protection from market forces:

- BNP Paribas Securities Corp.
- Bank of America Corporation
- Barclays PLC
- Citigroup Inc.
- Credit Suisse Group
- Daiwa Securities Group Inc.
- Deutsche Bank Group AG
- Allianz SE
- Goldman, Sachs Group Inc.
- Royal Bank ADS
- HSBC Holdings PLC ADS
- J.P. Morgan Chase & Co.
- Lehman Brothers Holdings Inc.
- Merrill Lynch & Co., Inc.
- Mizuho Financial Group, Inc.
- Morgan Stanley
- UBS AG
- Freddie Mac
- Fannie Mae

Among the more interesting aspects of this list is the fact that more than half the names are non-U.S. firms enjoying the protection of the U.S. regulators and the fact that some large U.S.-based firms that are clearly being pummeled by short-sellers are missing from the list (i.e. Wachovia Corp., AIG International Group, Inc., Washington Mutual). The ostensible basis for inclusion on the list – status as a primary dealers plus Fannie and Freddie – speaks to the reactionary nature of the rule-making. Finally, this desperate measure is yet another example of the capitalism-for-the-poor, socialism-for-the-rich economic model that American financial authorities have adopted over the past two decades.

As has been widely noted, the SEC effectively restricted "naked short selling" several years ago but failed to adequately enforce the rule.[2] As a result, when it announced that it would enforce the rule selectively with respect to a select number of financial stocks that had been battered by short sellers (ignoring the fact that a number of these companies had posted tens of billions of dollars of losses due to gross mismanagement and deserved to be sold), the agency effectively admitted that it had been failing to enforce its own rules. The SEC's announcement predictably sent holders of naked short positions scrambling to borrow stock while other short sellers ran to cover their positions in these and other financial stocks in anticipation of a rally in these shares. The result was a historic rally in financial shares that was given a boost by the

[2] "Naked short selling" involves selling short shares of stock that one has not borrowed or determined are borrowable. As *The King Report* points out, SEC Release 34-50103 dated July 28, 2004 states that Rule 203(b)(3) "requires any participant of a registered clearing agency…to take action on all failures to deliver that exist in such securities ten days after normal settlement date, i.e., 13 consecutive settlement days. Specifically, the participant is required to close out the fail to deliver position by purchasing securities of like kind and quantity." A "threshold security" is defined as a stock experiencing an unusually high number of fails to deliver. A "fail to deliver" is a failure to actually deliver shares that have been borrowed to effect a short sale and are most commonly associated with "naked" short sales. Rule 203(b)(3) is the rule that the SEC has failed to enforce with sufficient teeth, effectively allowing "naked" short selling to run rampant.

bailout of Freddie and Fannie but was wholly unrelated to any improvement in the underlying businesses of the companies whose stock prices rose so sharply.

The real question is why the SEC did not reinstitute the uptick rule, which, in one of the those coincidences that you can't make up, was repealed on the same day that the Bear Stearns' hedge fund problem came to light, June 13, 2007. Re-imposing the uptick rule on all stocks rather than trying to protect a handful of financial stocks from the verdict of the market would seem to be a far more enlightened method of regulation. *HCM* has made this point before, writing in April (*The HCM Market Letter*, April 1, 2008, "How To Fix It") the following:

> "Short selling is an absolutely legitimate way to invest or hedge a portfolio. The SEC made a major error when it repealed the [uptick] rule last year. The repeal of this rule increased downside volatility exponentially and contributed to the ability of quantitative and other computer-driven selling to push the market lower based on technical rather than fundamental investment considerations. The SEC should reinstitute the [uptick] rule immediately." (emphasis in original)

In addressing concerns that short-sellers are unfairly targeting financial stocks, the SEC had a choice about how to proceed. By taking the path it did, it appears to have continued an unfortunate tradition of enforcing rules that are already on the books but that practitioners have practiced with relative impunity because regulators have allowed them to. *The King Report* noted that the New York Stock Exchange fined and censured J.P. Morgan Chase, Citigroup, Daiwa Securities, Goldman Sachs and Credit Suisse two years ago for failing to enforce rules against naked short selling.[3] Apparently these penalties (which were a couple of million dollars) were insufficient to end the abuses, and the fines were treated as just another cost of doing business. Wall Street firms that lend stock and bonds to short sellers earn enormous profits from such activities. According to a recent article in the *Financial Times*, "US prime brokerage firms, most of which are owned by big Wall St. banks, will reap revenue of $11 bn this year" from lending stock to facilitate short-selling.[4] Accordingly, the securities industry has very little interest in seeing any crackdown on short-selling. Fines of a couple of million dollars are hardly sufficient to dissuade them from ignoring the rules when they stand to earn billions of dollars from the activity in question. As distasteful as it is to see the largest financial institutions in the world thumb their noses at the rules, it is even more discouraging to see the regulators allow them to do so.

What most disturbed *HCM* about the SEC's decision was the fact that it is just the latest example of the beggar-the-poor, boost-the-rich policies that the American financial authorities have followed over the past two decades. *HCM* understands perfectly well that allowing financial institutions to fail is not a viable policy either politically or economically. But while the government acted literally overnight to protect Goldman Sachs and Lehman Brothers and 17 other financial institutions and their already wealthy executives, Congress took much longer to debate and pass a mortgage rescue plan to help the millions of less fortunate homeowners who are on the verge of losing their homes. There is obviously an enormous difference between an agency's ability to issue a rule overnight and Congress's ability to legislate, but at some point – and that point is coming sooner rather than later in *HCM*'s opinion – the American people are going to ignore that distinction and ask why Wall Street continues to get bailed out before Main Street. There is nothing pre-ordained about the policy choices that are being made. As Professor Lawrence E. Mitchell writes in his recent book, The Speculation Economy, "modern American corporate capitalism is the result of human choices. It is a system we maintain out of choice. It is a system that has ramifications beyond the economic that have helped to embed social norms of individualism that interfere with the cooperation necessary for a successful economy and a thriving society. It is within our power to change it, to modify its rough edges or to accept it as it

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[3] *The King Report*, July 18, 2008.
[4] *Financial Times*, July 18, 2008, "Short-selling is 'making billions' for fund management firms."

is. But these choices can only be made with understanding."[5] Smoothing out the rough edges is a very mild version of what needs to be done. What needs to be done is to make difficult policy choices that will necessarily involve the infliction of pain on certain constituencies that have thus far been protected from the consequences of their own sins.

*HCM* is not proposing that the authorities stand by with their hands in their pockets while firms like Fannie Mae and Freddie Mac or Bear Stearns face collapse. What *HCM* is arguing, however, is that such rescue plans should not provide protection for the shareholders of these companies. The minute the U.S. government was compelled to open the discount window to the investment banks, it should have made it very clear that there would be no support for the shareholders of these companies. Bear Stearns' shareholders received $10/share more than they deserved when that company was bailed out by the Federal Reserve and J.P. Morgan Chase.

This leads to a conclusion that was discussed several months ago in this publication (*The HCM Market Letter*, April 1, 2008, "How To Fix It"). Since it is apparent that we are not prepared to allow certain firms to fail, then we must take steps to limit their ability to endanger the system in the first place. This requires rules that impose limitations on financial institutions' leverage; eliminates their ability to conceal assets and liabilities in opaque off-balance sheet entities; restricts asymmetric compensation schemes that reward insiders for taking indecent risks with their firms' capital at the expense of shareholders and ultimately taxpayers; and adopt economic and monetary policies that encourage productive investment rather than speculation. This is no small order, but it is eminently achievable. Moreover, it is absolutely necessary if American capitalism is going to continue to flourish and maintain the confidence of the keepers of the world's capital in the years ahead.

## Sticking One's Head In The Sand

In April, *HCM* wrote the following about the egregiously leveraged off-balance sheet entities known as Structured Investment Vehicles (SIVs) that inflicted so much damage on the global financial system (*The HCM Market Letter*, April 1, 2008, "How To Fix It"):

> "Off balance sheet entities should be outlawed immediately, plain and simple. If first Enron and now the SIVs haven't taught us the necessary lessons about hidden liabilities, the system probably doesn't deserve to survive. Speaking as someone with extensive knowledge of these off-balance sheet entities, it would not be difficult to render them extinct relatively easily. It would be doing the world a favor."

On July 30, the Financial Accounting Standards Board (FASB) reluctantly caved in to pressure from the very institutions that created these off-balance sheet monstrosities and agreed to delay for one-year (a period that will undoubtedly become extended if the financial industry remains under pressure a year from now) the introduction of rules that would have forced banks to consolidate more off-balance sheet vehicles onto their balance sheets. FASB Chairman Robert Herz did not go gently into the good night, however, admitting, "[i]t does pain me to allow something that has been abused by certain folks, to let that go for another year." Mr. Herz also noted that he was "chagrined" by what had been uncovered about these vehicles as the new rule was being prepared, noting that a combination of poor reporting and lax enforcement had led to the current situation.

The FASB was caught between a rock and a hard place. The reality is that banks can't absorb additional liabilities onto their balance sheets at the current time without violating capital rules. These institutions are barely capable of remaining solvent as it is. They are continuing to

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[5] Lawrence E. Mitchell, The Speculation Economy How Finance Triumphed Over Industry (San Francisco, Berrett-Koehler Publishers, Inc., 2007), pp. x-xi.

report massive write-offs and are experiencing tremendous resistance when they try to go back to the well to raise additional capital. Accordingly, requiring the addition of what may amount to several trillion dollars of off-balance sheet liabilities onto banks' balance sheets is simply inconceivable at the present time because it would automatically render several of the world's largest financial institutions (including several on the protected species list from attacks from short-sellers) instantly insolvent. But giving banks a one-year reprieve may simply buy them time to develop other strategies to keep these assets hidden in the opaque shadow banking system. Moreover, regulators need to assure global investors that no new vehicles of this type will be permitted to be formed in the future. News that the new rule has been delayed suggests that the balance-of-power still lies with institutions that remain too large to fail and can still lord it over regulators by pointing to the catastrophic consequences that hard-and-fast accounting standards will unleash on the financial industry. But the result is that the system sticks its head in the sand for another year as it prays for a recovery in the value of the trillions of dollars of highly complex and illiquid securities (many of them derivatives). *HCM* would wager heavy money that we have not heard the last about delaying adoption of this rule.

## Merrill Lynch: The Dundering Herd

Merrill Lynch & Co. Inc.'s decision to dump $30.6 billion of mortgage securities at an average price of $0.22 on the dollar barely a week after its quarterly earnings announcement (which itself included a $10 billion write-down on such securities!) raises more questions than answers about the firm and the prospects for credit markets to recover from their current crisis. Merrill Lynch agreed to sell these securities to Lone Star Funds for $6.2 billion, yet barely two weeks earlier the sale the firm had valued those identical securities at $11.1 billion. Moreover, the sale is structured in such a way that Merrill Lynch is financing 75 percent of the transaction. This means that Lone Star is on the hook for the first $1.7 billion of losses, and then Merrill Lynch will eat any losses beyond that. In other words, another $0.05 drop in the value of these securities would leave Merrill Lynch back on the hook for more losses. Either this will prove to be one of the most desperate transactions done in the annals of the current credit crisis, or John Thain knows something the rest of us don't want to know about the real value of the toxic waste he just sold to Lone Star. At the same time, Mother Merrill announced the sale of 380 milion new shares of stock to raise $8.5 billion in new equity capital. The issuance of additional shares at current prices triggered a make-whole provision in an earlier share sale to Singapore's state investment agency, Temasek that cost Merrill Lynch $2.5 billion. Temasek, the firm's largest shareholder, turned around and reinvested this $2.5 billion in Merrill's new share offering along with an addition $900 million. These announcements not only left Merrill Lynch shareholders severely diluted but, if they had been paying attention to the quarterly earnings call, deluded.

This transaction may constitute one of the oddest corporate announcements in recent memory.[6] First, it suggests that Merrill Lynch's quarterly earnings announcement was grossly inaccurate since, with respect to these assets alone, the firm's valuation was apparently off by a factor of 40 percent. Second, it raises serious questions about the values all financial firms are placing on their mortgage securities. Either Merrill is alone in mis-marking its book by 40 percent, or other firms are grossly over-valuing their holdings and will be forced to report large write-offs in the third quarter. What is particularly troubling (but gives the anti-quantitative *HCM* a wonderful dose of *schadenfreude*) is the enormous gap in valuations that different firms (i.e. Lone Star and Merrill Lynch) can apparently derive from securities that are allegedly valued

[6] Christopher Wood calls attention to a similar announcement by the National Australia Bank (NAB), which wrote-off nearly 90 percent of its US conduit loans, which consisted of 10 CDOs consisting of two "super senior" strips and eight AAA senior strips (in layman's terms, mortgage-related securities). See *GREED & fear*, 31 July 2008. The Merrill Lynch and NAB write-offs contrast with much smaller write-offs at other institutions holding the same type of instruments and suggest that future write-offs remain likely and large.

according to mathematical models whose precision is such that they would have problems hitting the side of a barn.

And naturally Merrill Lynch's announcement, which included a highly dilutive share sale to compensate for the multi-billion capital loss suffered by the firm, led to a rally in the firm's stock price. Let us get this straight – the firm admits that it grossly mis-marked its book, reports a(nother) multi-billion dollar loss, announces a hugely dilutive stock offering, and the stock rallies? Makes perfect sense to us. And people wonder how and why the financial markets continually fall into crisis!

## Fannie and Freddie

Merrill Lynch' actions raise a more serious question, however, which is why investors would bet on a recovery in financial institutions at all at this point in time? The reason to do so, it seems, lies more in a bet on what public officials will do than on whether these companies are worthy investments or will have any future value. Investors betting on a turnaround in financial shares are really betting on whether government officials are going to allow these companies to fail. Thus far, it appears that the answer is a resounding "no." The government has demonstrated that it will do everything in its power (and sometimes more than its power expressly permits) to prevent failure. The question, of course, is whether the size of the problems at some point will exceed even the government's grasp.

The bailout of Fannie Mae and Freddie Mac is particularly bizarre in this respect. The very fact that a bailout was necessary demonstrated beyond a shadow of a doubt that the entities were insolvent and that the public shareholders should have lost all of their money. The only reason these two companies were not forced to declare bankruptcy is that the U.S. government agreed to stand behind their obligations. Yet the stocks continued to trade at a value greater than zero and will not be wiped out by the government support plan. Yet the real shareholders in terms of bearing the biggest risk of loss in these companies are no longer the holders of the publicly traded shares but the American taxpayers, who are effectively guaranteeing the companies' multi-trillion dollar obligations. Accordingly, the taxpayers should be the ones who received any gains on the equity value of these dinosaurs as they are restructured to operate in the future.[7] Just because government officials state that they don't "expect" such guarantees to be called upon doesn't erase the fact that such obligations are in place and must be honored. To put it politely, Treasury Secretary Paulson and Congress effectively picked the pockets of the American people by denying them the upside on their new investment in Fannie and Freddie.

And despite passage of the bailout plan, investors in the agencies are not necessarily out of the woods, as *HCM* suggested earlier this month. On July 9, *HCM* warned that investors should be cautious in betting on the unsecured obligations of Fannie and Freddie, writing "investors should not presume that a federal bailout will provide a lifeline to all of the companies' investors….subordinated debt holders also should not expect protection in a bailout that would not only be unprecedented in size but also cast the United States' balance sheet and currency in a wholly unfavorable light." (*The HCM Market Letter*, July 9, 2008, "The Deepening Crisis"). *HCM*'s cautiousness contrasted sharply with the statements and actions of bond giant PIMCO, which has effectively bet the ranch on the debt securities of Freddie and Fannie based on a belief that the government would never permit these institutions to fail. But sure enough, proving once more that even paranoids have enemies, S& P announced on July 25 that it was placing Fannie and Freddie's subordinated debt and preferred stock ratings on CreditWatch Negative. This was based on the fact that the language in the government plan "increases the likelihood that

[7] In this respect, we are reminded of a statement by Joseph A. Schumpeter: "The only realistic definition of stockholders is that they are creditors (capitalists) who forego part of the legal protection usually extended to creditors, in exchange for the right to participate in profits." See Joseph A. Schumpeter, Business Cycles (McGraw-Hill, New York: 964), p. 79.

subordinated debt holders and preferred stockholders would face greater subordination risk. This heightened risk is not incorporated into [S&P's] current subordinated debt and preferred stock ratings on Fannie Mae and Freddie Mac. We may lower these issue ratings one to two notches at the conclusion of our review of the final legislation."[8] We very much admire the individuals at PIMCO, but we are entering uncharted territory and recommend investors act with an extra degree of caution. It wouldn't be the first time that investors learned the hard way that a security that was deemed riskless turned out to be nothing of the sort.

## Demolition Derby

The slow motion death of the American automobile industry is almost too painful to watch. The flood of bad news coming out of Detroit has literally swelled into a tsunami in recent days, and there is no end in sight.

First came another credit rating downgrade. On July 31, Standard & Poor's did another number on the industry. In three separate reports, it downgraded General Motors Corp. and GMAC LLC, Ford Motor Co. and Ford Motor Credit Co., and Chrysler LLC and DaimlerChrysler Financial Services Americas LLC (DCFS). The stated rationale for these downgrades (S&P could have chosen a dozen reasons) was basically concern over shrinking cash flows and liquidity at all three companies and their finance arms. While S&P can hardly be blamed for stating the obvious, the rating agency probably didn't go far enough in continuing to rate the automakers 'B-,' one notch above the once infamous CCC+ level. In today's world, of course, a CCC+ rating no longer bears the stigma that it once did, but in the case of these companies, it is only a matter of time before they bear the insignia of insolvency that such a rating portends. The world is witnessing a classic case of an industry in denial. Rather than taking the truly radical steps necessary to address its problems, Big Auto's management is still engaging in incremental change in the hope that it can buy itself enough time to effect a changeover to more fuel efficient models. Unfortunately, these executives are doing nobody any favors by delaying the inevitable balance sheet restructurings that are going to be a necessary component of the endgame for their industry.

Just prior to S&P's move came the effective collapse of the automobile leasing industry. In the days prior to the S&P downgrade, the automobile financing industry came totally unglued. This is the latest indication of how severely credit is being rationed at all levels of the U.S. economy. Chrysler Finance was the first of the Big Three automakers' finance arms to announce that it would stop extending automobile leases. This decision, which is nothing less than catastrophic for Chrysler's vehicle sales despite unconvincing protests to the contrary by the privately-owned carmaker, was due to the fact that leasing has been rendered unprofitable by Chrysler Finance's rising borrowing costs and the plunging residual value of Chrysler's gas-guzzling vehicles. Chrysler debt is trading at levels that suggest an imminent bankruptcy filing. GMAC and Ford Motor Credit are not expected to eliminate leasing entirely but are likely to severely cut back on auto leases since they can't make any money on these transactions. Wells Fargo has also withdrawn from the business of financing car leases. Other financial institutions are sure to follow.

The dramatic reduction in the availability of auto financing will be another nail in the coffin of the American automobile industry (at some point the coffin will have so many nails in it that it won't need any wood). Leases account for roughly 26 percent of annual auto sales. Just as subprime mortgage financing led many consumers into homes that they couldn't afford, low-cost auto leases allowed many people to lease cars to which they otherwise wouldn't have had access. Leases also led many consumers to replace their vehicles in a much shorter period of time than they ordinarily would have done, leading to higher auto sales. Automobile manufacturing and

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[8] Standard & Poor's, *Research Update: Fannie Mae and Freddie Mac Ratings Placed on CreditWatch Negative; Senior Debt Rating Affirmed*, July 25 2008.

financing is a significant component of the American economy, and we are watching it being deconstructed piece-by-piece before our very eyes. The economy is seeing the dark side of what happens when financial engineering creates false demand for consumer goods that is unsustainable on a fundamental basis.

Finally, on the last day of July and first day of August, GMAC and GM issued two lack-of-earnings releases that not even the happy faces on financial television could spin in a positive way. On July 31, GMAC released its second quarter 2008 results, a loss of $2.5 billion (that would have been much worse without $1.55 billion of lease support payments that GM is obligated to make to GMAC under risk-sharing and support agreements dating from 2006.) GM reported that it has $30 billion in North American leases, including $12 billion in SUVs and $6 billion in other trucks. If current trends hold, GMAC is looking at further multibillion write-downs on these vehicles. Residential Capital LLC contributed $1.9 billion of losses to GMAC during the quarter compared with a $254 million loss a year earlier. *HCM* will leave it to others to try to find a silver lining at GMAC. The hard truth is that the deterioration of every aspect of this company is accelerating.

Not to be left out in the cold, on August 1, GM announced a grotesque $15.5 billion loss for the second quarter of 2008 ($27.33/share on an $11.00 stock price for those who are still counting such things). Global sales plunged by 18 percent during the quarter, with U.S. sales fading by 16 percent through June. July trends continue to point sharply downward, and the effective elimination of leasing by GMAC can only further reduce sales. A significant portion of the loss was attributable to charges for attrition programs (i.e. job reductions), an adjustment to its reserve for its former parts-maker Delphi Corp., and a $2 billion loss attributable to lower residual values for leased vehicles. But at this point, *HCM* would seriously discount the one-time nature of these charges, which continue to hit GM's balance sheet with depressing regularity as the company continues to try to dig out from the detritus of its past business structure and history. Backing out these so-called one-time charges left GM with a $6.6 billion quarterly loss, which was still 450 percent larger than analysts projected (which is further evidence that nobody, and *HCM* means NOBODY, has a clue about how GM is going to survive as a going concern).

The latest news out of Detroit makes it abundantly clear that the endgame for the Big Three is going to be massive bankruptcy restructurings. One would hope that politicians in Washington, particularly the two Presidential candidates, would begin formulating national energy plans that include restructuring plans for the American automobile industry. No viable energy plan will meet this country's needs without creating the proper tax and other economic incentives to build fuel-efficient vehicles. Rather than continuing to be one of the problems that lie at the heart of the American economy, the recovery and revitalization of the auto industry could be a major component of an economic and energy policy that could lead this country out of the difficult times we are experiencing and are doomed to repeat unless we take some bold steps right now.

Michael E. Lewitt
mel@hegcap.com
(561) 226-6199

## Disclosure Appendix

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