

# Kreitler Associates

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## Wild Financial Markets

With the Congress failing to pass the bailout bill Monday the financial markets continue in turmoil. Ironically, last week I commented to a number of top financial advisors that what we needed was a 1000 point drop in the Dow Jones. They thought I was crazy. My logic was that we needed panic like selling to flush out the weak investors. The 777 point drop Monday is very close to my 1000.

I, like most others, was totally surprised by Congress's rejection of the bailout legislation. Press reports indicate conservatives refused to support the legislation fearing a huge increase in the federal role, in effect ending years of free markets ushered in by Ronald Reagan. The conservatives were joined by liberals who argued the bill did not do enough for individual homeowners. The combination of the far right and left was enough to defeat the proposed legislation. I am sure the weak position of President Bush added to the defeat.

Wall Street looks to Washington to save it from the excesses it had created, but Wall Street isn't alone in being guilty. I can go into a long discussion of how Washington over the last ten years has not only enabled, but encouraged the excesses on both Wall Street and Main Street.

I am sure Washington will be working extraordinarily hard to come up with another solution in the next several days. In the meantime the markets are likely to remain very volatile (both up and down). There is good news. Corporations, with the exception of some in the financial and housing sectors, remain sound with larger than usual cash positions. Countries in the emerging markets also tend to be in a very strong position. I have enough faith in our systems, that I believe even if Washington fails to come up with a solution, we will not face a 1930' world wide depression.

A recession is another thing. Until now it had looked liked we might skate through this mess without officially triggering one. I suspect consumer confidence has been thoroughly shaken by all our leaders saying that unless Congress acts we face perilous times. I have heard of many situations where people are putting major projects on hold because of the uncertainty. These in aggregate could push us into a recession; but recessions are normal. They are a way for the economy to cleanse itself of excesses.

Financial companies are sorting themselves out between the weak ones which took too much risk and the strong ones which did not. Weak companies are being taken over by the strong ones. At this time I pleased to report that Raymond James appears in the strong category.

Difficult times are times for opportunities. Several of our clients were buying during the sell off Monday and Kreitler Associates is looking to expand its client base. We would appreciate any suggestions you may have of individuals that would benefit from our services. Times like this are not all a one way street.

Please expect the uncertainty to continue. Feel free to give us call if you would like to discuss.

Robert Kreitler

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