



Tuesday, July 15, 2008

Fannie Mae, Freddie Mac and IndyMac Bank Troubles Daze Investors

Dear friends,

Fear that the nation's largest mortgage agencies could fail set against a backdrop of the failure of Pasadena, California-based IndyMac Bancorp roiled financial markets Monday.

After an early surge, the Dow Jones Industrial Average (an unmanaged index of 30 widely held stocks) finished the day down 45.35 points. This occurred in the face of a Sunday announcement that a federal government guarantee would provide the mortgage giants with the liquidity they need for normal operation, a move designed to relieve investor concern.

The failure of IndyMac Bank – the third-largest financial institution in U.S. history to fail and the largest in two decades – wasn't a surprise to some. Its main business was built on mortgages made to borrowers with poor credit records, and when the secondary market for these subprime mortgages dried up, so did the bank's money supply. As a regulated bank, depositor accounts worth up to \$100,000 (and IRA accounts up to \$250,000) are insured by the Federal Deposit Insurance Corporation (FDIC, an independent agency established by Congress in 1933), which began running IndyMac Federal Bank Monday morning. Accounts at Raymond James Bank, FSB are similarly insured by the FDIC.

The troubles at Fannie Mae (Federal National Mortgage Association) and Freddie Mac (Federal Home Loan Mortgage Corporation), which together hold or back more than \$5 trillion in mortgage debt – about half the nation's total – were much different. Together, they are saddled with very little subprime mortgage debt, but as mortgage holders defaulted over the past year, their reserve cash dwindled. They have been forced to raise new cash during these tough economic times. Originally government-created agencies, they are now owned by shareholders. Their shares have plunged in value over the past week as worries mounted.

Analysts, including Raymond James' Chief Investment Strategist Jeff Saut, say the system will hold together and cannot be allowed to fail because the global implications of a U.S. failure of this magnitude would be enormous. Rather than a

real financial meltdown, the Fannie Mae/Freddie Mac saga may be more a crisis of confidence.

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Everyone will be paying attention to the market this week to gauge its considered reaction to the federal guarantees for the mortgage agencies and concerns that other banks could fail. This is certainly a trying time to be an investor, but, historically, such times have been favorable to those who diversified their holdings and set their course for the far horizon. If you have questions or concerns, please don't hesitate to call us.

Sincerely,



Jonathan Wax, CFP®
President & Chief Executive Officer
Waller & Wax Advisors, Inc.



Laura Waller, CFP®
Chief Investment Officer
Waller & Wax Advisors, Inc.

Securities Offered Exclusively Through
Raymond James Financial
Services, Inc.
Member FINRA/SIPC

100 North Tampa Street, Suite 2150
Tampa, Florida 33602
(813) 221-1956 or (813) 221-1747 Fax

