Patience is a Virtue

Patience is a virtue. But here in the US, with all the economic turmoil and market upheaval, triggered by the subprime meltdown, our **patience** is **wearing thin!** America's *Consumer Confidence Index* plunged to 64.5 this month from 76.4 in February which was far below the analysts' expectation of 73.0. It was the worst reading since March 2003 after the fallout from the tech bubble and just ahead of the US invasion of Iraq. In our modern day battle between good and evil is **Wrath** winning out?

In the allegorical poem, *"The Battle for the Soul",* Aurelius Prudentius describes the epic battle between the good virtues and evil vices. Each of the Seven Holy Virtues is pitted against its evil counterpart, one of the Seven Deadly Sins. Prudentius portrays Ira (Wrath), with a sword and shield, battling Patentia, only to have Ira's sword break into pieces over Patentia's head. In 410 AD Patience won over Wrath!

But today here at home, many souls are angry about our mortgage system, whose lending practices precipitated the housing bubble, that led to the subprime crisis, causing credit markets to freeze, the housing bubble to burst, the economy to turn south, the dollar to turn further south, and the price of oil to skyrocket. And now many disheartened consumers have lost their confidence, are closing their wallets and believe that recession is imminent, if not here already.

Excesses are created by vices. And the vices of greed and gluttony permeated the *house-of-cards* built by our deregulated mortgage system. The mortgage brokers sold teaser rate, high risk loans to default-prone borrowers, which were packaged by Wall Streets' financial wizards, then sliced and diced into an alphabet soup of securities, which the slothful rating agencies stamped as secure, and ultimately peddled to unwary investors by the self-serving financial brokerage community.

In our capitalistic system, excesses are removed by price adjustments. Lower prices are the market's penance for these excesses. These price adjustments and economic cycles, although painful, correct for past excesses and are necessary for the long-term health of our economy and country.

Many pundits are fearful that the housing debacle and the subprime crisis will spill over into other sectors of our economy. Recently, the International Monetary Fund's Deputy Managing Director stated that, *"there is a real risk that the financial market turmoil could intensify."* They point to the feeble 0.6% growth in our Gross Domestic Product (GDP) in the 4th quarter after a robust 4.9% in the prior quarter.

The opposing experts argue that after an analysis of the 0.6% GDP gain that housing and changes in inventories *deducted 3.04%*. Eliminating these drags reveals 3.64% robust growth in the remaining areas of our economy. They argue that Congress and the Federal Reserve will do everything in their power (and they have the power to print money) to limit the fallout.

Congress has been talking a lot but is slothfully slow to act. So what else is new? The Federal Reserve, on the other hand, has been diligent. The Fed Chief, Ben Bernanke, has pulled out all the stops risking the **moral hazard** of bailing out the perpetrators and also, closing his eyes to the inflation risks in resuming Greenspan's easy money policies.

Aristotle's philosophy of the ***Golden Mean*** may support The Fed's action. Aristotle preached that true balance doesn't lie in the exact middle between the two vices of excess and deficiency but its position is dictated by the situation's severity. For example, watering a small plant with a gallon of water is excessive, whereas for a grown tree, a gallon of water is deficient.

Bernanke's Fed judges that to avert a financial crisis, Aristotle's ***Golden Mean*** would call for measures that are closer to excess rather than inaction. Over the last seven months, The Fed has slashed the discount rate by a full 3.0% from 5.25% to a very low 2.25%, loaned funds to banks allowing them to use questionable subprime mortgage backed collateral and most recently began loaning money directly to primary dealers and Wall Street. The dramatic discount rate reduction, coupled with these unorthodox lending steps, not only expands the central bank's role of *"lender of last resort"* to securities firms to mitigate financial stress, but may also, lower the interest rate resets for distressed homeowners.

Not even to mention, the Federal Reserves' direct intervention to avert a collapse of Bear Stearns, one of the largest global investment banks and securities trading and brokerage firms in the world. Investors lost confidence in Bear Stearns which precipitated a "run on the bank" and the liquidity demands couldn't be met. The Fed facilitated J.P. Morgan's take-over of Bear Stearns at a bargain price of $2 (eventually raised to $10).

According to the Wall Street Journal, The Fed invested $29 billion to cover Bear's subprime loan losses and to minimize disruption in the financial markets. The **moral hazard** is that our financial system, and investors alike, may take on undue risks with no expectation of potential repercussions. This **moral hazard** issue is not merely philosophical, American investors took a beating this quarter and the blame lies squarely on the greed in our mortgage and financial systems.

Aristotle's ***Golden Mean*** allows us to choose our individual virtuous balance point between anger and indifference over our severe market losses. The April 1st Wall Street Journal quantifies it best, *"the five months of losses on the Standard and Poor's 500-stock index mark that benchmark's longest losing streak since October 1990".* So we have the right to be angry at the greed and gluttony of the participants in this financial fiasco.

A modern day oracle may enlighten our future. Warren Buffet, "The Oracle of Omaha", was crowned the richest man in the world. Forbes says, *"America's most beloved investor is now the richest man."* Buffet became rich by sound, long-term investing and here is his philosophy and consul:

> *"Look at market fluctuations as your friend rather than your enemy; profit from folly rather than participate in it."*
>
> *"Our favorite holding period is forever."*
>
> *"We believe that according the name 'investors' to institutions that trade actively is like calling someone who repeatedly engages in one-night stands a 'romantic.'"*
>
> *"We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."*
>
> *"In the business world, the rearview mirror is always clearer than the windshield."*

Investing requires faith in the long-term success of the U.S. economy and our nation's financial system. Although our faith has been shaken, in turbulent times like these we must be **patient**, maintain our long-term perspective and not lose sight of our goals.

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