

Word on the Street

By Derek Simon

“It's just another manic Monday. I wish it was Sunday.”

While I doubt Prince had the stock market in mind when he penned those verses to the Bangles' 1986 hit song “Manic Monday,” I'm sure many investors could relate to the sentiment in wake of the markets' dismal performance on Sept. 29.

Not only did the Dow drop a record 777.68 points that day, resulting in the Index's 17th highest percentage loss since 1928, but trading on the NASDAQ was equally painful, with Monday's 9.14 percent decline ranking as the third worst in the 37-year history of the exchange.

The advance/decline ratios? Don't ask, because I don't want to tell — the mere thought of them makes me shudder, like memories of my attempt to dance the “Macarena” at a wedding party a few years back. Suffice it to say that one could find more positives in a campaign ad.

Of course, the primary reason for panic Monday was the defeat of the Bush administration's \$700 billion bailout bill for troubled financial firms that flamed out in the House of Representatives late in the trading day. The legislation, which President Bush said was needed “as soon as possible” to ward off “financial panic” eventually passed, in modified form, on Friday.

However, rather than shooting up like 4th of July fireworks, the markets fizzled, with the Dow and NASDAQ both falling about 1.5 percent by Friday's closing bell. Given that the bailout plan didn't have a lot of public support to begin with, I suppose this should have come as no surprise — but it was still disappointing.

Bailout Bonanza

If it seems like there have been an inordinate number of private sector bailouts this year, it's because there have been. According to the Associated Press, the federal government has interceded or brokered deals on behalf of

troubled companies five times thus far in 2008 — more than the last 28 years combined.

1932

To stimulate economic growth, the Hoover administration creates the Reconstruction Finance Corp.

1933

President Roosevelt forms the Home Owners' Loan Corp. to stem a rise in foreclosures.

1971

Congress saves Lockheed Aircraft Corp. (NYSE: LMT) from bankruptcy by guaranteeing \$250 million in loans.

1979

Chrysler Corp. is rescued by the Carter administration with \$1.2 billion in subsidized loans.

1984

The FDIC provides \$4.5 billion to buy bad loans from Continental Illinois National Bank and Trust.

1989

Congress establishes the Resolution Trust Corp. to remedy the S&L crisis.

1998

Government facilitates a \$3.6 billion bailout of the Long-Term Capital Management hedge fund.

2001

Congress supplies \$5 billion in cash and \$10 billion in loan guarantees to aid the airline industry following the Sept. 11 terrorist attacks.

2008

March 16: The Federal Reserve guarantees \$29 billion of Bear Stearns' assets in order to sell the investment bank to J.P. Morgan Chase & Co. (NYSE: JPM)

July 11: Federal authorities take over IndyMac Bank (OTC: IDMC).

Sept. 7: The Treasury Department temporarily takes control of Fannie Mae (NYSE: FNM) and Freddie Mac (NYSE: FRE) and plans to provide \$100 billion to each.

Sept. 16: For a 79.9 percent stake in the company, government officials grant an \$85 billion loan to American International Group Inc. (NYSE: AIG).

Oct. 4: The \$700 billion bailout plan for ailing financial companies initially proposed by Treasury Secretary Henry Paulson is passed by the House and signed into law by President Bush.

Source – Associated Press (AP).

The Real Cost of the Bailout

So how much will the bailout really cost? Well, if you trust Treasury Secretary Henry Paulson's figure of \$700 billion — and when have our vaunted leaders ever underestimated the cost of something? — then every man, woman and child in the United States will need to cough up approximately \$2,300 (assuming the Census Bureau's estimate of 305,340,390 U.S. residents is correct). If one figures that only about 1/3 of that population actually pays taxes, however (which is about average based on IRS statistics), that number shoots to \$6,900.

Will Work for Bailout Tax Money

With thousands of taxpayer dollars needing to go to Wall Street, the recent disclosure by the Bureau of Labor Statistics that non-farm payroll employment declined by 159,000 in September is not good news — nor is the fact that the national unemployment rate held steady at 6.1 percent, a five-year high.

According to the BLS, “over the past 12 months, the number of unemployed persons has increased by 2.2 million and the unemployment rate has risen by 1.4 percentage points.”

On the positive side, wages for production and non-supervisory workers on private non-farm payrolls rose by three cents an hour, the BLS reported. That amounts to \$1.20 over the course of a 40-hour workweek — enough to buy a third of a tank of gas in most places.

Who says times are tough?