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MIP McKee Investment Planning

Dear Clients,

I wanted to give you a quick update regarding the markets this week.

The US market has fallen almost 5% over the past couple of days. Reportedly, Thursday's speech from President Obama where he proposed to outlaw "proprietary trading" by the big banks gave the market reason for decline.

Let's define some terms: "Proprietary Trading" in the banking business describes the action where banks conduct what we would call day-trading in everything from stocks to soybean futures; "Too Big to Fail Banks" are those large conglomerate financial institutions that the government deemed vitally imperative to the US economy, such as Wells Fargo, Citigroup, and Bank of America.

Now lets provide some background: The Glass-Steagall Act of 1933 told financial firms that they could engage in the business of banking, insurance, or investments, but they could not engage in any combination of the three distinctly different businesses. Due to the 1999 repeal of the Glass-Steagall Act, most banks also engage in the business of investments and can employ proprietary trading, or day trading, which puts the banks' financial health and your deposits at risk every day.

Pres. Obama gave Thursday's speech while standing next to Paul Volcker, the former Federal Reserve chief who preceded Alan Greenspan. Many of you know of my affinity for Mr. Volcker and his ideas on breaking up the "too big to fail" banks and reinstating legislation similar to the Glass-Steagall Act. I am happy to see Mr. Volcker at the side of the President. Mr. Volcker has been "shouting from the rooftops" ever since his appointment two years ago by the President to the board of economic advisors and it appears that his voice may now find receptive ears in the administration.

While the proposed legislation will move the US system in the right direction and will help limit the risks that the financial conglomerates can take, this proposal stops far short of restoring the relationship between actions and consequences that the financial industry needs. Hopefully, the idea of getting back to separately defined roles in banking, insurance, and investments will gain more traction before this proposal becomes legislation.

Market Impact:
The market reacted negatively to this proposal. While it certainly makes sense that the share prices of Citigroup and Wells Fargo would drop on the news, this type of legislation should help the remaining companies in the US economy. The broad and negative reaction exemplifies the market's moody short-term behavior and it's propensity for overreaction.

Have a great weekend!

Best Regards,

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