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# Downdraft! The Economics of Deleveraging In Turbulent Times

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# The Economics Of Deleveraging In Turbulent Times

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## Introduction

Pollyanna was wrong in her excessive optimism; Chicken Little missed it, too, with his abject negativity. No mere mortal has been given perfect foreknowledge. We do well to name the economic variables in play, put them on the scales, and try to see which way it is tilting. It turns out that learning economics won't make you a millionaire or keep you out of a soup line. It will give you a better understanding of how you got there.

According to James A. Funk's "Human Action Theory" (written in 1932), *"There is a mass psychological cycle which lasts approximately 50 years"* (three generations):

*Depression produces Thrift.*
*Thrift produces Confidence.*
*Confidence produces Investment.*
*Investment produces Activity.*
*Activity produces Prosperity*
*Prosperity produces Easy Credit.*
*Easy Credit produces Overproduction.*
*Overproduction produces Fictitious Sales.*
*Fictitious Sales produce Fictitious Collateral.*
*And these produce Panic.*
*Panic produces Depression, and*
*The more things change, the more they are the same.*

Starting in the fourth quarter of 2008, and on into 2009, there have been very many unanticipated conversations with silver-haired friends and associates in the autumn of their years. They exhibited wide-eyed fear.

Fear of what? The following: (1) of not being able to retire; (2) of having retired, outliving their retirement nest egg; (3) of that foregone trip of a lifetime; (4) of Kingdom work they were looking forward to financing; (5) of not having an estate to bequeath heirs; (6) of being compelled to choose between meals and medicine; and consequently (7) of being forced to go on Medicaid.

One prominent individual of modest means stated that he, after his reading of it, made his wife read my *"KABOOM!"* monograph (usually with the things I write, once people put it down, they cannot pick it up). He then confided that he had lost over half a million dollars in calendar year 2008. Another individual told me of a 90% drop in her one-company IRA in 2008.

They were, as many others have also expressed, distraught about money managers not having a program in place for older investors in advance, to be risk-averse and move these investors to the sidelines when a predetermined point beyond a downward technical correction (10%) in the stock market occurred. If there is anything sadder, it would be investors who don't know to care, and/or who don't care to know, either.

## 1. Little Faith

And these wonderful college students! Bless their hearts; they can be too trusting at times. Some young couples I know are signing up with for-profit debt consolidation companies and becoming ever-deeper in debt. These outfits make their money by fees and investing the victim's money (to earn interest for themselves), causing more problems (not less): (1) late payments; (2) late charges; (3) worse delinquencies; (4) tanking credit scores; and, of course, (5) more emotional trauma on the home front.

I have a strong religious faith, and yet I know that *"free will"* must operate. Or how shall we accept salvation? My concern is that some in recent times have said of the economy going into the tank, *"…Well, the Lord will provide…"* Yes, indeed. God is still God, and we are His children.

Sometimes in an attempt to give God the credit, we shortchange Him. We pray, but we don't spring into action and put feet to our prayers (i.e., the expression, *"Pray hard, but row away from the rocks!"*). With the hurricanes, floods, and earthquakes of late, I'm reminded of the historical fiction about a man who was stranded on his front porch by rising flood waters.

The rescuers arrived in a four-wheel drive vehicle, but he declined, saying, "*The Lord's going to take care of me."* Hours later, he was sitting on his roof as the rescue boat came by. *“No thanks,”* he said. *“The Lord is going to take care of me.”*

Late that night, he was sitting on his chimney, with the flood waters lapping at his feet. The rescue helicopter made one last attempt to get him to climb aboard, but nooooooo, *“…The Lord is going to take care of me.”*

And Saint Peter, the story goes, in surprise at seeing the man before *“…his time,”* indicted him with his reply, *“Man, the Lord sent you a four-wheel drive vehicle, a boat, and a helicopter -- what in the world did you want more than that?”*

Alas, over the years, I have occasionally known firsthand, through many years of benevolence work, some able-bodied people who had a, well, distorted *“…The Lord will provide…”* attitude and would not (prepare themselves to) work or support their families. Innocent casualties were the result, as those families eventually went under and/or broke apart.

God’s sermon on this issue is quite brief and stern (II Thessalonians 3:10): *“…If any would not work, neither should he eat.”* On this issue, there is a very plain duty set forth in the Scriptures (I Timothy 5:8): *“But if any provide not for those of his own house, he hath denied the faith, and is worse than an infidel.”* It hardly needs any commentary.

## 2. Friends or Foes?

Let's put the question foursquare in front of us, before we put our snorkels on and wade in further. Our economics and our religion -- are they destined to be allies or enemies in all this financial mess? It is a profound and perplexing topic which should be approached with great care, caution, and consideration.

Regarding our amazing American incentive system, it is possible that John J. Davis, author of <u>Your Wealth in God's World</u>, was right on the money as he boldly observed, *"When the dynamism of a society of free individuals is tempered and permeated by Biblical values, the resulting system would appear to be the best one attainable by imperfect individuals this side of eternity."*

What shall we discover? Whatever our findings, the purpose here is certainly not to sanction every action or deed committed down through the ages by individuals and enterprises in the name of capitalism. Nor is it the goal to give credence to all that has ever been written, said, or done by people of faith who have embraced the name of Christ.

On either side of the barricade are some who have neither understood nor cared. We may, in time, and with reason and good conscience, be able to demonstrate that, at their best, free markets and free will tend to stand or fall together -- because both are deeply rooted in the servant leadership nature of man.

George Gilder, one of our American Studies Institute Lecture Series speakers and author of best-selling <u>Wealth and Poverty</u>, suggested this synergism: *“Our greatest and only resource is the miracle of human creativity in a relation of openness to the Divine.”*

Although no graphs, curves, or equations appear in God's Word, the Scriptures certainly contain many statements of interest in an economist like me. The concept of *"opportunity cost"* (i.e., the best foregone alternative) and many other terms dear to the heart of an economist are not found, as such, in the Scriptures.

Or are they? Actually, *“opportunity cost”* looms before us in Mark 8:36-37: *“What shall it profit a man if he shall gain the whole world and lose his own soul. . .or what shall a man give in exchange for his soul?”*

Scripture references to matters of faith greatly outnumber those which deal with issues such as economic success. The Bible does, however, address every aspect of our lives, including the production, distribution, and consumption of wealth -- the subject matter of economics, too.

## 3. Do Well. Do Good.

Macroeconomics vs. microeconomics--in these turbulent times, what can we know for sure? God created the world in which we live, that we must, of necessity, concern ourselves with the matter of toiling to provide food, clothing, and shelter for ourselves and our dependents; otherwise, we would be an unnecessary burden to others (II Thess. 3:6-13).

However, the irony about making a living is that we sometimes overindulge and go to excess -- buying things we don't always need, spending money we don't always have, and impressing people we don't always like.

‘Tis a sad and seductive side of modern living. Nevertheless, we must concern ourselves every day with both the supply side (i.e., efficient allocation of the factors of production) and the demand side (i.e., the best use of goods and services).

Were the principles of supply and demand created by economists? Nay. Their origin reflects man’s God-given nature and ability to sort through circumstances, weigh options, structure decisions, take action, and thereby maximize value and satisfaction.

Adam Smith would later attribute such providence to the *“…invisible hand…”* of the marketplace. Does the Bible provide the foundation principles to govern these economic areas of life? Indeed. Examples abound.

Private property is recognized in the Scriptures. The book of Proverbs emphasizes and openly commends hard work and resourcefulness. Many other references in Proverbs go on to mandate integrity, fair measurements, and quality workmanship.

And of the conduct of the master and servant or employer and employee, what does the Bible say? Look into Ephesians chapter 6; we are to conduct ourselves *"...as unto the Lord...."*

What else can be found in over 2000 Scriptural references? Both testaments contain examples which condemn such vices (greed, oppression, lust, dishonesty, laziness, theft) which violate the charge over all things that man was given, as recorded in Genesis chapter 1.

Are there other admonitions? Yes, the Bible is also foursquare in favor of the noble qualities (hard work, honesty, generosity, fairness) which make for good living, good business, good economics and, of course, good sense.

Beyond that, the Scriptures describe good religion as a giving love for mankind, especially individuals (microeconomics) who have not been able to benefit from the general prosperity (i.e., the macro economy).

## 4. Stewardship and Prosperity

Many are now seeking refuge in the Scriptures, as they are buffeted by the winds of economic uncertainty. Does the word *"economics"* occur in standard translations of the Bible? No; however, our English word *"economics"* comes from the Latin, *"oeconomia"* which was derived from the Greek *"oikonomia."*

Derivations of these words are used over three dozen times in the Bible. The words are usually translated as versions of such words as *"stewardship," "management,"* or *"administration."* Stewardship of what, we might ask?

It could be stewardship of resources, property, talents, or souls -- quite a range of responsibilities. That stewardship is stated early (Genesis 1:26-28), as man, created in God's image, is given the mandate to subdue the earth and to manage and develop his environment to the glory of its Creator.

Should Christians administer the affairs of God's world according to the instructions of God's word? Absolutely. The parable of the talents (Matthew 25:14-30), in examining business finance options, very sternly links degrees of responsibility and rewards.

Soundly practiced economics trains those who are faithful in small things to be found worthy for the responsibility of greater things in this life and the next (Luke 16:10, 11). In all of this, one may be wondering what a subject called "*Christian Economics"* is all about. Is the term perhaps an oxymoron?

Why does the term *"Christian Economics"* make us nervous? Typically, it has enough religious doctrine in it to make the secular folks uneasy; it has just enough technical economics to make people of faith uncomfortable.

Each group seems content to not confront the responsibility of examining the others' perspective and then applying, yes, Biblical principles of economics. As economists often disagree on policy matters, so should Christians be tolerant on matters of opinion, while remaining firm on doctrinal issues.

Who knows? The result might be that each would be a little less confused than he was before. In the end, there will certainly be those who might conjecture that this monograph could have used more (or less) of either scripture or economic jargon.

*"Giving financial advice is a whole new set of parameters…,"* my accountant told me years ago, as he declined my request for investment advice. So, in the name of, yes, stewardship, and exercising the God-given sense to do so, I began then and there to research such things.

## 5. Health and Wealth

Think not that this is a publication on *“How to Get Rich.”* Nor is it a treatise on God’s plan of salvation, infinitely more important. Rather, it examines, among other things, possible areas of compatibility that could create a healthy, reinforcing balance between the two. Accordingly, it comes with a warning about balance and attitude that *“No man can serve two masters...”* (Matthew 6:24).

I believe that *"Christian Economics,"* however, can be sound when it fulfills three criteria: (1) when it's founded on Biblical principles; (2) when scholars agree upon it; and (3) when it makes common sense. Of course, if the first criterion is not satisfied, the other two don't matter, do they? For the Christian, the prime directive is always to seek first the kingdom; the rest will follow (Matt. 6:19-33).

It has been facetiously said that *"…When it comes to money, people seem to be of the same religion."* Is it really that simple? If you were a student in my economics class, I would candidly tell you that money should not be in first place in our lives.

Instead it should be in fifth place -- behind God, integrity, family, and country. If money is in first place in our lives, then we should have pronounced upon us that old Middle Eastern curse: *"May you make a million dollars -- may you spend it all on doctors."*

Example? A good friend and faculty colleague relates this true story: He was preaching a gospel meeting in a resort community. Attendance at the meeting was poor, so he asked one of the Elders, *"Why?"* The answer the Elder gave him was this -- *"Nobody wants to go to Heaven from here."*

Our guest preacher said, *"I didn't believe it,"* so he started asking people who should have been in attendance -- "*Do you want to go to Heaven?" "No,"* they replied. *"Well, then do you want to go to hell?" "No,"* came the grim answer; *"We just like the setup we have here!"*

Dear hearts and gentle people everywhere, we should weep for them -- and ourselves! We are all fighting this battle on some front. Balance is the key: *"I wish above all things that thou mayest prosper and be in good health, even as thy soul prospereth" (III John 2).*

## 6. Vantage Point

If those heavily invested in stocks had not exercised *"free will,"* at least in part at the start of 2008, and more extensively in July 2008 (the stock market peaked in June 2008), in moving proactively and selectively out of the stock market and into safety, they could have lost approximately one-third of their nest egg by year's end.

Advice to nobody and information for all, here, from my limited perspective, is an observation: 2008 notwithstanding, CREF TIPS (Treasury Inflation Protected Securities) Average Annual Compound Rates of Total Return were approximately 40% better than CREF's Bond Market Account and CREF's Money Market Account, the latter not being insured by the government until September 19, 2008. CREF TIPS even outperformed the CREF Stock Account from 1997 to 2007.

Late in 2008, and as a result of numerous, spontaneous, private conversations with more colleagues and brethren, friends and neighbors, etc., in response to the aforementioned *"KABOOM!"* monograph, I've become genuinely convinced that there are few investors (especially silver-haired) who made such a move to safety.

Because of my economics profession, and in these times, I attract questions. When people understand why not everyone is traumatized as much as they are by scary economic events unfolding, there are sick looks, heavy sighs, and occasionally a *"…why-didn't-we-do-some-of-that, too…"* look (or comment) from one spouse to the other.

The private conversations were over, almost as quickly as they started (to be followed up the next day by a discrete request for more information). *"…Woulda, Coulda, Shoulda..."* Investing is both an offensive and defensive activity, sure as the business cycle swings go up and down. You snooze, you lose.

It concerns me to hear about some money managers who could allow clients, especially our supposedly risk-averse elderly (with short time horizons in which to recover losses) to hang on, as they watch the S&P 500 drop nearly 40% in calendar year 2008. This stark financial proverb is a sequel to *"…inflation (or paint) covers a multitude of sins": "When the tide goes out, you learn who is not wearing a swimsuit."*

Leveraging is what we all (citizens, families, businesses, governments, etc.) did with a fistful of credit cards and other asset-inflated lines of credit: *"…went for broke…"* and almost made it. Deleveraging is (as in the title) the opposite of leveraging. It is reversing the process, probably without anybody giving us a loan to do it. With fits and starts, and partially imploding, it took Japan the better part of a decade (the 1990's) to pull it off.

## 7. Sell It All?

Selling is not always wrong. Should we sell everything, when facing an awful, cataclysmic market? No. However, we can consider some approaches: (1) move some of our money to bonds; (2) leave some discretionary money in assets; and even (3) diversify into various sectors (even if it is the opposite of traditional poker-playing strategy).

The *"other shoe"* has yet to fully drop (admittedly not an economic term). The *"KABOOM!"* scenario has concerned me since 2000, when I presented it to the Governor's Council of Economic Advisors (and every year since, at our semiannual meetings). It seemed like such a minority position to the others back then.

Isn't this perplexing? God is undoubtedly in control, as much as He chooses to be. Ever so often in my career, as I would be handing out a test on exam day, I have had students announce that they wanted to *"…pray for a miracle…"*

My response has been as follows (paraphrased): *"…If you exercised good stewardship of time and talents, i.e., (1) good class attendance; (2) reading the book before lectures; (3) taking notes; (4) reviewing; (5) asking questions; and (6) getting a good night's sleep--then you can pray in thankfulness to God for giving you the good sense and tender conscience to prepare, and* *for Him to add His blessing to your efforts…If you didn't do those preparatory things expected of you, then you don't have (much of) a prayer!"* Again, it's a good object lesson about *"free will."*

Do we really want God to intervene in the trivial affairs of men, when miracles were for a specific purpose (that Jesus was the Christ) and ended 2,000 years ago, as far as we know? Again, how shall we accept salvation, if we cannot and/or do not exercise *"free will?"* Shall we sin all the more, that grace may abound?

Nay! Pain, even the financial kind, can sucker-punch us, because of the unwanted uncertainty it places in our laps. However, despite our best efforts, we are not left without options as children of the King.

What can we do? Try this: (1) accept God's joy in the place of pain; (2) change our focus; (3) help create a better life; (4) let go and reach out; (5) set new personal goals; (6) appreciate the Grace of God; (7) plan for change; (8) let others bless us; (9) be grateful for new beginnings; (10) minister to others; (11) secure our future; (12) create a better life; (13) seek wisdom to make positive changes; (14) be grateful for comforting support; (15) claim the promises of God; and (16) pray for strength to finish the day and hope for tomorrow.

## 8. Follow the Money

These are amazing times. Each year, projected back to 1995 and forward to 2015, four million Baby Boomers turn 50. Overall, that's 80 million Boomers in a 20 year period. The affluent of this number have been piling on, paying more for stock than ever before (until the meltdown). Twice as many families were investing by 2008 than 15 years ago.

Equities replaced houses as a family's largest asset (what goes up can come down). Some in the market failed to distinguish between investing, speculating, and gambling. There is great irony that these two sectors sink or swim together. Now, in the current climate, some investors are, therefore, on the sidelines. Others are bottom fishing and shopping for bargains.

As I tell my students, *"You may think that I am being humble when I say I am not a very good economic forecaster. However, I am being arrogant; although I'm not very good, I am better at it than you!"* There will be decreased consumer demand for years to come. Consumption in the future will, as it should, be income-driven, not asset-driven (inflated values) as in the past.

The drumbeat from many money managers during the Bear Market meltdown of late 2008 (appearing to roast marshmallows while Rome was burning) was this: *"Hang On! Don't Sell! Be in there to* *take advantage of the bargains in the next Bull Market. Stay with dollar cost averaging!"* It is not that simple.

*"Buy and hold,"* we frequently hear. What are they really saying? Could it be, *"Buy, and let me hold onto your money…?"* Buy and sell slowly and at different levels (yes, dollar cost averaging) can be good, sound advice with discretionary funds.

It is generally true that as stocks fall, dividends rise. And, in that, dividends can limit loss. However, are the promised dividends safe? Can they be paid? Is there sufficient cash flow to do so? In the first half of 2008 the answer would probably have been, *"Yes."* What about the last half of 2008? Possibly not.

There is, indeed, great risk in not knowing how all this financial crisis will play out. Nevertheless, we must (try to) secure our futures.

## 9. Compound Factors

Here is a partial list of other factors to consider: (1) age; (2) retirement plans; (3) taxes; (4) income goals; (5) growth plans; and (6) risk-averse attitudes. Why would some money managers be willing to lose transactions' fees in helping especially older clients sell equities early in a Bear Market (defined as greater than a 20% decline)? Could it be that if those investors moved to the safety of the sidelines, the brokers might not lose just fees, but also customers?

Many older investors ended up being steamed at some money managers (rightly or wrongly) for not staging the customers' position to be more risk averse along the way, say, through *"stop-loss"* orders in times of fear and panic (e.g. automatic sell order when stocks drop a predetermined percentage, say, 15%), etc.

It has been said that, *"…a Bull can make money on Wall Street, and a Bear can make money on Wall Street, but not a Hog."* When, beyond fundamentals, fear and panic trigger a meltdown, this is the ultimate loss of purchasing power. Ironically, uninitiated investors tend to show a tragic, historical pattern of buying high and selling low. Don't forget the basics: <u>buy on hope</u>; <u>sell on despair</u>.

There were some money managers who were willing to admit that, if older investors didn't flee to safety before (or early) in the equities market meltdown, those investors' chances and abilities to take advantage of a rally, after those huge losses, were somewhere between "*slim and none* (and *Slim* just left town)."

The individual investor should be informed that the little known *Securities Investor Protection Corporation (SIPC)* is charged by the government with identifying, securing, and returning investment instruments to their rightful owners, whatever the assets are worth after a financial institution fails.

Remember this: we did this to ourselves. Concern about risk aversion, after the fact, is false economy. There is no painless way out for all who believed that housing prices, and the wealth effect, would continue to rise in perpetuity. It would be like the young man who is about to be sentenced by the Judge for bumping off his parents, saying, *"But, your Honor, I plead for mercy--I'm an orphan, you know!"*

## 10. Some Good Tips

*Nothing contained herein is to be construed as advice for the individual investor whose circumstances merit advice and counsel from trusted investment professionals, tempered with issues of age, safety, growth plans, income goals, risk-averse attitude, time frame, retirement plans, taxes, etc.*

Inflation-linked Treasury Bills (TIPS), especially in a TIAA/CREF context (explained herein), can be one option for some during times of uncertainty:

1. TIPS are inflation-linked Treasury Bills guaranteed by the U.S. Government.
2. Sources of TIPS earnings (returns) are typically as follows: (1) Semi-annual interest payments; (2) Inflation adjustments (CPI-linked); and (3) Price appreciation/depreciation due to changes in "real" interest rate (i.e., removing effects of inflation or deflation).
3. Historically, when many other securities fall, Treasury Bills rise.
4. TIPS, a valuable tool, are specifically designed to provide a substantial rate of return in inflationary times.
5. Somewhat unique regarding time horizons and safety concerns, TIPS is designed with the specific

goal of long-term gains keeping pace with inflation.

6. The U.S. Treasury guarantees TIPS' published rate at purchase, plus the inflation rate which is Consumer Price Index (CPI) adjusted semi-annually.
7. Predictably, TIPS interest earnings fluctuate based on inflation-adjusted principal.
8. Deflationary times do not reduce TIPS principal payments.
9. In deflationary times, TIPS principals remain at par value until maturity.
10. Over their life, TIPS have consistently constant coupon rates.
11. The probability of protracted deflation, which could reduce TIPS yields, is low.
12. Regular purchases over time (dollar-cost averaging) can reduce uncertainty about short-term CPI swings over time.
13. Changes in real interest rates drive the valuation in TIPS' principal (inverse relationship).
14. TIPS real, after-inflation returns are guaranteed, as principal is adjusted to changes in CPI.
15. TIPS are exempt from state and local taxes (unlike similar corporate offerings)
16. Investors can count on TIPS to pay interest semi-annually.

17. TIPS were first launched by College Retirement Equities Foundation (CREF) in 1997.
18. They are the only CREF-sponsored bonds that CREF offers, amid a sea of equities.
19. The CREF TIPS Fund track record has been significantly better than Teachers Insurance and Annuity Association (TIAA) Traditional (e.g., Treasury Bills) Accounts.
20. Only 10% per year of TIAA Traditional Bonds can be moved out of TIAA and into, for example, CREF Accounts.
21. CREF TIPS are not bound by TIAA restrictions regarding shifting or withdrawals.
22. With an openly “easy money” Fed policy (pushing more “liquidity” into and through the system), TIPS could be of increasing interest to investors.
23. TIPS are sold by the U.S. Treasury in $100 increments.
24. Maturity wise, TIPS are sold in increments of 5-, 10-, and 20-year bonds by the U.S. Treasury (www.publicdebt.treas.gov/sec/sectrdir.htm or 800-722-2678).
25. A direct purchase of TIPS without a fee can be done from the U.S. Treasury (www.treasury.gov). Fund families with TIPS-related accounts are growing.

**Remember: Investigate Before You Invest!**

## 11. I'm Rich! Wasn't I?

*Breathes there a man*
*With soul so dead,*
*Who hasn't said*
*When the market fell out of bed,*
*"Man! I wish I had quit when I was ahead."*
--author unknown, wisdom eternal

Is the worst still ahead of us? Quite possibly (don't shoot the messenger). There are potentially another wild cards out there. They would be globally leveraged bundles (i.e., securitized variable-risk derivatives) of the following: (1) student loans, (2) consumer credit loans, (3) car loans, (4) commercial real estate loans, (5) insurance policies, and even (6) reverse mortgages, popular with (bless their hearts) the elderly. Try to get loans to comfortably deleverage through this!

Candidly, a new round of foreclosures could be triggered by clearly rising unemployment, glutting the market and depressing housing prices further (presently 21% on average of their 2006 highs), until they can get back to the long term trend leading up to 2000 (probably a 30% drop overall). Who knows the timetable? Not we mortals. The United States is facing down a *"lost decade,"* similar to Japan of the 1990's.

Can we compare this to the *"Roaring '20's"* and the consequent *"Great Depression of the '30's*?*"* Possibly. Housing and then stock market crashed, followed by more financial sectors, and other basic industries. The five year interest-only mortgages, perpetually refinanced, were part of the house of cards. Today's crisis began gradually about 75 years ago, spurred on, in part, by well-intentioned legislation in the 70's and 90's that had some perverse consequences.

On the 1930's New Deal premise that home ownership makes us better citizens, Government Supported Enterprises (GSE's) like the 1938 *Federal National Mortgage Association (Fannie Mae)* and the 1970 *Federal Home Loan Mortgage Corporation (Freddie Mac)* were chartered.

Looking back, from our Civil War to World War II, debt and credit schemes have blown up on six occasions. Today, nobody really knows how much the bundled, mortgage-backed securities (derivatives) out there are worth. We do know that being heavily leveraged globally with nonperforming debt endangers financial institutions' capital accounts and asset values, not to mention customers, employees, and stockholders.

Being an economic historian, among other things, I know that if we don't learn from history, we are destined to repeat it (next semester). In a 2002 Berkshire Hathaway stockholder report, Warren Buffett referred to out of control derivatives as, *"…time bombs"* that could *"…cause a chain reaction of financial disaster."* Complicating things, those mortgage backed obligations (MBO's) have tranches (different levels of risk categories).

## 12. Coveted Home Ownership

With good intentions, the 1977 *Community Reinvestment Act (CRA)* goal was to create social good through affordable housing. The *CRA* mandated increased oversight of financial institutions to be sure loans went to all segments of society, especially middle- and low-income people (as a penalty, bank mergers or branches might not be approved).

The *CRA* specifically required that each depository institution's record be evaluated periodically by federal agencies, in helping meet the credit needs of its entire community. Contrary to these banks' fiduciary duty toward risk assessment in the past, non-compliance with *CRA* led to fines and affected adversely banks' applications for deposit facilities, acquisitions, etc.

*The Association of Community Organizations for Reform Now (ACORN)* was a player at the table in helping to draft the *CRA* legislation. By one account, over the last 30 years, several hundred million dollars have been paid in fees to *ACORN* and affiliates, in part, for assistance with what are now commonly called *"NINJA"* loans--realtor jargon for "*No Income, No Job, No Assets*."

As a seller of some investment property in 2006, I know first-hand that sellers have been happy to let the subprime house buyer, and the grade B mortgage broker, inflate the sale price by the amount of the buyer's down payment and the buyer’s closing costs, since frequently the buyer had neither.

Somehow, the grade B mortgage broker seemed to have an out-of-town appraiser at the ready to ratify the higher amount. Everybody involved held their breath until closing was finalized. Such subprime borrowers have been essentially renting.

The *Financial Modernization Act* of 1999 opened the system to more *“…affordable housing,”* by removing investment banks, mortgage brokers, and insurance companies from the legal rules of the road, commercial banking regulations (gutting most federal oversight of the 1932 Glass-Steagall Act).

Have the chickens come home to roost? The people we elected passed these laws and provided for enforcement, or the lack thereof. This decontrol, and lack of sanctions, became very similar to what caused the S & L economic crisis in the 1980’s. *“Affordable Housing,”* pushed by some members of Congress, would understandably result in greater political support from subprime neighborhoods.

Undermining traditional marketplace risk assessment, and with the sale of mortgages in the secondary market, nobody seemed to have an interest in the long term success of these subprime loans, beyond the originator’s/broker’s fee(s). Grim and sad.

## 13. Follow the Money

The resulting increased demand for houses, fed in part by Fed-engineered low interest rates, led to the 2001-2006 housing bubble--a near-doubling of housing prices in that period. Houses were treated by many owners as ATM machines from which to withdraw and spend money; some owners became *"upside down"* (owing more than the house was worth), as a result.

There was an ominous bipartisan bill proposed in Congress in 2005, to reduce trading and increase regulatory oversight of mortgage-backed securities by *Fannie* and *Freddie*. It did not pass, in part, due to lobbying against it by *Fannie* and *Freddie*.

By 2006, 40% of new mortgages were subprime, up from 10% in 2001. Subprime mortgages were bundled as derivatives and sold to *Fannie* and *Freddie* and/or to hedge funds all over the world as mortgage-backed Collateralized Debt Obligations (CDO's), supposedly to spread risk. A perverse, opposite effect occurred.

After the subprime mortgage's first two years, it usually reverted to an Adjustable Rate Mortgage (ARM) which is several percentage points higher. This resulted in increased, and often unaffordable, house payments, up by sometimes 30-40%.

With a six month's interest prepayment penalty, it was difficult to refinance subprime mortgages (especially with falling prices and no equity). Subprime delinquencies and foreclosures glutted housing markets, resulting in lower prices and sending more people "*into the bucket* (again, owing more than the house is worth)." Therefore, more walked away.

Fear and panic also drive the market, not just fundamentals. Beyond this yes, palpable cataclysm, rather than a V-shaped recovery, it may look like a U-shaped upturn (moving sideways for awhile) from this Bear Market.

Forecasting? There are two types of forecasters: (1) those who cannot forecast; and, (2) those who don't know they cannot forecast. The cardinal rule is to give people a number or a date, never both. I'm not a prophet, nor the son of a prophet. I don't want to be an optimist or a pessimist. I just want to be right. I do worry about Economists who are so young they think the Great Depression was ended by *Prozac*.

To avoid going full speed into the tank, or ending up living out our days at *"Shady Pines"* (trying to build a log cabin out of popsicle sticks), we'd better clean up our balance sheets. If all this carnage doesn't spin our wheel, then our hamster is already dead! Nevertheless, while being short-term pessimists, we can be long-term optimists. In the end, *"Lassie will come home."*

## 14. Signs of the Times

There are always *"signs of the times,"* if we look for them. Consider the Fall 1987 stock market meltdown (a mere speedbump by today's standards), about which I wrote the following article, circa 1998:

*On Bulls, Bears, and Hogs*
*by D.P. Diffine, Ph.D.*

*It has been said that "…A Bull can make money on Wall Street, so can a Bear, but not a Hog." Read on for more details regarding possible performance parallels between the stock market situation 10 years ago and now (nothing written herein should be construed as financial advice for individual investors and/or specific investments).*

*Why the stampede into stocks in the first place (especially January-August 1987)? After 1982, inflation was much lower. Investors, whose refuge had been in savings and tangible assets (real estate, gold), moved into financial assets. Lower interest rates reduced yields on bonds and money market accounts. Investors thereby shifted into stocks.*

*The Fed had pumped significant amounts of money into the financial system. Wall Street had concluded that a recession was unlikely. A great* *number of new mutual funds poured billions into the stock market.*

*Profit margins increased dramatically as the business sector experienced a corporate renaissance. Takeovers, mergers, leveraged buyouts all greatly enriched shareholders, while there was a decrease of the number of shares available -- the classic definition of "inflation (too much money chasing too few stocks)." Then, interest rates went up (there were two increases in discount rate).*

*The Fed began pursuing a tighter monetary policy. Stocks were becoming overvalued relative to bonds. Growing business activity had increased demand for credit and absorbed liquidity. The Fed restricted credit to check inflation. The increased supply of stocks spread demand too thin. Over-optimistic investors had done all their buying and used up their cash.*

*The collapsing dollar further reduced liquidity, as foreign investors' gains were paid out in a depreciating currency. Between January and August 1987, the Dow increased 800 points (a runup one would normally not expect in a decade). Investing had become gambling. Our October 1987 stock market panic triggered selling waves overseas. We* *sneeze, and the rest of the world gets pneumonia.*

*In the war between profit takers and bargain hunters, the profit takers prevailed and the Dow plunged. The major correction of the January-August 1987 runup was fed by headlines, fear, and hysteria. Program trading added to already wide swings in the market caused by uncertainty. Most individual investors took paper losses.*

*It was the institutional investors who panicked, many being too young to have seen a bear market. So, watch the headlines, such as "Investors Euphoric" about continued growth. Then consider moving to the sidelines.*

*Optimistic reports tend to trail (lag) the actual situation. Past bear markets began when average dividends fell below 3%. In August 1987, dividends were at 2.5% (lowest in history). Watch insider selling -- big patterns when the ratio is three sales to one buy. Insiders have a strong track record of getting out near the top.*

*One sign of the latter days of a Bull market is individual, uninitiated investors piling on as the professional, institutional traders move to the sidelines. Historically, when the stock market races ahead despite major warning* *signs, the runup is followed by a sharp decline.*

*To lock in value, those who remain in stocks may place stop-loss orders; i.e., a selling floor at 10-20% below current value, as an insurance policy against a major meltdown. Some investors will get into Money-market mutual funds, CDs, Treasury Bills, etc.*

*The sun continues to come up in the east and set in the west with great regularity; it is still a wonderful life after all.*

Keep in mind that if I really knew, in some detail, what was going on, and what will probably happen in the next 30 to 90 days, our U.S. President would make an appointment with me here in Searcy, Arkansas. But I wouldn't be here. I would be in Hawaii, which I would by now own.

## 15. Good News and Bad News

Is there any good news? Yes! As we tiptoe further into our new millennium, there are more people connected to the Internet than were hooked up to water, sewer, or electricity 100 years ago.

In the last two decades, we've grown about 75 percent in real terms on only 20 percent more energy. We've doubled vehicle fleet mileage. The equipment in homes and factories is 40 to 60 percent more efficient. We have had better efficiency gains than nearly every one of our Western trading partners. It is the former Socialist economies which presently consume three times the energy per dollar of GDP.

Applied science has brought renewal to our domestic economy. Information technology is changing the concept of industrial resources. Information is expandable; there are no obvious limits. Information is compressible; it can be concentrated, integrated, summarized, and miniaturized for easier handling. Information is substitutable; it can replace capital, labor or physical materials. Robots are an example.

What does that mean? For two decades, we have been applying hi-tech to low-tech industries. Basic low-tech industries are now smaller, leaner, stronger, and more profitable. We have learned that it was not written in the stars that we had to permanently lose markets to overseas competitors or that their quality had to be better.

In the lifetime of today's college students, there is much to feel better about. The news in the public domain, if we would just keep our eyes open for it: (1) emissions from major pollutants have been reduced; (2) a higher percentage of our lakes and rivers are fishable; (3) forest inventories, public and private, have grown; (4) auto death rates are significantly down, as are death rates from malignancies, heart disease, strokes; (5) we have won a majority of the Nobel prizes; (6) most of our children do live with both parents; (7) nearly 100,000,000 people attend church weekly; and (8) tens of millions of teens have never tried drugs.

## 16. Progress Abounds

What is the record as things stand today? With about four percent of the world's population we create nearly 30 percent of the world's GDP. Two percent of us grow enough food to feed 200 percent of our population, exporting as much as we consume at home.

Our poverty level income exceeds the average Russian income many times over. Our work week is 40 percent shorter than it was in 1900. There is a rise in entrepreneurship. At this writing, about 93 percent of us are working. In normal times, 5% are always between jobs, and 95% is considered full employment.

Looking around the world, don't we Americans have much to feel good about? Living standards have improved significantly. Some 50 years ago, 30 percent of the nation's homes had no running water, 40 percent had no flush toilets, 60 percent had no central heating and 80 percent were heated by coal or wood.

Regional poverty has been evaporating. Fifty years ago, average incomes in the Southern U.S. were about 40 percent of the national average. Today, Southern incomes have risen to near 80 percent of the national average.

Retirement, almost unknown early in the $20^{th}$ century, due to poverty and shorter life spans, has become more the rule than an exception. Eighty percent of today's millionaires are first generation folks. How so? They got it the old-fashioned way; they earned it.

The late Nobel economist Milton Friedman, cited as *"Economist of the Century"* by *Fortune* magazine in 2000, also weighed in on the technology issue: *"The technological evolution makes it possible to produce products anywhere using resources from anywhere by a company located anywhere to be sold anywhere."*

Writing as an economic historian, I think it's good to remember that, timewise, it took nearly a half year for word of Christopher Columbus' discovery of the Americas to reach Europe. By contrast, barely 1.3 seconds elapsed for the world to witness on television the historic first step of man on the moon. Don't tell us we haven't made great progress, thank you very much.

## 17. The Way It Was

The comforts most Americans enjoy today, shortly after the turn of another century, might make life over 200 years ago seem like hardship. Yet closer study shows that the colonists generally were a prosperous and contented people -- already turning America into the "land of opportunity."

According to the American Economic Foundation, by 1780, there were only 2.5 million Americans -- excluding Indians -- about the population of the state of Arkansas today. However, we were a different kind of people back in the 1780's. Nearly half the citizens were 15 or younger. Most people farmed the land for a living.

Life was rigorous and tough. Work was a sun-up to sun-down regimen six days a week. Little wonder that the average male could look forward to only about 38 years of life, compared with almost 75 years today. Only one in 1,000 had completed college in 1776, compared with one in seven today.

Inflation was rampant during the War for Independence. By 1780, paper money authorized by the Congress was practically worthless and replaced by a new currency at an exchange rate of 40 to 1. Hence the expression *"...not worth a Continental."*

The ceiling price on turkeys was 9 cents a pound, on milk 9 cents a gallon, on rum 63 cents a gallon. Lodging at local taverns was frozen at 5 cents a night. Two examples of typical wages were a maximum of 70 cents a day for carpenters, 42 cents a day for tailors. Barbers were prohibited from charging more than 3.5 cents for a shave. Top pay for a soldier or sailor was $8.00 a month.

Average yearly income per person (measured in 1974 dollars) was $634 in 1776. That's double the average yearly income in scores of Third World countries today. And the Gross Domestic Product came to $1.6 billion in 1776, a tiny drop in the bucket compared with today's $14 trillion.

It cost 10 cents to mail a letter, but that was good for delivery only within a radius of 100 miles. The fee rose to a maximum of 25 cents for a letter going 450 miles or more. And it was paid by the recipients. Wouldn't that put an end to junk mail!

Americans also plunged into privateering--operating private commerce raiders, authorized by the Continental Congress. A group of merchants would fit out a heavily-armed schooner, each buying one or more shares. In keeping with the spirit of economic freedom, a man might own half the shares or only one-fiftieth. In addition to the shares, prize money went to owners and crews -- a true incentive system.

## 18. Privateers Sailing

For years during the American Revolution, the privateers thrived, taking some 2,000 British vessels and a vast amount of needed goods. But it was a high-risk business, and there was no guarantee a privateer would return at all, much less return a profit. Then, toward the end of the War for Independence, the British Navy swept most of our privateers off the seas. Many an owner suffered disastrous losses: high profits are often temporary, by their nature.

There are companies today that have been doing business since the founding of the republic. One notable example is the Pratt & Whitney division of Colt Industries Inc. Inventor Eli Whitney was father of the cotton gin, of modern high power gunpowder, and especially of accurate gauges for metal fabrication (think aircraft engines today).

American Bank Note, which has printed money for many nations, has been around since Washington's time. Curiously, two of the firms made pencils in George Washington's day and still make them, Koh-I-Noor Co. of Bloomsbury, NJ and Faber-Castell Co. of Newark NJ.

As stated, the War for Independence brought new monetary difficulties. The Continental Congress, powerless to impose taxes, was forced to print massive amounts of currency to finance the war. This flood of paper money caused the Continental currency to rapidly depreciate.

America's first economist, Pelatiah Webster, warned that too much money being printed and issued resulted in useless currency. By 1777, the Continental Congress had imposed price controls to decrease the cost of feeding and supplying Washington's army. The result? Farmers refused to sell, except to the British, who paid in gold.

Hope for plenty at low prices resulted in scarcity and misery for the Continental army. General Washington sent very critical messages to Congress saying (paraphrased): *"…troops are always to have two days provisions so when opportunity presents itself, they won't be continually obstructed. We have 2,898 men unfit, barefoot…unless something changes, the army will starve, dissolve, and disperse in order to subsist ...."*

Price controls were dropped by the Congress; supply and demand began to work toward natural, mutually-agreed upon market prices. Washington's army was supplied for the rest of the year and following winter. Good economics saved the day!

As Pelatiah Webster put it, *"Trade, if let alone, will ever make its own way best, and like an irresistible river, will ever run safest, do least mischief, and most good, suffered to run into its own channel."*

## 19. Still Our Amazing System

It should be easy, even in these troubled times, to become interested in capitalism. It solves the problems of society better than any other economic system known, by solving the problems of the individual. The application of freedom to the marketplace allows people to achieve much more than under other systems.

Freedom of enterprise is an attitude of responsibility, citizenship, pride, dignity and decency, and above all, it is an attitude of thankfulness. For too long, we who write and speak have mainly emphasized the free market's advantages, when perhaps we should also have been passing the word about its *"good news."*

In all of human history, only the free market has come to bear successfully on solving the age-old problems of scarcity and poverty. Through our American incentive system, we developed a superb track record of doing things that benefit people.

When America's profit-incentive system is working well, profits (or business savings) provide steady jobs, higher wages, more jobs, worker benefits, better working conditions, safe and modern equipment, rising standards of living, opportunities for the future, and social progress.

Losses also provide a valuable function in the American incentive system. Losses are the market's way of sending a signal to businesses to reallocate their resources more efficiently, according to the price- and quality-conscious customer's demanding standards.

Capitalism, therefore, contains its own built-in checks and balances. People are required to exercise sound judgment, or suffer the consequences of their own folly. The American incentive system doesn't carry any guarantee. One risks failure along with the prospect of success.

And if we are honest, we know that there are no real guarantees possible in life – not in theory, not in reality. The past is prologue. Just what is at stake for the future of our land? Josiah Bailey said it best long ago:

> *The American Republic and American Business are Siamese Twins; they came out of the same womb at the same time; they are born in the same principles and when American business dies, the American Republic will die, and when the American Republic dies, American business will die.*

## 20. What's The Answer?

We Americans work so hard. Often, when our candle flickers a little, especially in times of extraordinary financial stress, we pause to wonder about a basic question, *"What is the redemptive value of a lifetime of work and thrift we've incorporated into our lives?"*

What's the answer? *"How Do You Spell Relief?"* The answer is, and always has been, *"F-A-M-I-L-Y."* Family is the past, present and future – the closest thing to immortality this side of the grave. Be the best husband, dad, brother, son, and respectively, the best wife, mom, sister, daughter.

What can we all still do to truly make this our best century yet? We can each try to create a strong, loyal family, bound together and deeply rooted in faith and trust. Then we can work with purpose. Give them good memories of how to grow up as men and then gentlemen, and respectively, as women and then ladies.

Families are, indeed, the past, present, and future. Families take what we've accomplished and build on it. Families are for growing up in, for going away from, and for coming home to. The best Department of Health and Human Services is the family.

The world may not be entirely as we would like it to be. There have always been problems to be faced by individuals, families, business, and industry. Many problems are really conditions that eventually straighten themselves out in time in dynamic societies. Compared to other countries' problems, ours are just conditions.

In the perspective of previous decades, and looking at other countries, the American economy will emerge as superior. And we can take that to the bank. There is still a silver lining in economic storm clouds. We still have the *"Grossest Domestic product"* in the world!

Never forget – we enjoy a standard of living beyond the dreams of kings. For all this, we owe a great deal of credit, to those who have extended us credit, to whom we owe a great deal (a record level of debt – personal, business and government notwithstanding). In the meantime, be the gift that keeps on giving -- a taxpayer.

## 21. Let Us Give Thanks!

Why do we knock ourselves, when we are the envy of the world? We have so much to be thankful for:

(1) a country of truly unbounded beauty; (2) almost unlimited natural resources; (3) a standard of living beyond the dream of kings; (4) a judicial system that is the envy of the rest of the world; (5) food so plentiful overeating is a major problem; (6) food processing advances which give us all-season menus; (7) clothing that is more durable, longer lasting, and easier to maintain; (8) a press nobody can dominate; (9) a ballot box nobody can stuff; (10) churches of our choice; (11) 150 million jobs; (12) freedom to go anywhere we want, with the planes, cars, and highways to get us there; (13) automobile tires that last as long as some cars; (14) hybrid synthetics, metals and plastics that can even replace some body parts; (15) near-miracle drugs which can help us live longer and feel better; (16) unemployment insurance; (17) Social Security; (18) Medicare and Medicaid; (19) public and private schools; and consequently, (20) a proud economic history and track record.

We are literally a people *"free"* to do anything we want, if we have the *"enterprise"* to do it. The bottom line? Beyond making wise decisions to secure your future as much as possible, try to (at least partially) ignore the gloom and doom prophesies and get a life.

Make your peace with your Creator on His terms, then live as to be neither ashamed of yesterday nor fearful of tomorrow. Yes, live long and prosper; however, also try to keep a balanced perspective. Always remember that despite all your accomplishments in life, the size of your funeral will be determined by the weather. If it is cold and rainy, don't look for me (only kidding)! Read on about the future.

## 22. Reinventing Ourselves Every Day

It seems as if I am always giving advice to young people; they really are America's greatest natural resource. I like to catch them at the threshold of their careers. Often, that time comes as I have the chance to speak at commencement exercises.

Commencement is a wonderful ceremony marking the beginning of a new life of *“freedom”* to support themselves. The students are seated there at graduation thinking, *“Here I am world; I know my ABCs.”* And yet the world says, *“Come on out here son or daughter, and we will teach you the rest of the alphabet.”*

I try to make it a point to remind our young people that if they don't plan, their next summer job could be for the rest of their lives. Indeed, their first order of business should be to develop a marketable skill. Then they can become independent and self-supporting.

Consequently, they will never have to ask mother, father, brother, sister, church, or government to take care of them. You see, now is the time for all good people to come to the aid of themselves. This is practical economics.

No *“…onward and upward…”* from me; they know the direction. The world is not out there eagerly awaiting their talents; the world has gotten along just fine without them. All that our current graduates have is a one-year head start on next year's graduates. And this new crop must make the most of it, for a year from now there will be others after their job. It is so hard to convince young people of this old adage, *“You don't get more until you do more than you get paid for.”*

There is a certain amount of fear of the unknown as our children grow up and graduate. There is always that concern and wonderment, *“Is there life after graduation?”* Very few people know the rules of life, and so they lay themselves open to pain. Time after time they spend most of life as spectators on the sideline just observing the game.

The ideal vocation would be to pick something that we loved to do anyway as a hobby, if we were independently wealthy. Then, we can get really good at that and go out and find some organization that would be willing to pay us to do just that. Then, we would never really work another day in our life!

The story is related that one summer evening, when Thomas Edison returned home from his work, his wife said, *“You have worked long enough without a rest. You must go on a vacation.” “But where will I go?,”* he asked. *"Decide where you would rather be than anywhere else on earth, and go there,"* was the answer. *“Very well,”* promised Mr. Edison, *“I will go tomorrow.”* The next morning he returned to his laboratory.

## 23. Post-Election Economics

The fine line that any president walks includes the fact that, if he attempts too much too soon, he could short circuit the system and be patently unsuccessful. If he attempts too little, and doesn't take advantage of the honeymoon usually accorded to new presidents, a precious window of political opportunity would be lost.

American presidents also tend to develop the attention span of a hummingbird after a while. Our presidents have to keep alert to so many interest groups, with foreign and domestic agendas, which compete for the president's attention.

Every administration also has warring factions even within its own Cabinet. This tends to chew up American presidents, age them prematurely, and frequently throws us into a cycle of one-term presidents. Think about it, only four presidents in the last half century have been afforded the luxury of a second term: Eisenhower, Reagan, Clinton, and Bush.

In many ways America generally, and Americans specifically, are better off. In some other ways, both the country and Americans collectively are worse off. So, it has been neither *"…the best of times…"* nor *"…the worst of times…,"* Charles Dickens aside.

Frankly, on several fronts, the economy is not as bad as some made it out to be. Nor is it as good as we would like it to be. It's a bit like the economist who, with one foot in the oven, and the other in the freezer, announced *"On the average, things are not too bad."*

Looking around the world, don't we Americans have much to feel good about? We are better off when looking at the reduced number of countries that are called Communist today. And yet, we still wonder how to get good government at a reasonable cost.

There will certainly be times in the next four years when the winner of the 2008 presidential election will plea, *"Why me?"* Conversely, there will also be times when the loser will privately exclaim, *"Could have been worse -- could have happened to me!"*

## 24. Fifty Valuable Actions

### "50 Valuable Actions You Can Take *Right Now* to Make Your Enterprise Leaner, Stronger, and More Successful Than the Competition"

***Managers who take these 50 Valuable Actions will come out of any economic downturn and into the recovery stronger, leaner, and, yes, more profitable than the competition.***

1. Manage the details of the business each and every day.
2. Stay nimble and flexible; do study the competition — they're watching you.
3. Become prepared to respond quickly to competitive opportunities.
4. Conduct business impact analysis for operational continuity.
5. Create partnerships with customers and suppliers, remaining in close contact.
6. Collaborate with other business owners on purchasing strategy.
7. Consider an acquisition of another company with a strong cash flow to the bottom line.
8. Keep costs under control, especially before times are bad.
9. Have a new respect and passion for liquidity and working capital.
10. Lock in credit lines early and often; be on lookout for new capital sources.
11. Make bankers information partners and part of a strategy-making process.

12. Treat vendors as a type of banker; aging payables can improve cash position overnight.

13. Keep your legal counsel well informed at all times. Listen and learn.

14. Concentrate on markets in which you have a distinct advantage.

15. Think long and hard about both product abandonment and product development.

16. Take advantage of small company agility to enter and exit markets.

17. Develop market segments that your larger competitors consider too small.

18. Do everything possible to be a hero to your customers.

19. Boost sales to existing customers through offering add-ons.

20. Use after-sales service to solidify your relationship with customers.

21. Develop contingency plans for a significant reduction in sales.

22. Keep sales revenue profitable; the goal is profits, not market share.

23. Eliminate excessive inventories through just-in-time manufacturing; don't overdo it.

24. Carefully implement pricing strategy with an eye toward ongoing cost-benefit analysis.

25. Be sure that investment in info-tech doesn't lag behind, even for old-economy companies.

26. Trim those insurance costs by eliminating overlapping coverage wherever possible.

27. Cut travel costs by instituting a per diem travel allowance incentive plan.

28. Analyze and pare back utility costs, without sacrificing the mission.

29. Initiate a capital audit to learn where idle capital is tied up in the business.

30. Stop capital projects unless operational efficiency or cost reduction would be greatly impaired.

31. Depreciate assets aggressively and to the maximum allowed by accounting methods.

32. Sell underused assets, refunding proceeds to shareholders through stock buybacks.

33. Convert your budget process from a bottom-up to a top-down, fast-tracking the outcomes.

34. Review the company's tax planning strategies in light of a weak economy.

35. Improve your cash flow by consistently annualizing estimated taxes.

36. Take advantage of government-sponsored employment incentives for business.

37. Get out of a bunker mentality, and get more involved than ever.

38. Make sure to communicate the CEO's presence and commitment to any plan.

39. Communicate to employees in a climate of mutual respect and consideration.

40. Regularly ask your people for advice, and follow through whenever possible.

41. Encourage and reward new ideas and suggestions from your employees.

42. Integrate your key personnel directly into company operations and strategy, to reduce turnover.

43. Keep confidential list of employees ranked by contribution. Categorize A, B, or C. Tough decisions may await you.

44. Keep a list of past applicants who would have been hired if openings had existed.

45. Never lay off people in any department who are key players in customer service.

46. Fully staff key positions to give added strength to compete.

47. Shorten the work week, to warehouse a trained work force for the coming recovery.

48. When absolutely necessary, make salary reductions across the board, to try to keep morale from deteriorating.

49. Provide stock option plans for effective and loyal employees who tough it out.

50. Never underestimate what your employees can do for you or to you.

**Remember — Do not ever forget these 50 Valuable Actions during the next round of good times!**

## 25. Questions and Answers

The American economy is in the middle of a rebuilding surge that could run for two more decades. During this era of restructuring and implementing better technology, we will, in both goods and services, continue to be able to compete successfully with other nations at a profit.

Is business in a new age? Yes! The best and brightest graduates now graduate toward businesses which foster personal growth. Now, the manager's new role is that of coach, teacher, and mentor.

The top-down management style is yielding to a networking, people-style of management. Entrepreneurship is revitalizing companies from the inside out. Large corporations are emulating the personal and productive qualities of small businesses.

One hundred years from now -- 50, 25, 10, 5 years from now -- America, and especially the Mid-South, will be the place to be. People all over the world will look to us for growth, stability, and the good life. Our life expectancy is up 40 percent in the last 100 alone. We can expect to live fairly long lives, relatively free of pain, and die in good health (your mileage may vary).

Today, there are many questions on our minds. Even our National Anthem seems to end with a question mark:

*Oh, say does that star spangled banner*
*yet wave,*
*O'er the land of the free and the home of*
*the brave?*

The answer is a resounding, *"Yes."* Here are the rest of the lyrics of the last three verses of our National Anthem, courtesy of Francis Scott Key:

*On the shore, dimly seen through the*
*mists of the deep,*
*Where the foe's haughty host in dread*
*silence reposes.*
*What is that which the breeze, o'er the*
*towering steep,*
*As it fitfully blows, now conceals, now*
*discloses?*
*Now it catches the gleam of the*
*morning's first beam,*
*In full glory reflected now shines on the*
*stream:*
*''Tis the star-spangled banner! O*
*long may it wave*
*O'er the land of the free and the*
*home of the brave!*

*And where is that band who so*
*vauntingly swore*
*That the havoc of war and the battle's*
*confusion*
*A home and a country should leave us*
*no more?*
*Their blood has washed out their foul*
*footsteps' pollution.*

*No refuge could save the hireling and slave*
*From the terror of flight, or the gloom of the grave*
*And the star-spangled banner in triumph doth wave*
*O'er the land of the free and the home of the brave!*

*Oh! thus be it ever, when freemen shall stand*
*Between their loved homes and the war's desolation!*
*Blest with victory and peace, may the heaven-rescued land*
*Praise the Power that hath made and preserved us a nation.*
*Then conquer we must, for our cause it is just,*
*And this be our motto: "In God is our trust."*
*And the star-spangled banner in triumph shall wave*
*O'er the land of the free and the home of the brave!*

Yes, we are the oldest living republic. However, let's remember that our Constitution doesn't guarantee a good life, prosperous life, a happy life, or even a long life. It only offers the protection of life. We make of our lives what we will. We should bet on the long run future success of American capitalism. If we don't have a future, nobody does.

## EPILOGUE
## A Prayer to the God of Our Fathers

Twenty years ago, I told my then-college-age son, *"…America is a privileged nation."* He said, *"I disagree."* I replied, *"That's the privilege."*

Former Chaplain of the U.S. Senate, Peter Marshall, once delivered this Independence Day prayer. Consider his perspective:

> *God of our Fathers, whose Almighty Hand has made and preserved our Nation, grant that our people may understand what it is they celebrate.*
>
> *May they remember how bitterly our freedom was won, the down payment that was made for it, the installments that have been made since this Republic was born, and the price that must yet be paid for our liberty.*
>
> *May freedom be seen not as the right to do as we please, but as the opportunity to please do what is right. May it ever be understood that our liberty is under God and can be found nowhere else. May our faith be something that is not merely stamped upon our coins, but expressed in our lives.*
>
> *To the extent that America honors Thee, will Thou bless America and keep her as Thou has kept her free, and make her good as Thou hast made her rich…*

## ACKNOWLEDGEMENTS

The *Entrepreneur* is a quarterly journal addressing contemporary economic issues from a moral perspective. One may not agree with every word printed in the *Entrepreneur* series, nor should he feel he needs to do so.

It is hoped that the reader will think about the points laid out in the publication, and then decide for himself. Hopefully, the material herein will motivate people to further study and also toward a greater understanding of God's will on life's stewardship issues here on Spaceship Earth.

In this expository monograph, many sources have been consulted in the preparation of this material. The References section enables those who desire to so further study to consult these sources. If any such acknowledgements have been inadvertently omitted, the author would appreciate receiving information, so that proper credit may be given in any future printings.

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Every effort has been made to include only reliable information, and yet present it in a way that will not quickly date this publication. The author would welcome knowing about any possible errors in content.

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