

Sidoxia Capital Management, LLC



## Spaghetti Ready?!



Cleanly deciphering this slew of government programs is like attempting to devour a spaghetti dinner without splattering sauce on your shirt - quite a challenging endeavor.

The banking crisis water is scorching hot - both politically and from an economic urgency standpoint - and the pasta continues to cook. Now that the new administration is just settling into the White House, they have no time to waste and have already begun throwing spaghetti up against the wall to see what sticks. Is it sticking? Certainly Treasury Secretary's February 10th speech lacked the preparedness to fasten to the public's expectations, as evidenced by a 400 point drop in the Dow that day. Since then, and over the last few months, numerous new ideas have been introduced and debated. Let's take a pasta preview of what's

being flung around:

- TARP: Troubled Asset Relief Program
- TALF: Term Asset Backed Securities Loan Facility
- PPIF: Public-Private Investment Fund
- TAF: Term Auction Facility
- CAP: Capital Assistance Program
- EESA: Emergency Econ Stabilization Act
- CPP: Capital Purchase Program
- TLGP: Temp Liquidity Guaranty Program
- QFI: Qualifying Financial Institution
- Sec 13(3): Section 13(3) of Federal Reserve Act

What a mouthful. Discussions have ranged from privatization and capital injections to "bad" banks and stress tests. Don't be confused by the alphabet soup of acronyms. Although the conversations and controversy over the banking crisis are titillating to debate, I believe investors should not lose site of the intent of the proposals. It's quite simple...the banks need capital (money), and they need it fast. These and other fancy program titles are merely designed to get cash flowing through the banking system.

Piling taxpayer cash into auto bailouts is not a good idea in my book, even if you believe

Wade W. Slome, CFA, CFP  
Author of [How I Managed \\$20,000,000,000.00 by Age 32](#)

Mr. Slome is also the media go-to resource - he has been quoted in the USA Today, New York Times, Dow Jones, Investor's Business Daily, Bloomberg, Smart Money, among other media publications.

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## Why Sidoxia?



## Experience

Mr. Wade W. Slome managed one of the 10 largest growth funds in the country, at times exceeding \$20 billion in assets under management during his tenure.

Mr. Slome possesses a master's degree from Cornell University in business

the Michigan politicians who say 3-5 million jobs will be lost. However, recapitalizing the banking system, the lifeblood of our economy, is critical because it supports ALL domestic jobs (the entire 150 million of them)! So whether tax-dollars reach the banks by the government buying their toxic assets, implementing the Japanese "Quantitative Easing" model (purchases placed on the Federal Reserve balance sheet), infusing capital with senior convertible preferred stock, privatizing the banks (a la Sweden), forcing the weak banks to fail, or guaranteeing hundreds of billions of debt, the cornucopia of methods really don't matter much to me. Regardless of how you slice the pie, the government needs to provide the banks capital in some shape or form.

Which method will be best? I don't know, and neither do the countless experts squawking in the back seat of the economic car. These are uncharted waters. Finger-pointing and arguing on Capitol Hill until politicians turn purple in the face will likely have no benefit. Clarity, transparency and accountability, irrespective of the route(s) chosen, will be the key factors of success, not the methods of funding. These unprecedented times require unprecedented actions. Directionally, we are headed in the right direction, when it comes to fixing this ailing banking system issue.

Getting into this financial mess took a long time and no light switch will immediately turn the global crisis problems off - patience is required. There are indications that the aggressive and creative efforts implemented by the Fed and Treasury are working (i.e., the return of the commercial paper, money markets, and inter-bank lending markets), however details on some programs are still lacking or yet to be fully employed (e.g., TALF & PPIF). Taxpayers and politicians are hungry, but before we eat, we must make sure the spaghetti strands are cooked and will stick to the wall.

## Helicopter Ben to the Rescue



administration (MBA) with a concentration in finance.

Mr. Slome holds the highly regarded CFA (Chartered Financial Analyst) investment designation.

Mr. Slome maintains the respected CFP® (CERTIFIED FINANCIAL PLANNER) certification.

Bloomberg identified Mr. Slome as the 2nd youngest manager among the largest 25 actively-managed U.S. mutual funds in 2005.

### **Strategy & Focus**

Sidoxia focuses on diversified, tax-efficient, and low-cost investment portfolios, with the goal of achieving superior after-tax, risk-adjusted returns.

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In November 2002, Federal Reserve Chairman Ben Bernanke addressed the National Economists Club in Washington, D.C. In that speech, Mr. Bernanke made reference to a "helicopter drop" of money, related to a hypothetical scenario of future deflation in the U.S.

Well here we are in the middle of this financial crisis and now Mr. Bernanke has loaded up his 'copter of cash and hurled heaps of cash into the eagerly awaiting arms of the distressed banks. In order to unclog the global banking plumbing, the "Fed" is pulling out all the stops and taking exceptional measures, including interest rate cuts, equity injections, loss guarantees, loan auctions, direct loans to non-financial institutions, mortgage debt purchases, among other programs.

As a result of these previous actions, "helicopter Ben" has expanded the government's ownership position (rise on the Fed Balance Sheet) by more than \$1 trillion over the last year, and the amount will likely swell more before shrinking. These cash payments/investments to the banks and financial institutions are designed to provide a capital cushion against the banks' future losses and also provide a healthier financial base to lend to consumers, corporations, and small businesses. The bank lending floodgates have yet to open, but fortunately there are encouraging signs of improvement in the inter-bank lending market, as evidenced by the dramatically lower interest rate spreads banks are charging each other ("TED Spread") for short term loans. Arguably the inter-bank lending activity levels have returned to "business as usual" intensity that we experienced before the Lehman Brothers bankruptcy when the global financial markets ground to a halt. Certainly many areas, including the securitization markets, corporate security issuance, and mortgage lending have a long way to full recovery. The patient is up and walking with a limp, but needs further rehabilitation before racing at sprint speeds again.

## Check-Up Time



Fluoride is never fun, but is essential for your smile and your mouth's health. Investing is no different. In these confusing and uncertain times, now is the perfect time for some preventative care. Review your current investment plan and place your self on the right financial path for a successful future. Set up a private consultation today at: [\(949.258.4322\)](tel:949.258.4322).

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## A Penny Saved is \$114 Billion Earned



**W**hy is compounding so great? Albert Einstein, arguably one of the most intelligent people who ever lived, was asked to describe mankind's greatest discovery. His answer: "compound interest." He went so far as to call it the "Eighth Wonder of the World." The benefits of compounding can be demonstrated through a simple example using famous explorer, Christopher Columbus.

We all know the story, "In 1492, Christopher Columbus sailed the ocean blue." To emphasize the benefits of compounding, let us suppose that Christopher Columbus made an investment in the new world's future in the historic year of 1492. If Chris had placed a single penny in a 6% interest-bearing account and instructed someone to remove the interest every year, the value of the interest earned through 2008 would be almost 31 cents. A pretty nice multiplier-effect on one penny, but not too much absolute cold hard cash to write home about...agreed?

However, if the young explorer had placed the same paltry investment of one cent into the same interest-bearing account, but **LEFT** the remaining earned interest to compound (thereby earning interest upon the previously earned interest) the results would be drastically different.

What would you guess the account would be worth now?

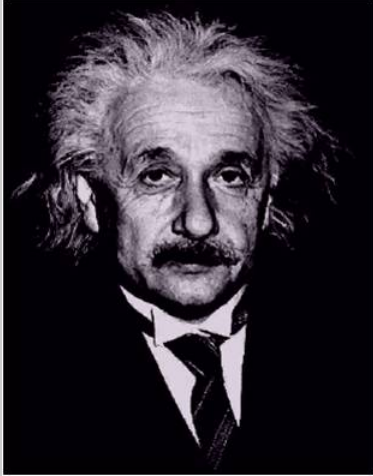
\$10,000? \$100,000? \$1 million? \$10 million? \$100 million?

NO is the answer to all these guesses.

The correct answer: \$114,242,178,628.50!! Your eyes are not deceiving you. That one penny invested in 1492 would have grown to \$114 billion dollars. Surely, we will not

live 516 years to collect on any investment over such a long duration; however most investors have the ability to invest quite a bit more than one cent.

## Quote of the Month



**"In the middle of every difficulty lies an opportunity."**

-Albert Einstein

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