

The Perfect Storm of 2008



U.S. Dollar

Trade Deficit

**Globalized
Risk**

**Industrial
Capacity**

Leverage

**Monetarists
v. Keynesian**

Energy

**Conservative
Ideology**

**Amoral
Capitalism**

**Stock Market
Boom Bust Cycles**

**Middle East
War**

**Complex
Investments**

**Social
Welfare**

**How This Financial Crisis Started, Who Are
The Real Victims of Wall Street Incompetence
and Why This Storm is Unlike Any Other Seen
Since 1929**

The Perfect Storm of 2008:

How This Financial Crisis Started, Who are the Real Victims of Wall Street Incompetence and Why This Storm is Unlike Any Other Seen Since 1929

By

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October 6, 2008. It was early in New York on Rockefeller Plaza at NBC. A place where the mention of Rockefeller drew contrasting opinions based on what economic class you came from or currently held at present. His was a fortune made in Standard Oil; Rockefeller's behemoth was then broken apart into 27 companies, and the famed 'seven sisters': Exxon, Mobil, Shell, BP, Chevron, Gulf and Texaco. By 1999, these oil giants would remarry with *almost* zero objection to their offspring. But today was not about oil – even as it had soared to all-time highs just 3 months prior of nearly \$150 per barrel – but instead, about the economics of the “credit crunch.”

Before another hectic day of following the casino-like markets would take hold of an imperiled nation's imagination, the mood was decidedly uncertain even after the announced \$700 Billion dollar 'bailout' or 'workout plan' was approved during a 2-week span by U.S. congressional leaders on the Friday prior. The leaders had thrown together a bill at the insistence and design of Treasury Secretary Henry Paulson, ex-Goldman Sachs CEO, to buy up mortgage back securities and other illiquid assets that banks and finance companies were unable to sell amidst the crisis of confidence seen on the Wall Street markets, European floors and newly emerging Asian trading sectors.

With more news of national banks from across the pond being 100% insured by their governments, namely Germany, the 4th largest economy by GDP, people with enormous financial stakes and reputations to protect were speaking to Americans.

Jim Cramer, a 30-year trader of stocks, former Goldman Sachs employee and host of CNBC's Jim Cramer's *Mad Money* was a guest on NBC. His call to action for folks nearing retirement age was “to remove 5 years worth of money,” from the market. This after a weekend of contemplation about where the markets were heading. Many folks called this a 'chicken little' panic call, shouting 'fire' in a smoke-filled room and other ways to express over reaction to recent events. Cramer though was panicking back as far as August 2007 during the first shock

wave of events that would inevitably become the worse banking collapse since the days of Herbert Hoover and the Great Depression.

The string of collapses in long-standing institutions, some that survived through the Depression Era, made it harder to swallow for people like Cramer that had more than one CEO of an investment bank tell him things: “We’re ok. Just a short-term hiccup. Just need an infusion of fresh capital.” *Lehman Brothers* had been one of those firms – now gone after establishment back during honest Abe’s timeframe.

Gone was the ability of banks to lend to each other too. They had free-wheeled hundreds of billions of dollars in the housing market from coast to coast, sea to overseas, at sub-prime lending rates with adjustable kickers. As a result, the borrower usually got overmatched intellectually and financially, and took their only recourse: skip out on the house and leave the bank or lending institution to resell the home. Meanwhile, packaging up thousands of homes of various investment qualities and labeling them Mortgage Backed Securities, Credit Default Swaps, Collateralized Debt Obligations to be offered on an open market only lent more fuel to this 3-alarm fire. As these packages got divvied up further, combined in unique ways that only a Rubix Cube master could solve or a Ph.D. candidate in quantum physics might find interest to mull over, the investment bankers suddenly looked like Masters of a Failing Urban Housing Project more than any Universe known to these bonus-baby millionaires.

The U.S. Economy has grinded to a standstill. Hefty layoffs have ensued. The U.S. car industry is in steep decline due to lack of loan approvals and abysmal choices of inefficient cars, trucks and SUVs. Financial services have taken a beating. Construction of new homes is nearly non-existent in several key markets, such as California, Nevada, Florida and Michigan. The commodities exchange have rollercoasted from all-time highs and back down as asset deflation on homes and cars has strangled people’s ability to shed or service debt or live within their means.

The Perfect Storm of 2008 has not come to an end. It has reached landfall status, hitting the United States, Europe and Asia at nearly cat 5 strength. The devastation of this financial crisis will be measured in *trillions of dollars* lost. The economic machine of the United States is a \$14 trillion dollar-per-year economy, but this storm will suck possibly **50-100%** of 300,000,000 Americans productivity for an *entire year* before it is all done.

The explanation of why it happened, who got victimized and what the events were to cause such a catastrophe will be seen through the prism of an ordinary citizen with his eyes and ears tuned to this channel of economic despair and policy blunders.

The overall goal may be seen as two fold: to shed light on behavior and ideas behind the financial hurricane and to see the ramifications to all people of various social-economic backgrounds. The *calm before the storm* that contributed to lagging response to the problem from decision makers may ultimately prove to be the most salient topic broached.

No matter the analysis, many have and will suffer from the greatest crisis of nearly 4 generations. And no one will forget how they survived during it.