

Working Group reportedly intervened via Wall Street investment banks Goldman Sachs and Merrill Lynch on April 4, when the Nasdaq fell 13% by midday, then suddenly rallied several hundred points before the day's close. The two giant Wall Street houses started buying huge volumes of stock index derivatives—far cheaper than real stocks. The Nasdaq rebounded, and panic was averted—temporarily.

Although no details of what happened to trigger the 7% rebound on April 17, and again on April 18, suspicion is that the President's Working Group was not passive. Did they quietly make it known that the authorities would back up any risk by Wall Street on that day?

Regardless of whether such manipulation by the U.S. authorities has been the case, the situation is poised on the razor's edge for the next bit of unexpected bad economic data or bad financial news. With a balance of payments deficit soaring to record levels, a stock market plunging by double digits almost every second week, household and corporate debt levels are in no way prepared to endure even the mildest stock collapse. The April 18 *Wall Street Journal* noted, "American households have 56% of their financial assets tied to the stock market now, compared with 28% in 1989. Mortgage debt now equals 43% of the value of owner-occupied housing, compared with 30% in 1985. But now the hammer: in a balance sheet of more than \$30,000 billion, liquid assets in the form of bank deposits amount to less than \$4,000 billion. In short, the collective balance sheet of the American consumer is extremely illiquid."

Adding into the equation debt-to-equity ratios for U.S. corporations, "up over the last 10 years from 84 to 116," the *Journal* warns, "the stampede of both corporations and private households out of liquidity and into debt in recent years is without precedent."

It's time to begin thinking about a New Bretton Woods global monetary reorganization before the next break in the dam brings on the deluge.

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## Commentaries

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### 'What, me worry?' some financial observers say

**Alan Greenspan, Chairman of the Federal Reserve System, speaking on April 14:**

"During a financial crisis, risk aversion rises dramatically, and deliberate trading strategies are replaced by rising fear-induced disengagement from market activity." He added that "fear-induced disengagement" can even refer to sell-off of such "riskless" instruments as Treasury securities.

**Guest commentator on Bloomberg financial news radio, Washington, D.C., April 14.**

He said that there is no threat of a stock market meltdown, but rather, the markets are seeking to achieve a "selling climax" level.

**Treasury Secretary Lawrence Summers, in guest appearance on April 16 Fox News Sunday (Washington, D.C.).**

Summers stressed that the U.S. economic "fundamentals are sound. Consumer spending is up." He urged investors not to panic, because "the economy of the United States is in better shape than it has been in a long time."

**Washington Post, April 16, front page, headlined: "Stock Market's Loss May Be Economy's Gain," by Staff Writer John M. Berry.**

"If it doesn't go too deep, the big stock market correction of last week could turn out to be a boon rather than a disaster for a U.S. economy, the fundamentals of which remain about as sound as they ever have been, according to many analysts."

**New York Post columnist John Crudele, April 19, headlined, "One Fund Manager's Value Picks."**

"Nobody would blame you if you hated stocks after last week. And there's a good chance that you'll be hating the market again in the weeks ahead as we get closer to the next Federal Reserve meeting.

"But there's usually at least one good strawberry in a bruised bunch." The column then profiles ten investment picks by a partner of Value Holding L.P., and the column concludes, "So, if you are tired of the .com crash, here are some stocks in boring industries that have room—and reason—to move."

**Business Week ran as its cover feature, sent to press in advance of April 16's Black Friday, the story headlined, "Wall Street—Is the Party Over?"**

Its comforting blurb beneath the heading read, "High-tech stocks are undergoing a much-needed correction. But relax, the overall market probably won't tank. What we're seeing looks more like a healthy flight to quality." The article looked at the April 4 stock market gyrations (far exceeded on April 14), and ran an analysis titled, "Don't Panic—Investors Are Just Seeking Quality." The article stated, "Even seasoned investors, who were coming to believe that Wall Street had signs pointing in one direction—up—were shaken. Is this just the beginning of a market shake-out? Is the party over?"

"No. April 4 was a day that crystallized the change in leadership of the bull market that began three weeks earlier. It is not so much a change from New Economy stocks to Old Economy stocks; rather, it is a flight to quality across the entire equity spectrum."