



March 7, 2009

## OPEN LETTER TO PRESIDENT BARACK OBAMA

Dear Mr. President:

In five previous letters to you and your team, we have tried hard to make sure all understood the simple yet dynamic nature of self-fulfilling prophecies. This note will make yet another effort to do so as trillions of dollars are being vaporized for nothing. There are two culprits which must be understood and relieved of duty.

The autopsy will show this whenever someone gets to it. Alas, if the powers that be are not careful, that may be too late to protect the revenues that will pay for the New Era of Responsibility, which we all want to see succeed.

**Please take the time to read below. It cannot all be covered in one page this time.**

First, does anyone recognize that the markets began to crater roughly one month after the uptick rule was erased? The uptick rule allowed for an automatic brake. Why? If I were a hedge fund manager that wanted to do harm, I merely start out my Sunday evenings by letting my buddies at 12 other hedge funds (yes, they do talk to each other) know which stocks I will be shorting this week and when. The simple fact that we would then all duplicate those orders would, in difficult times, overwhelm the volume of buy orders. Physics suggest to all who might want to look that more sell orders against fewer buy orders would result in only one direction—down.

The uptick rule previously served all like those lanes that are filled with sand on the downward side of mountains for trucks that have lost their brakes, helping them find a way to slow down before causing catastrophe.

The same was true for markets—before the catastrophe we have all watched unfold. Now, without the uptick rule, my hedge fund friends, were they looking to destroy a company, get the benefit of shorting and then shorting and then shorting some more. All the while, nearly insuring a profit, so long as the market is overwhelmed with sell orders in that particular security as is happening now, daily.

On the tape, if one is watching the fills, it looks like this: Down, Down, Down, Down, Down, Down, Down, Down...well, you get the point. This, of course, causes a different crowd reaction, news headline and overall confidence perception than what it looked like before the uptick rule was abolished: Down, Up, Down, Up, Down, Up, Down, Up, Down, Up. The former causes a self-induced, assured, panicked, self-fulfilling spiral down—and is how many of our banks were destroyed (see Exhibit A attached hereto). The latter is how the markets worked for the 50 years prior to the summer of 2007.

I do not ever recall a short-seller telling anyone they were not making enough before the rule was abolished.

Second, the mark-to-market accounting nonsense must be relieved until it is better understood for what it is and what it is not. This too will be found as a key culprit when we do the autopsy on this crisis many years from now. Then, however, you will have passed your second term in power and the losses for millions on Main Street will have been so enormous and so fruitless, it may not matter much.

I suppose I could sugar-coat this information and suggest that politicians in DC are brilliant no matter what they do. Alas, I will not likely ever get invited to the White House because I don't yell and scream on TV, though I have been on CNBC hundreds of times, a channel your team clearly watches a good deal, based on recent comments from your Press Secretary.

That noted, you WILL find that the mark-to-market accounting rule, while originally designed to eliminate the possibility of another WorldCom or Enron fraud, has become the unintended consequence nightmare of this century.

If not stopped, you could oversee the complete destruction of capital. We can be assured that if no action is taken to alleviate the self-fulfilling panic, the "New Era of Responsibility" will have no takers, no users and no one to pay you for same...period.

If you feel I may be out of line...then do nothing. In the end, we will find that all of the wonderful steps in the new budget will have one line item missing: **The tax revenues to pay for all of them.**

I digress.

To give you a sense of what the mark-to-market accounting rule does, in real-life, well outside of the four walls where members of Congress came up with this ludicrous rule to begin with, I provide this thought:

Pretend for a moment, that you and I run a factory that sells blue widgets. We have worked all our lives to make the best blue widgets money can buy. We have an entire staff of specialists that are experts on the construction and value of blue widgets. In a normal market environment, you will not find anyone better at making blue widgets than the factory you and I own.

However, and here is the important part: one day, we wake up and our staff of specialists who understand the blue widget market so well, come to provide you and I some unsettling news: blue widgets are out of style this season. It seems that everyone wanted red widgets this time out. Clearly, we are in a quandary.

Surely we can think of something to do about this, right? I mean, we could change our paint colors and make red widgets fairly quickly. We might be a little bit behind, but heck, remember, we have some pretty sharp people in the widget business and if free market issues were allowed to unfold, we could come up with a solution.

**But, we also know the rules.**

We know that if we do not follow the rules, we could go to jail, thanks to a law that was passed a few years ago, in a different set of chaotic circumstances.

Here is the deal we are left with: Well before we can even think about fixing our problem and coming up with creative solutions, we have some reporting to do.

Now that everyone in the world knows we have only blue widgets and that there is no market for blue widgets, we have to tell all of our shareholders and bankers that we have a HUGE loss to report. All those blue widgets, the best blue widgets in the business are stacked up in our nice clean warehouse. We have to tell everyone that because there is no current market demand for blue widgets, all those things have to be valued as though we were going to sell them ALL...today, at these low, non-existent prices.

Now, as owners of this blue widget factory, do you feel like we would really want to sell all of our blue widgets when no one wants to pay for them? Or, do you think you might say during one of our business meetings, "Hey, Mike, we can always keep the blue widgets in the warehouse until they come back in style right? Can't we just repaint them red?"

Sadly, I would have to say to you,

"Well, Sir, given that we have to tell our bankers that our assets are worth zero, we will be in default of our loan documents. They will then likely call our loans and we will not have any cash flow to get through the process of repainting the blue widgets. With no cash flow and bankers who feel we are broke due to the mark-to-market rules we must follow, our accountants will file reports that will question our ability to be a going concern. CNBC reporters will quickly pick that up and our shareholders will then sell our stock they quickly try to get away from the new risk of our blue widget company. Those shareholders will get clobbered because the hedge fund community will act first, with much larger orders to short our stock. Since the SEC has never invoked the rule that one must deliver shares that they want to sell short and wonderful Mr. Cox removed the uptick rule, the shareholder on Main Street will never have a chance to get out before massive losses roll over

them, leaving them a) in shock and b) angry with you and me. This, of course, will kill our reputation and those that previously had done business with us will likely go to another company to buy their blue widgets next time. In a self-fulfilling domino effect, this will cause you and I endless nights of no sleep and stress trying to find ways to pay all of our blue widget experts...all of which takes away from our productivity, damaging all associated with us. We will fail in doing do because of all the steps above and will then be forced to lay off 350 people...all on Main Street. None of this will allow us to be what we were before—and that is experts in the widget business. So, no Sir, to make a long story short, for almost no logical business-minded reason, we probably will not have the means to paint our blue widgets red, or, for that matter, even have the ability to be patient and let the blue widget market come back. Make sense Sir?"

I am fairly certain that you and I both know what the rest of that conversation might sound like.

### **The Point?**

Underneath all the current hysteria, it is easy to miss the mosquito in the room.

My Dad once told me, "Mike, elephants never bite you on the ass....mosquito's do." I ask you and your team to consider the raw facts of the matter:

In a crisis, you should try very hard to eliminate those elements that only add gasoline to the fire. You may want to consider relieving the pressures that exist for a time, thereby stopping the insanity of wave after wave of self-fulfilling fear to roil the markets. They are feeding on themselves, in a "perfect storm", as negative psychology loops roll over us daily.

Were all being honest, it would be readily obvious that the means and revenues that will support your desired "New Era of Responsibility" are all at stake.

The Losers in this process include entire blocks of Main Street, their 401(k)'s, their mutual funds, their retirement plans, they education plans and anything else they had of value. There is no separation of Wall Street from Main Street.

**With all due respect Sir, in an effort to target the 1% at the top of the heap who in many cases may have done wrong, one is also damaging nearly everyone on Main Street.**

Thank you for your time Mr. President. It is an honor to be able to communicate with you.

As in all previous open letters to you, I reiterate that it would be an honor to help wherever your team feels I can.

Respectfully,

Michael Williams

CEO

**See Exhibit A attached**

## Exhibit A

### The Destruction of a Bank

- First, gut their balance sheet demanding quarterly statements filed under SARBOX with mark-to-market accounting.
- Demand that all assets be valued as though they will be sold today, no matter how low the price.
- Second, make sure you prove, over many decades, that you will never prosecute anyone under the Security Laws of 1934, for not delivering shares which they have sold short.
- Third, make sure that you remove the emergency brake, the uptick rule, so that all hedge funds can act in concert to overwhelm any stock. Make sure you also create an environment in which the seller could be a terrorist organization, not just a hedge fund.
- Fourth, those hedge funds, or large sellers, begin crushing a stock with sell orders. They have no risk or fear of prosecution given the previous 6 decades of inaction.
- Fifth, as the share values spiral downward, the news picks up and it cannot be good. That news even brings out the smaller shareholders now as selling intensifies. Note that was the goal in step 3 and 4 above.
- Sixth, as acceleration of the spiral ensues, the bank (or any other company under attack) is then in the news trying to defend its balance sheet and business strength.
- More bad news begets more bad news. More hedge fund selling comes in as no uptick rule is there to protect.
- The company under attack sees its equity shares so low in price that they can no longer sell enough to replace the lines of credit being pulled due to their price collapse.
- The final blow....as their stock moves into single-digit readings, they are pushed into the hands of the government programs now rolling over us.
- The Losers in this process include entire blocks of Main Street, their 401(k)'s, their mutual funds, their retirement plans, their education plans and anything else they had of value....there is no separation of Wall Street from Main Street. In an effort to target the 1% at the top of the heap who in many cases may have done wrong, **rest assured one is damaging everyone on Main Street.**