

REAL MONEY

Oct 02

ROB RIKOON

CITIZEN-SHAREHOLDERS

Current events are roiling the stock market and for good reason. Unsettling events seem to be leading our country inextricably towards military action in the Middle East. This has led many observers to conclude that until there is a clear resolution to our country's political uncertainties, investors will remain on the sidelines. At the same time, legal charges coming from district attorneys' offices around the country continue to point to deep-seated malfeasance on the part of many public corporations and investment bankers. Investors feel that they have been deceived and are desperate to know when the worst will be over.

At this point in a normal economic cycle, one would expect to see consumer confidence and business activity recovering. The reason this is not so has as much to do with politics as it does with economics. There is a direct relationship, I believe, between the dearth of honest leadership on the part of politicians and the continued weakness in

the stock market. Both factors play into the high level of malaise that is driving the market downwards.

Our market system runs on faith in the future. When business leaders and elected representatives are more responsive to corporate donations than to public opinion, we have a very serious problem. The disparity between corporate and political public relations pronouncements and the reality we see with our own eyes is too wide to ignore. Corporate management interests have diverged so much from the interests of common stock shareholders that even the august Federal Reserve has taken note. Recently, New York Federal Reserve Bank President William McDonald spoke about the disparity between CEO compensation and the average worker's pay. He challenged executives and boards to voluntarily cut their pay. McDonald said, "The policy of vastly increasing executive compensation was . . . at least with the brilliant vision of hindsight, terribly bad social policy and perhaps even bad morals. If the best companies lead the way, the market economy, through the stock market, will force other companies to follow."

Jack Welch, former head of G.E., the U.S.'s largest company, responded by publicly renouncing some of his tens of millions of dollars in severance, but at the same

time, he described these millions as being "justified". The evening news is replete with revelations of novel accounting methods that served to enhance managerial compensation by the manipulation of their company's stock values by executives. This is further evidenced by the fact that over 1000 public companies have restated their earnings over the last year.

In the political sphere, a politician's desire to be re-elected is similar to a corporate chieftain's efforts to enhance his or her own compensation. Both involve a manipulation of the information presented to the public so as to confuse and distract attention from the underlying issues of personal greed, selfishness, and egotism.

The question now is how can ordinary citizens and individual investors express their preferences? The general disillusionment I see amongst shareholders and voters does not bode well for the future of the equity markets or for a functioning democracy. The goal here is to get both the stock market and the political process back on track.

The stock market hates uncertainty. Many Americans worry about the Bush Administration's current military policy. The unknown repercussions of a U.S.- Britain strike is to what extent it may possibly galvanize the radical, fundamentalist and

economically desperate segment of the world's Islamic population. Action taken on without UN auspices increases the likelihood of future disruptions to the U.S. economic system. People assume that war is good for the economy, but a prolonged war could be a further blow to a precarious recovery.

Politicians have exhausted the traditional tools available to stimulate growth over the last two years. We have seen lower interest rates, increased money supply, cuts in taxes, and heavy government spending. By and large, these government actions have not worked. In order for the market to improve, there has to be a strong belief on the part of individuals that saving, investing, and working hard will have their eventual benefits. The natural tendency right now is for investors to want to get out of the stock market and sit in cash. Since bond rates are at their lowest level in 40 years, investors cannot achieve an income above 5% unless they are willing to take on a high degree of risk.

Stocks may now be undervalued in a long-term sense but given the current level of anxiety and uncertainty, they are unlikely to move upward until there are long-term resolutions to the "faith" problems described above. There is a siege mentality in the markets right now, and it could last a while. It may take more than the passage of time

for the public's distrust on corporate America to pass. Helpful actions would be for true reforms to take place in corporate compensation, the reversal of tax policies that favor international companies over local communities, and an end to the influence of corporate money on politics at all levels. These complex and largely taboo issues need to be addressed for the markets to thrive again.

There is a palpable fear level present in the minds of most investors, and it will not pass with a regime change in Iraq. The move on the part of many investors to liquefy their holdings, already in progress, could intensify with a long-term conflict or if additional terrorist activity occurs. These deplorable things would, no doubt, adversely affect real estate values and consumer spending as well.

The foundation of our investment system is the belief that if one works hard, eventually one can retire and enjoy a reasonably good life. If business and political leaders don't step up to the plate and tell the truth, it is unlikely that retirement for most people will be comfortable or secure.

Sacrificing some of our personal conveniences and comforts is one way we have of expressing our desire for change. Simple steps such as refusing to buy goods produced

by national and international corporations in favor of locally produced goods would severely challenge the economic structure and force change in the political process.

Thoughtful questions, such as those posed by Texas Republic Congressman Ron Paul on his website, www.house.gov/paul, need to be addressed. The mainstream media and Paul's colleagues in the House of Representatives have all but ignored the important issues raised in his speeches. In the end, it will be up to you and I as the true owners of public companies to exert our influence on the mutual funds and pension organizations who in turn can insist on changes in how companies act. A complete revamping of political and executive privileges are in order so that the public's confidence and faith can be earned back by those to whom we have delegated our collective future.

Rob Rikoon is Chief Executive Officer of Rikoon-Carret Investment Advisors, located at 510 Don Gaspar, Santa Fe, NM, Tel. 989-3581. (rrikoon@aol.com). If you are interested in helping to work on some direct actions on the above issues, please contact Rob via email.