

## Three Other Problem Children

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While everyone focuses on Fannie Mae/Freddie Mac there are 3 other disasters waiting in the wings.

1. RF (Regions Financial) - RF needs to raise \$2 billion says Sanford Bernstein. Let's see, what are their options? They can sell debt. The problem here is that you couldn't sell debt if you wanted. The last reported trade in RF paper was 2 weeks ago nearly +700 to the 30 year or close to 12%. Their preferreds trade at 10%, and the stock is now a 'single digit midget' near \$8 a share. So if you could even get a deal done, shareholders would get a 50% haircut.

2. WM (Washington Mutual) - They are in deep trouble. Their bonds trade in the 20% range. No way can they issue a preferred. So they are likely toast, unless the economy and housing wake up tomorrow morning which is highly unlikely.

3. LEH (Lehman Brothers) Ahhh yes, this is my favorite and sits at my 'most likely to fail' problem child. Their stock is now on its way to being a single digit midget. They just stuck investors with 143,000,000 shares at \$28 a share in June of

this year. I am sure folks are just dying to buy more at \$12. And their preferred stock trades a not awe-inspiring 16%.

So while the markets obsess with FRE/FNM, there are many other shoes to drop. So while S&P futures continue to trade with an unnatural bid, all things considered, we have not 2 but at least 5 entities on the brink.

And to be frank, the number is likely much much higher.

We remain cautious, and frankly, are very concerned the system could come unglued if we get simultaneous failures.

The Federal Reserve and the Treasury, and the next President will have the fight of their lives on their hands.

Risks are extremely high.

Bennet Sedacca  
President

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