

## Fed Funds

Economics is never easy – but here is my attempt to give you a basic understanding of how the Federal Reserve Banks (the Fed) monetary policy works. The entire economic system in our country, most of our world where free trade happens is based on supply and demand. This does not apply to certain countries where there is not free trade – they fix prices for their own reasons. In the rest of the world when there is a limited supply of something and excess want for that something, price increases – more demand than supply and boom – prices go up. This is evident in certain things – Harley Davidson's, Ford GT's, Ferrari's or anything else where they limit the production of a certain product. The Fed has been raising interest rates over the past two years, 17 straight times as of this writing – one of the longest consecutive streak ever of rising interest rates. As they raise rates it increases the consumers cost of borrowing by having to make higher monthly payments on their debt. For those of you with home equity lines of credit you should be aware the interest rates on these loans have gone from perhaps 3 – 4% now up to 7 – 8%. Your monthly payment has gone up

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## Copper Conundrum!

The price of copper has gone hog wild – it's inflated far worse than the price of energy or homes and it is part of many things we enjoy daily. Copper is in your water pipes – the wires in your home, in your car, in your air conditioner, it's in the wires of your stereo – arguably the best electrical conductor – it's everywhere. In 2003 the price of a ton of copper was \$1,600.00 – today the same ton is almost \$10,000.00. Why isn't copper in the press? Copper is boring - there is no sex appeal to make it interesting to people but that is likely to change soon. The Government is having serious conversations about eliminating copper from our monetary lives – the death of the penny. The argument is it costs more to make a penny & a nickel than they are worth. What can you actually buy for a penny or a nickel anymore? The old five & dime stores are a thing of the past – some remain in name but the prices are history. Here is what it costs the U.S. Mint to make the coins in our monetary system:

Coin	Cost*	Bill	Cost*
Penny	1.23 cents	\$1 bill	4 cents
Nickel	5.73 cents	\$5 bill	5.3 cents
Dime	2.99 cents	\$10 bill	7.6 cents
Quarter	7.03 cents	\$20 bill	7.6 cents
Sacajawea dollar	15.89 cents	\$50 bill	7.6 cents
		\$100 bill	6.5 cents

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accordingly. As this happens, it takes money out of the consumer's monthly disposable income, causing their spending to decrease. As spending decreases, demand decreases, supply increases and prices eventually decrease. Now we have more supply than demand so prices fall to move the product. Energy prices have been on a tear lately and they have the same effect on consumers – they act like a tax – you have to have energy so you keep buying it, taking more money out of your system to spend on other things. Ultimately the prices of things will go down – some more than others and some things won't go down at all. I suspect housing and building materials will go down substantially as demand for those products cools off when housing falls and the war cools off. Energy products will also eventually come down some – not to where they were but lower than where they are today after going up some more in the short term.

The effects of raising rates aren't felt for a while. The chances are the Fed will raise rates too much, causing a recession. Recession isn't a bad thing, we've had lots of them before and we've recovered from every one, but it is virtually impossible for the Fed to be perfect. Add to this the new Fed Chairman Ben Bernanke. Whenever a new Fed Chairman has taken over, they immediately raised rates and cooled off the economy. This should be no different.

As companies are seeing their sales slow, they are resorting to tactics to try to keep sales at the levels they've become used to. They are lowering prices, offering rebates, sales, incentives, etc. The real estate business has been hit the hardest so far and still has a long way down to go but what the mortgage companies are now doing is offering "buy down" rates. Today the average 30 year fixed loan is about 6.75%. The 3 year buy down gives the home buyer a first year rate of 5.5%, a second year rate of 6.5% and a third year rate of 7.5% - where it will stay for the lifetime of the loan. This is a twist on loans we haven't seen since mortgage rates were double digit. Don't go for this – buy less house – the only reason these programs exist it to keep mortgage sales high, to suck people into buying overpriced homes and to get people to buy more home than they can actually afford safely. Call to discuss anytime. ☺

## Stock Option Issues

We often joke that stock options are "pennies from heaven." People are awarded shares of corporate stock and if the company does well, can subsequently cash out and make lots of pennies from heaven. This year corporate America had to begin counting the cost of stock options as a legitimate business expense and that has gone a long way towards cleaning up the stock options game. There is a new glitch on the chopping block – the share price at which stock options are awarded. The Government is beginning to look into companies who grant stock options when the share price of the granting company is extremely depressed. The most obvious incident is now just after September 11, 2001. The terrorist attacks and the overall stock market meltdown – now there is an apparently disturbing pattern of companies offering stock options just after the shares have been pummeled. Here is a list of ten "dirty" companies that offered their executives cheap stock options immediately following 9/11: Home Depot, Merrill Lynch, J Jill Group, Peoplesoft, Sandisk, Teradyne, T. Rowe Price, UnitedHealth, Weatherford & Werner Enterprises. Of all the companies that regularly grant stock options, 90 suddenly decided to grant stock options in September of 2001 – arguably just because share prices were depressed and overall executive compensation could be maximized. What does this mean for all of the other shareholders like you and I – we paid for it. There is an investment style that follows corporate executive stock purchases that I've been following for some time and find it to be very powerful. The concept is to buy into firms whose executives are aggressively buying shares of the company they work for. The executives know things about company's plans and developments that nobody else knows and if they are confident in the company's ability to execute those strategies and put their own money into it, it may well be a great investment. If executives aren't buying then neither should the public – if executives are selling then so should we – perhaps we should be shorting the companies they're selling. Think about it. ☺

## Noteworthy News! ! !

Congratulations to John & Luda Saltourides on the birth of their second daughter, Anna on July 8<sup>th</sup>. ☺

The daily torrential rain stopped and it's finally a sunny summer – enjoy the weather. ☺

### Radio Show Is Now Online

You can now hear the radio show through the internet. This is very useful for those in the family who reside out of state, overseas or just outside of the signal strength area. To listen to us live on Tuesday's from 6:00 – 7:00 pm EST from anywhere on the planet, just visit [www.watr.com](http://www.watr.com). Once you've arrived click on the blue "Listen Live" button on the top left portion of the screen and bingo – you'll be listening. If you'd prefer the old school style of radio just tune into 1320 am WATR any Tuesday night from 6:00 – 7:00 and you'll get live financial advice, entertainment and education. If you'd like to hear about anything in particular on the radio please don't hesitate to call us and suggest topics or specific areas you're interested in – we'll custom tailor our discussions to what you would like to hear about. We have a special voicemail box for radio show suggestions, comments, quiz answers, etc.

### Phone Systems

Today's # 1 irritant. When was the last time you called a company and was inundated with a telephone menu? Today companies have telephone menus in fifteen languages with forty seven layers of menu options. When you finally get someone on the phone, they cannot help you and make you wait some more to talk with someone else that cannot help you. This alone is aggravating enough to justify high blood pressure. We have found a few shortcuts to the system we'd like to share with you – act as if you have a rotary phone, press nothing and perhaps you'll get a person – press 0 as soon as the thing answers, if that doesn't work try pressing 0\*# several times, it often "confuses" the system to give you a human being immediately. There should be a law against such aggravation, Good Luck. ☺

Look at that table above – it makes sense that the various coins have different production costs – they are different sizes, they are made from different materials. Don't be fooled – pennies are mostly zinc and there is a lot of copper in a nickel. Color doesn't tell the whole story when it comes to the composition of our coins but magnets don't lie – copper isn't attracted to a magnet. On the bills, why the vast change in production costs? They're all the same size; they're all the same material? I'm guessing it's the security features. Some have the strips, some holograms, some watermarks.

I'm all for efficiency so if the Government is wasting money by manufacturing pennies and nickels do away with them – many of the kids behind the registers today can't figure change without the aid of the cash register anyway. ☺ (how pathetic is that?) The downfall of not having a penny is how would things be priced accurately – especially things sold in large volume? What about a gallon of gasoline, already painful – would you prefer \$3.46 per gallon or just go to \$3.50? The price wouldn't change up or down until a dime threshold was reached. They don't even use amounts lower than one dollar on our tax returns anymore. What would happen to cans and bottles? There wouldn't be any more nickels so what would be people's motivation to recycle the beverage containers? Perhaps it'll be a quarter? Perhaps just be a good steward of the environment?

Think of the concept of pricing stores use – it's rarely a flat dollar amount – it's typically rounded up to almost a dollar - \$1.99 or \$7.99. Do you really care if that new pair of shoes you just bought cost \$49.99 or \$50.00. The petroleum industry goes as far as rounding to the tenth of a penny – an amount we can't even come up with - what a joke – gasoline sells for \$3.39<sup>9</sup> – with the price of gas these days pretty soon they'll just use the nearest dime – it's either \$3.40 or \$3.50 per gallon. ☺

## Inspiration

What fires you up? What makes you excited? What causes you to lose sleep? Life is what we make of it – if you believe things are bad and people are evil then that is your reality. If you believe, as I do, that the world is a wonderful place, life is awesome and we can all contribute to the planet positively then that is your reality. I'd much rather the latter as the former is quite depressing. Life is amazing – think of all of the wonderful things we have that we take for granted – family, friends, love, nature, literature, technology, etc. – this list could go on forever. What do many people focus on – the bad and painful – they certainly exist but use them as opportunities not obstacles. The beauty of America is you can do anything you want to do, providing its legal – or you don't get caught. People come here from other countries, often with very little or no education and build empires. They often start at the bottom of the totem pole working for a small hourly wage but over the years they save their pennies, invest wisely and ultimately build little empires. What is it that you would like to do? Then do it. There is absolutely nothing stopping you except you – you are your own worst enemy. A wise man once told me the longest distance you'll ever travel is a quarter inch – the thickness of the human skull – just getting information in it is a feat. Are you open to new ideas? Everyone has a vision – can you make yours come true? Everyone also has something they can do for the greater good – something that will help the masses. I'm guessing most of our contributions won't be profound like Henry Ford or Mother Theresa but in some small way we can all help others live better lives, keep people healthy or otherwise improve their outcomes. I recently read an article about a man who wanted out of Cuba so he turned his 1950's Chevy truck into a boat and drove 90 miles through the ocean – to get turned back by the coastguard. Then he did it again – and finally now lives here. That's inspiration! ☺☺☺



## Money Quiz

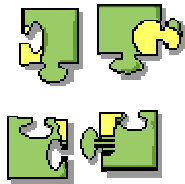
Last months' quiz had no winners ☹️ 1 in 25 homes in California are worth at least \$1,000,000 today – likely to change as real estate tumbles. This month's challenge is to tell me how long the worlds oil supply will last with current use of 84 million barrels a day increasing by 3% annually? The winner is going to dinner on us at any one a few select fine dining establishments. 07:10:06

## Home Equity ATM ☺

For the past 14 or 15 years the real estate market has experienced unprecedented appreciation and interest rates have been at or near historical lows. These two ingredients have brewed this thing I call the Housing ATM. People have been able to spend home equity, refinance, get equity lines of credit and go hog wild – all for lower monthly payments. This is all coming to an end. As interest rates go up and real estate values drop like a stone the free spending many American's have enjoyed is history. I urge you get a home equity line of credit on your home today, just to have it to have access to the asset while it is at today's value. Once the home price drops you'll no longer have the equity you had to day and cannot access the same credit lines. Don't spend money just because you have a home equity line. The disappearance of this phenomenon, higher interest rates, higher energy prices and a general cooling off of the economy is likely to drastically change the way consumers spend money. If you're already being a good steward of your finances and are saving well, carrying no bad debt and have all fixed rate debt on the good debt (mortgages and student loans) you'll likely see no real change in your life. If you're living beyond your means and running paycheck to paycheck you'll likely feel the pain. ☺☺☺

## Inspirational Quotes

- There is nothing either good or bad, but thinking makes it so, William Shakespeare.
- Attitude determines altitude, anonymous.
- You can't expect people to look eye to eye with you if you are looking down at them, anonymous.
- The only job where you start at the top is digging a hole, anonymous.
- Once the game is over, the king and the pawn go back into the same box, anonymous.
- Whether you think you can or you think you can't, you are right, Henry Ford.



## Radio Trivia

- Which state has the most expensive nursing home costs? Alaska – 2<sup>nd</sup> most expensive in the country is Connecticut. ☹
- How many people are over age 100 in America? 54,000 ☺
- How many previously unemployed Americans got jobs in first half of 2006? 854,000 ☺
- How much did newly elected Treasury Secretary Henry Paulson save on taxes with a special exception to tax law afforded only to public servants? \$75,000,000 yes, seventy five million dollars. ☹

**We can piece the puzzle together and make your money work for you. ☺**

If anyone you care about would benefit from receiving this newsletter, tell us who they are and they will be included on our mailing list. They'll certainly appreciate you thinking about them and having their best interests at heart.

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