

LA FOCUS OnThe Word

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FROM WALL STREET TO YOUR STREET

What Black Financial Experts Want You To Know About America's Financial Meltdown

Lisa Collins
Staff Writer

It's anyone's guess what will happen next in our nation's increasingly unraveling financial crisis. Last month, the fallout from the mortgage debacle triggered a financial disaster starting with the government's takeover of Fannie Mae and Freddie Mac and followed by the failure of Lehman Bros., the Federal Reserve's takeover of American International Group (AIG), federal regulators seizure of Washington Mutual (the biggest bank failure in U.S. history) and fearing the same fate, the sale of Wachovia to Citibank.

As congress worked to strike a deal to bail out the economy with a \$700 billion rescue plan last month to buy up the debt that stands to bring down not just Wall Street, but main street America, one thing was clear—the financial health of each and every American lay in the balance.

Getting congressional leaders on board was tough, but what they would soon find was that getting Americans on board would be even tougher. The day before the vote went before the House of Representatives, just 30% of Americans polled were for the Bush-proposed bailout.

Sticking points of the deal include caps on executive pay, oversight, and an ownership stake for taxpayers in any profits stood to be made; and assurances that taxpayers weren't going to be struck with debt over fatally flawed bill.

For most average Americans, however, there was but one sticking point and that was the fundamental idea of bailing out Wall Street. And there was more than enough blame for what got us here—from deregulation to the sub-prime loans Fannie Mae and Freddie Mac were handing out to people taking on more debt than they could handle.

But financial analysts like Mellody Hobson, president of Chicago-based, Ariel Investments, an investment firm managing over \$7 billion in assets, say that assessing blame before acting to fix the problem was like fire fighters investigating the cause of a fire without first putting it out, and they couldn't have been more on point.

Following the House's rejection of the emergency

“Biblical stewardship is mandatory if we expect to experience God's supernatural provision. Here at BEFIC, we have a financial literacy class because some people in our community don't understand money matters. Many of them were living from paycheck to paycheck before this financial crisis, so we have to better manage what we do have. We also have to continue to give by working God's financial principles and above all, we must pray.”

--Dr. Beverly “BAM” Crawford
Bible Enrichment Fellowship International

“We should not fear but we should have faith and know that the stock market goes up and down, business go up and down, and jobs as well, but God is a God of provision.

“The church must also be called to teach our community how to financially manage their portfolios, about credit reconciliation, about buying a home, and not more home than we should have. We have more than a stake in this, we have our retirement in it, we have our social security in it, and we have our wages in it. Every Monday, at Christ our Redeemer, we have something called the “Pastor's Boot Camp”. It is not only budgeting, but also credit management.”

--Mark Whitlock
Christ Our Redeemer AME

rescue legislation, the Dow Jones plummeted 777 points and a trillion dollars was wiped out as the nose-dive marked the biggest single day fall in the history of the stock market.

“The markets answered the question today for everyone -- in case anyone had any doubts -- about whether no action was acceptable,” observed Senate Minority Leader Mitch McConnell.

Already, banks have stopped providing loans to one another as the flow of credit slowed and officials cautioned that credit for small businesses and households was quickly drying up.

Markets around the world-under stress as well-were watching and waiting for swift action with experts agreeing that the longer it goes before nothing is done, the greater damage to the U.S. economy.

The crux of the problem, according to Napoleon Brandford III, Chairman of Siebert Brandford Shank & Co., LLC, the nation's largest African American women-owned bond underwriter, is a systematic loss of confidence.

“We, in the credit markets, buy and sell securities worth billion and trillions of dollars based solely on a verbal “handshake,” Brandford explains. “Therefore, we must have trust that the counterparty on the other side of the phone will make good on the trade. There can be no hesitation among market participants that upon settlement on the next day or next week that the proper securities or funds will exchange hands.”

“Tight credit in the foreseeable months means that small businesses will need to put expansion projects on hold. This does not bode well for our national economy because based on Labor Department statistics, small businesses create 75% of all new jobs added to the economy and represent over 50% of the private work force.”

In fact, the turmoil gripping Wall Street is the worst he's seen in his thirty years in the business. It's just as surely the toughest Mellody Hobson has seen in her 17 years in the business.

And while, as Hobson states, “any kind of problem in the U.S. economy is problematic for everyone, regardless of what you own or you don't own, because

“...we have to start saving more. People have to be willing to sacrifice. It pains me to see people who don't, and it's just ridiculous to have someone in the projects wearing this big medallion or driving some sort of big car or with \$5000 rims just to impress the neighbor and you're both living next door to each other in the projects.”

---Charles Payne, Wall Street Strategies

it affects American businesses and their ability to grow, the minority population always gets hit harder.

“There's no question that when it comes to jobless numbers and some of the sub prime things that occurred, minorities have been disproportionately affected,” Hobson states.

“It's essential, however, that the first thing we've got to do is right the ship, and so the government has to help shore up the financial market,” Hobson continues. “We can talk about how we're going to regulate what's going to happen after the fact, but the issue that is at hand is that we have to act to stabilize the market.”

“I'm hoping the really ugly stories that we have seen, in terms of bank failures and such, will subside by the end of the year, and that the rescue plan will help us to right the ship. That doesn't mean that everything is going to be roses immediately, but it will put us on a more stable course. The stock market hates uncertainty, and one of the reasons the market has been so volatile is because there's so much uncertainty.”

To that end, Hobson and others say there has been too much attention to the notion of Wall Street being bailed out.

“Some people somehow view this as welfare for the rich, and what a lot of people don't realize is how much their own personal circumstances are in jeopardy,” says Charles Payne, CEO of Wall Street Strategies, an independent stock market research firm and author of *Be Smart, Act Fast, Get Rich*. “Certainly no one should be compensated millions of dollars if they messed up big

time, but I think we're getting sidetracked. Spending so much time on the punitive aspect of this is only going to hurt us and everyone is vulnerable.

“And while this is the most fear I've ever seen in terms of Wall Street,” adds Payne, who has experienced five recessions in his lifetime, “my greatest fear is that, as a country, we give up on this system we have. That we melt down in this sort of boiling pot of anger, envy and finger pointing, that's my greatest fear.”

Payne believes that we are actually victims of our own success as a people.

“It's been a long time since we've had it very bad,” Payne contends. “We got this easy credit for a long time. I have friends in the projects that go on vacations and have brand new cars. When I was growing up, nobody in the projects ever went on vacation or drove a new car or went on a cruise. All that was made possible through easy credit and now we're paying a serious price for it.”

Just how serious?

“The worst case scenario”, says Payne, “is that we don't do a deal and there's a run on the bank mentality in America, where people are pulling their money out of banks, out of money market funds. Where there's sheer panic and banks don't lend to banks, banks don't lend to people, banks don't lend to businesses, the market drops a couple of thousand points and we just totally collapse.”

“The best case scenario would be that the government strikes a strong bargain with these businesses, acquires these loans at a reasonable discount, and in my mind, that our economy starts to turn around probably

the middle of next year and that five years from now the loans are actually worth more than we the taxpayer paid for them.”

For all of the news, now, says Hobson, is not the time to panic.

“The problem is that when you panic you don't think clearly and you make mistakes. Right now what concerns me is that in the investing world people are panicking by selling low, instead of the old way of buy low sell high; they're selling into the fear of this market and therefore they're not going to be able to benefit when these stocks inevitable rebound because they do. That is the one thing: I am very confident about with the U.S. economy, that it is resilient and it will come back.”

Adds Brandford, “Deflating the credit bubble will be a painful process for consumers and Wall Street. We need to rebuild our fundamental understanding of what constitutes good credit. However, the prudently managed financial institutions will thrive just as prudent individuals on Main Street will make it through the financial and housing crisis.”

Even with Congressional action, UCLA economists, in their quarterly Anderson forecast, said that things were going to be tighter for Californians for at least the next six to eight months, adding that the state's economy would be even weaker than that of the nation overall. Here's what some black financial experts say you should or should not be doing.

Napoleon Brandford III
Siebert Brandford Shank & Co., LLC



- The worst possible reaction is to be pulled into a stampede for the exit door. Selling your stocks and bonds into a weak market is usually not the best thing to do. Markets always bounce back. That's why the individual investor should always be a long-term investor.
- Put a high priority on principal preservation. That is, safety first before seeking higher investment returns. Any investment instrument that promises a return higher than other comparable instrument probably carries additional risks that may not be obvious upon a cursory review. There are neither free lunches nor easy money. Look for the hidden risks. Stocks, mutual funds and bonds are all long-term investments and should be treated as such. Constant trading is a sure way to have the transaction fees eat away at your investment return. Institutional investors can afford active trading because their transaction cost is usually very minimal.
- A money market fund that carries a higher yield often means the underlying securities may not be all high-grade Treasury securities. In recent weeks, there have been at least two money market funds that “broke the buck,” that is, the fund share price went below \$1.00. In direct response to this damaging development, the U.S. Treasury announced that it would guarantee up to \$50 billion for the next year for both institutional and retail money market investors. This would be on top of existing deposit insurance programs.

Melody Hobson
Presidents, Ariel Investments
"Good Morning America's" personal finance expert



- Keep contributing to your 401K Plan. Don't liquidate it. But you want to make sure that you are diversified, so that you don't just have stock in one company. A lot of us are very loyal, especially to our community and we'll put all our eggs in one basket, but having all of your money tied to one company is probably not a good idea, and if you are someone with an adjustable rate mortgage and your credit is pretty good, try to lock in some kind of fixed rate.
- This is absolutely the time to pay down credit. Our average national debt is now \$9200.00 per family—the highest level it's been, largely because of credit card debt. The average person is walking around with six or seven credit cards in their wallet. I have one and I'm still a believer that one is all you need. And you want to make sure also that you are doing everything you can to increase that credit score, because to the extent that your score is higher, your interest rates on all your credit card debts will be lower.
- Do not hide your money in a mattress. The fact of the matter is that 98% of American banks are completely and totally safe, so if you have your money in the bank that is FDIC insured under 100,000 in your account or under 250,000 dollars in your retirement fund, you're fine.
- If you fear you're falling behind, call your creditor to try to work out a deal. For credit card companies, see if you can get a lower percentage rate and pay your bills on time.

Charles Payne
Wall Street Strategies
Author of Be Smart, Act Fast, Get Rich



- 95% of some of our nation's greatest fortunes are somehow tied to the stock market, where we-as blacks-are perpetual consumers. It's nuts to keep making other people rich. I hear the argument, 'I just don't have enough', but I believe that's a pure cop out. Take ten friends, each of you put \$100 dollars in and start off with a thousand dollars. Do that three or four times a year over a 30-year period, and you'll have a nice little something for your children, but you've got to have patience. If committed, you will be buying stocks at the bottom, because at some point there will be a bottom and when those stocks began to make huge rebounds you will reap the rewards. If you're going to just do a one-time shot, I would say don't do it.
- In my book I talk about how you're not supposed to just put your money in the stock market and just leave it there. A lot of people do not look at their portfolios. The only time they pay attention is when it gets hammered. Every three months companies come out with a report card, you've got to look at it.
- As a nation, we have to start saving more. People have to be willing to sacrifice. It pains me to see people who don't, and it's just ridiculous to have someone in the projects wearing this big medallion or driving some sort of big car or with \$5000 rims just to impress the neighbor and you're both living next door to each other in the projects. On my street, there are six mansions. We are the only black family and I have never seen a luxury car on this street, because a car is a depreciating asset.