



480.596.6600      14648 North Scottsdale Road, Suite 100  
480.596.8004 *fax*      Scottsdale, AZ 85254

[www.jaypenney.com](http://www.jaypenney.com)

## A Special Report

January 20<sup>th</sup>, 2009

### *An Open Letter to President Obama*

Dear Mr. President,

Congratulations, sir, on your Inauguration to the Presidency of the United States. Becoming the first African-American to assume the highest office in the Free World is a wonderful accomplishment, one in which all Americans can take enormous pride. Your Inauguration speech, as expected, was a real stem-winder, Mr. President, and your impressive oratory skills are a welcome improvement to the position.

I guess I should start by admitting that I voted for the other guy. That said, I've been very impressed with you since your election, and I've heard you repeatedly declare that you'll be the President of *all* Americans. I'll take you at your word there, sir. I may disagree with you in the future, but I promise, as you suggest, to do so without being *disagreeable*. I pledge to support you whenever possible, and always when American interests are at stake. Perhaps more so today than in any time in recent history, America needs you to have a *successful* Presidency, sir.

As I've said, I've been recently impressed by your willingness to gather differing opinions and build consensus from *both* sides of the aisle, and to try to govern from the "center", where most Americans live. Your choices for key Cabinet posts are well qualified, and I suspect they will win quick confirmation from the Senate. The peaceful transition of power from your predecessor's administration to your own has been proclaimed by those who follow such things to be among the smoothest in American history. As citizens of the oldest continuously-operating democracy in the world, Americans have come to take these transitions somewhat for granted, but when we observe "transitions" in other parts of the world, we should be rightly proud of the fact that we remain first and foremost, a nation of laws, and that the sovereignty of the people remains fully intact. Here's to you hitting the ground running, Mr. President!!!

I know you fully realize that you take office at a time in which our nation faces one of the greatest economic challenges in its history. I truly do not envy the task you have before you, sir, as you try to stem the tide of despair that grips our country today. (I've heard pundits joke that *you* should have called for a recount!) Unemployment is high and rising, and each new day seems to bring with it a slew of bad economic data. It's possible, Mr. President, that your inspirational oratory and consensus-building leadership skills are *exactly* the right prescription for what ails us at the moment.

I agree with you that this is not a time for partisan political battles, or "red states vs. blue states" contentiousness, Mr. President, and by all appearances thus far, you seem open minded toward *all* potential solutions, seeking input from conservative and liberal economists alike. Refreshingly, it appears that pride of ownership of ideas, and stubborn adherences to political ideology are not among your vices. This receptivity to ideas not of your own creation, or even those of your political party should serve you and the nation well at this time. We all need to be rowing this boat together, and in the same direction right now, or this recession will get a lot worse. I hope this is evidence of "the change" you called us to.

That said, sir, as you lead us in beginning the difficult job of digging us out of this mess, I'd like to offer some "free advice", some suggestions and thoughts about our economy and markets,.

**Free Trade and Globalization** - Despite our recent difficulties, The United States remains the largest, most powerful, and technologically advanced economy in the world. The old expression, "*When America catches cold, the rest of the world gets the flu*", has certainly been proven true once again. Our financial difficulties have had a direct and dramatic effect on developed *and* emerging economies around the world. We live in an increasingly global economy today, and free, fair, and open trade is an integrally important part of its advancement. In such an economy, capital around the world will naturally seek its highest and most efficient use. In times such as these the temptation is to isolate oneself, to look inward, especially when so many Americans are out of work. This is a short-sighted impulse, Mr. President, and if you capitulate to those who would have you raise trade barriers at this time, the long-term consequences will include the retardation of *global* development. Have faith in American ingenuity, Mr. President, and in its ability to fairly and *favorably* compete around the world. It is in our long-term interests to do so, and when that competition is open and fair, Americans have historically risen successfully to the challenge.

**Re-Regulation of the Banking and Financial Services Industry** – I truly hope that you realize that our economic system works *best* when its citizens are allowed to freely create, and to freely commerce among themselves, without the government standing in their way, or placing excessively undue regulatory or tax burdens on their efforts.

I would also hope that you would keep in mind that the reason behind our country's historically unprecedented economic might has been its embrace of what has become known worldwide as "American-style capitalism", a system that is the unquestioned envy of friend and foe alike.

Please don't misunderstand, sir, new regulation *is* needed, as the recent abuses within our banking and mortgage systems illustrate all too well. But speaking as one who works in a highly-regulated profession, I can tell you that much of the regulation I deal with every day completely ignores the potential abuses that allow a few bad apples to avoid detection until its too late (i.e. Bernie Madoff). Re-regulation is coming, sir, and I can support that. More transparency is needed. I just hope that when your administration's appointees to these regulatory posts show up to their offices tomorrow morning, they enter them with an eye toward *appropriate* regulation, regulation that protects consumers from unscrupulous market conduct, and only to the extent *necessary*, from themselves. We've played fast and loose in recent days with the concepts behind *moral hazard*, Mr. President. There have been abuses, no doubt, but as Americans, we need to get back to recognizing that risk *comes* with potential reward, and entrepreneurs, investors, and yes, even mortgage buyers need to accept the responsibility for our financial choices, and the misfortune that occasionally comes with the good.

**Tax Reform** - I must admit to you, sir, I have not been supportive of your campaign promise to increase taxes on the "wealthy", and to (effectively) "redistribute" those dollars to lower wage earners. It appears that those plans are on hold for the time being, and I would ask you to recognize the reason behind the delay is the *fact* that increasing the tax burden on a country's most productive citizens is *nowhere found in anyone's formula for economic recovery*. I would also ask you to keep in mind that a system that *disproportionately* taxes its citizenry, such that 5% pay 40% of the tax burden, while 44% pay no income taxes at all cannot be considered "fair" by anyone's definition. I believe it was Karl Marx, *not* Abraham Lincoln or George Washington who was famously quoted as promoting the philosophy, "*From each according to his ability, to each according to his need.*" Let us not drift toward a socialist system, Mr. President. Paying proportionally more tax when you've earned more income is acceptable to most, but paying *disproportionately* more is simply un-American. We need income tax reform.

**Quality Public Education** - I am, and will be a big supporter of your efforts to reform, and to improve our country's public educational system. It is failing our children miserably Mr. President, leaving many behind in an increasingly competitive global economy. As you've said during your campaign, falling behind in delivering the world's best possible education to *all* of our children is simply not an option for a society desirous of leading economically today. The current system is mired in bureaucracy and lacking in accountability. Public schools are inadequately funded, and our best teachers are grossly underpaid. At the other extreme, the very worst teachers can't be fired. In what other profession has the concept of "tenure" been successfully integrated? Are "tenured" physicians a good idea? How about using "tenured" attorneys? Why should we trust our children, our most precious natural resource, to inadequately resourced schools, and to teachers who can't be fired, and thus won't be held accountable for their lack of skill? It simply doesn't make sense, sir, and there simply has to be a better way. Nothing less than our nation's future economic health is at stake. Fortunately, we've never had a President better politically positioned to bring all sides together for the benefit of our children. Lead us to a better solution, sir. Please.

**Social Security and Medicare Reform** – Yet another economic “tsunami” looms just on the other side of your administration, Mr. President. The Baby-Boom Generation threatens to overwhelm the Social Security and Medicare systems in a very few years, as the oldest of this generation turns 63 years old *this year*. This “political third rail” cannot be avoided any longer. This emotionally charged issue cannot be kicked down the road to the next generation. It’s upon us, and unless we address it rationally and in a fiscally responsible manor *now*, the pain and suffering that an entire generation of Americans who are depending on those benefits in retirement will feel ten and twenty years from now will make our current problems look like nothing. Tackling this problem should be an early-first term priority of your administration.

I recognize that there are many other pressing needs on your “to-do” list, Mr. President. We have ongoing conflict in the Middle East, the continuing prosecution of the War on Terror, health care for America’s children, energy independence, rising unemployment, and other social reforms to address virtually immediately. But in my opinion, Mr. President, just behind securing the nation from enemy attack, your next highest priority needs to be the reformation and restoration of a healthy economic and financial system. I hope you’ll consider my ideas on ways to lead in these areas. I’d go so far as to suggest to you sir, that if you were to oversee the implementation of a successful global trade policy, guide the appropriate and sensible re-regulation of the financial services industry, and to lead the reformation efforts in our tax, educational and Social Security systems in the coming years, your re-election to another term would be virtually assured.

In closing, Mr. President, I would like to reiterate my full support of your efforts to help right this ship. As a registered member of the party of “the loyal opposition”, I will suspend judgment of your policies for a time, and give you the benefit of the doubt wherever and whenever possible. As a taxpayer, I promise to continue to do my share. And as an American, I will proudly celebrate today what your election suggests about “The Great American Experiment”, and the maturation of our society. Your ascension to this, the highest office in the land speaks volumes to the world about our ability as a nation to overcome our past sins, and the evils of racial and ethnic hatred that plagues the world, not just our country.

We are an historic and great nation sir, and you are in a unique position to accomplish amazing things over the next four years if you focus on getting things done, and not on who gets the credit for it. My prayers and those of literally millions of our fellow citizens are with you. With all due respect, Mr. President, don’t screw it up.

- JRP

The views are those of Jay R. Penney, CFA, CFP, and should not be construed as investment advice. This is not a solicitation to buy or sell any security. All information is believed to be from reliable sources; however, we make no representation as to its completeness or accuracy. All economic and performance information is historical and is not indicative of future results. Investors cannot directly invest in an index. Additional risks are associated with international investing such as, currency fluctuation, differences in accounting standards, and political and economic stability.