

>: Who's Your Financial Daddy?

Wednesday, January 16, 2008 / Dylan Jovine

SINGAPORE INVESTMENT CORP. KOREAN INVESTMENT CORP. KUWAIT INVESTMENT AUTHORITY. MIZCHO CORPORATE BANK.

Remember those names ladies and gentlemen: there's a good chance that every time you trade a stock or borrow money from a bank that it'll be those firms that will profit.

Let me explain what I mean.

During the past week Citigroup (SYM: C) and Merrill Lynch (SYM: MER) raised an additional \$20 billion from these investors. That's on top of the billions raised in previous weeks.

In [last week's article](#), I explained why this has serious implications for America's long-term health. Using Citigroup as an example, I explained how these assets being bought on the cheap by savvy foreign investors. Unlike the Japanese in the 1980's, both Asians and Middle Easterners in this decade are not overpaying for American companies.

In the Citigroup example I used last week, I highlighted the fact that with the Abu Dhabi Investment Authority (ADIA) buying five percent of the Company, 5% of all future economic benefit has officially left American hands.

That's right. If Citigroup's normalized earnings power is roughly \$20 billion per year in earnings, that means that \$1 billion of earnings has the right to leave this country.

Now many of you argued that 5% of the actual profits aren't going to physically leave the country. Well that's true. But when you have the economic benefit of 5% ownership, that means that whatever profits accrue to your shares will be reflected in a higher stock price.

Thus, you will receive a higher multiple for the shares you purchased, reaping the economic benefit of ownership. And of course that doesn't include the dividends that owning 5% of the company may provide. Nor does it include the fact that if the company was taken private, the investors who own the stock would have a physical claim to all of their earnings.

In short, when foreign investors own Citigroup, they reap all of the economic benefit that ownership provides, whether it be through a higher stock price, special dividends or a share in the actual profits.

Why is this a problem?

Globalization in and of itself isn't a problem. As a matter of fact, I think it's fair to say I'm all for it. Done correctly, I think globalization can be an incredible force for global wealth creation.

But done poorly, globalization is just another word for doing *bad business on an international scale*.

What I'm saying here is that whatever you want to call it, the fact is that we're living beyond our means as a country. And as a result, we're being forced to cut deals at a tremendous disadvantage to our long-term interests.

Like I said, call it what you want, but from where I come from it's called "BAD BUSINESS."

Why is this happening?

With respect to Merrill Lynch and Citigroup it was simply a case of bad managers making bad decisions. Decisions that run the risk of permanently crippling each individual company - each an American institution - and the entire country as a whole.

Just think about it ...

Over the past decade, American consumers have borrowed billions of dollars from banks like Citigroup to buy products made in China and oil from the Middle East.

While consumers have borrowed billions from the banks, the U.S. Government has borrowed billions each day from China and the Middle East. Naturally, they were able to lend us all this money because of all of the products and oil we were buying from them.

But now, with proud institutions like Merrill Lynch and Citigroup on their hands and knees begging for money, the circle is becoming complete:

FOREIGN GOVERNMENTS NOW LEND OUR GOVERNMENT AND ALL OF OUR CONSUMERS MONEY TO BUY THEIR PRODUCTS.

Perhaps if I believed in a fun-loving hippie vision of world peace I wouldn't be so upset about all of this happening. But I could have sworn that we just had a war with some of these people in the Middle East and many of them from Asia are starting to flex their muscles.

In other words, these aren't pure-play capitalist companies that are buying our prized possessions - they're government sponsored state entities acting like corporations.

And I don't know about you, but I couldn't even begin to think of a better strategy to cripple our country than for us to be in a situation where we're transferring our wealth overseas this quickly.

A handwritten signature in black ink, appearing to read 'Dylan Jovine', with a stylized flourish at the end.

Dylan Jovine
Chief Investment Officer

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