

>: Is Geithner About to Go Gangster on the Banks?

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Was Monday's meteoric move higher a bullish orgy of renewed confidence, or simply a short-term bear capitulation top?

We have to ask ourselves, was the move really about Geithner's Toxic Asset plan, or did it have more to do with the shorts all running for the exits because they fear we could be at the end of the credit crisis?

Remember: bear market rallies have more to do with fear of an impending bull market rather than an actual bull market taking place. The short seller lives in fear of the next bull market the way the long buyer lives in fear of the next bear market.

It's the same fear and greed cycle, just in reverse.

If we look hard at the plan, does it really have all the ingredients needed to bring about the end of the credit crisis? I don't know that it does, and I certainly want you to weigh in on the subject.

The plan boils down to the banks being compelled to unload their assets at a price set by competing bids by private money that will be backed by federal guarantees. But what if the banks don't want to sell? Both CitiGroup and Bank of America have already publicly stated that they don't think making these asset sales is in the best interests of their share holders.

That's the problem with not letting these guys fail. The bankers feel that they have all of the power.

What we need to see is a declaration of power from the Treasury, a line drawn in the sand. The fat cat bankers need to know that if they mess with the bull they're gonna get the horns. Is Treasury going to get all "Godfather" on the banks and tell them, "sell us your assets on the cheap or we are going to put you out of business"?

That is exactly the type of action that they need to take.

It's time to be bold, not meek and mild mannered. These CEO types are getting fat off the food of OUR tables. It's our money, and the government is supposed to be OUR advocate and steward.

Remember the golden rule: He who has the gold makes the rules. How has the Treasury department forgotten that?

This plan would have a very good chance of working were it applied to banks that have gone into receivership. But from what we read, apparently no one is allowed to go out of business anymore. How cool is that? You can run your business into the ground, make horrific mistakes that impact tens of millions of people, lose hundreds of billions of dollars AND you can stay in business!!!

The government's on the hook for trillions anyway ... what does Geithner have to lose by getting tough with the banks? Not a gosh darn thing!

Geithner needs to play hardball with these guys and take control of the situation. To make this plan work, he must compel the banks to offload the bad assets at a price that makes sense for both private and public capital, period.

Maybe the "stress tests" that Geithner talked about a few months ago will be the guise used to compel the banks to "take the deal or else." The "or else" being the forced takeover of the bank by the FDIC. Just how "gangster" will Geithner get?

There are very few genuine hardball, "stick to your guns" type of people left in this world; is Geithner one of them? For the sake of our financial system, I certainly hope so.

If this plan fails to gain traction quickly with the necessary participants, it will set the stage for the next leg lower. Without question, it would force a retest of lows on the DOW and S&P and quite possibly far lower than that. Don't under estimate just how important this plan is for the future financial health of our country ... it's critically important.

You cannot have a recovery without a healthy banking system, period. The bears will be all over this story, and on the slightest slip they'll be ready with their sell orders once again.

The whole game comes down to visibility ... if The Street sees nothing but endless blackness ahead of it, then the bear market goes on, but if it can

see some light then you can make a case for the stabilization of prices.

Visibility entails having a workable model of when banks will be recapitalized, and when their write off period will be over.

This plan certainly shows the first glimmer of hope in that direction, but in a desert, every patch of shimmering sand can look like an oasis.



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