

Ω THE OMEGA FINANCIAL GROUP

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MEMBER NASD & SIPC INSURANCE AGENCY DONOR ADVISED CHARITABLE ORGANIZATION

Opinions & Facts...

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Quote of the Month

“Great success is built on failure, frustration, even catastrophe.”

Sumner M. Redstone
Executive Chairman, Founder of Viacom
Executive Chairman, CBS Corp.

With the obvious volatility in the economy and financial markets, we thought it would be a good idea to publish this issue of *Opinions and Facts* in late November. As most of you know, a lot of things have been happening to the economy which has affected the stock market: the Dow Jones has taken a pretty good hit as has the NASDAQ.

SO WHAT HAS HAPPENED – HAS THE SKY REALLY FALLEN?

There are two reasons people get into investment trouble: greed and fear. All you have to do is just partially read between the lines when you begin to analyze the genesis of the problem; it begins with the mega banks and their Wall Street children. Making loans to people who don't qualify for loans cannot be made a “non mistake” by bundling them into fixed income type packages called Collateralized Debt Obligations (CDO's) and peddling them to the public or private institutions. It's interesting how in the old days the banks making loans were very careful as to whom they loaned, since they kept most of the paper on their own books. But now with easy access to their own brokerages, the distribution system has expanded. These days with the plethora of hedge funds, private equity deals and other esoteric trick entities looking for high returns, it's easy to clean your balance sheet by shuffling those high risk loans off to someone else. Now however, the former willing buyer turns out to be doing better due diligence and has held off buying these vehicles, mainly because nobody can figure their value. This is causing a lack of liquidity and has steered our economy toward what is known as a credit crunch. Naturally, many of the brokerage firms found their own books were filled with wrapped sub-prime mortgages

and credit card debt. Witness recent Merrill Lynch's write down of \$8.4 billion of bad paper on their books. Their CEO, Stan O'Neal, was ousted immediately by the Merrill Lynch board. This lack of liquidity means that it can become difficult for companies to borrow money to keep businesses going.

Then came the Fed with Mr. Berneke reducing interest rates that helped the stock market – for a while. Now the declining dollar has helped overseas consumers, which means that U.S. exports are cheaper. This is why, if you are clients of ours, you'll see that the downturn hasn't had a huge effect on any global or international funds that you have, since the declining dollar allows more US exports to foreign markets, and makes those products cost less in foreign currency. This is good for U.S. companies that export, but the sub-prime mortgage problem and the bickering that surrounds activity in Congress and the administration is causing uncertainty in the minds of investors. This, at least partially, is causing the volatility in the markets

Here's the story: the piper always must be paid. Sooner or later excesses come back to haunt uncertain investors. Excess greed and excess fear: choose your poison. **It's at this stage that we need to be even more patient than we usually are.** The managers of our money, since 1934, have been through these trite issues many times. The leveraging of investments by hedge funds and private equity funds, while causing the likelihood of a debt bubble will give our managers the opportunity to pick up stocks at lower prices. American Funds refer to this as “creative investing.”

“Show me the Fees!”

If you'll think back during the late summer weeks, the news coverage of the crisis made it sound, as journalist always make events sound – as if it were (A) something entirely new and different, (B) probably catastrophic to the economy as a whole, and (C) insolvable by mind of man, a destructive force of nature, totally out of control. We need to remember that no “financial crisis” is new

or different; they all come from the above mentioned items - greed and fear. Remember Y2K?

Excessive speculation creates blind eyes searching for safety in response to the speculation. Ah, but who comes out? According to our friend Nick Murray, "The fees always overcome the scruples and the devil takes the hindmost."

HERE, SENATOR, TAKE MY CONTRIBUTION, DO YOU NEED MORE?

An interesting article showed up recently in an Associated Press release pointing out that the big Wall Street banks spent \$25 million in 2004 and 2005 lobbying Congress to make it tougher for people to declare bankruptcy by exempting credit card debt from bankruptcy proceedings. The sweetest profit center a bank can have, of course, is the interest derived from credit card debt. So now, instead of declaring bankruptcy, people are continuing to pay their credit card debt, simply walking away from their mortgages, and moving into apartments. (Have you noticed how many new apartment buildings you see and others going up?) Basically, the banks got just what they wanted, (exempt credit card debt from bankruptcy proceedings) which turned out to be something they wish they hadn't asked for (stuck with unpaid mortgages on their books). A familiar picture: sweet dreams causing unintended consequences.

WE SINCERELY THANK YOU!

As many of you know, the number one source of marketing that the Omega Financial Group undertakes is to direct our energy in providing exemplary services to you. We feel that if we spend our time taking care of you, in return, if it's appropriate, you may refer your friends and family who might need our help. We're grateful for your referrals as it signals to us that we're doing a good job. However, we have received some phone calls lately from folks who have been referred by some of you, but they seem to not remember who the source was.

It's our intention to always thank the sources of referrals, but it's hard when we don't know who that person is. Our request is that if you do send someone our way, please give us a call and let us know, so there won't be any confusion. *We will contact them only on your approval; otherwise we will wait for their call. Thanks, again.*

THE WHOLE WORLD HAS TURNED INTO A COMPUTER CHIP.

Conrad De Aenlle, in a recent business column in the *New York Times*, points out that one of the bright spots of our economy is a positive productivity report. He quotes Ed Yardeni, President of Yardeni research: "A highly productive economy allows for robust growth with subdued inflation." Mr. Yardeni expects the current productivity report to confirm such conditions exist. It estimates that productivity grew 3.1% in 3 months through September vs. the 2.6% rate in the second quarter.

The interesting thing about this report is that it points out that commodities on the rise are funding a total *global regeneration*. The entire planet is becoming more and more *Industrialized*. This phenomenon reminds us of when we, all of us, have gone through dramatic life changes; things begin to rearrange themselves overnight and our lives suddenly became more and more confused: volatility grows. These global changes have an effect on our psyches, our economy, and our faith in governmental institutions. Global Industrialization has proliferated through the worldwide spread of instant communication via the internet.

"So what can I do?"

Omega's role in this changing paradigm is to continue to research our managers, and stick with the method of investing which has been consistently successful for decades. We invite you to stay the course with us and continue to share our trust in the managers who handle both yours and our money.

THE MORE THINGS CHANGE THE MORE THEY STAY THE SAME...OR DO THEY?

Recently the *Wall Street Journal* reports that Bank of America Corp. is reversing a decade long effort to reach out to Main Street investing public. They plan to make changes after a strategic review of their business plan. They probably will eliminate somewhere around 3000 jobs. These jobs will probably come from the company's global, corporate and investment bank which currently has about 20,000 employees. The journal article goes on to say, "The moves represent

another setback for the financial – conglomerate strategy, in which banks try to offer every product and service desired by their customer.” We see the same thing happening at Citi Corp.

“When did I buy this bank managed mutual fund that shows up on my bank statement.”

The article goes on to point out that that there seems to be a retreat of the big banks from the brokerage businesses they so eagerly sought after over the last 10 years. Did someone say that banking and securities trading should be under two different roofs? It seems that the concept of the retail banking division sharing information with the bank’s securities investment group has not worked, especially when the brokerage company offers proprietary investment products to quite surprised bank depositors. Maybe releasing the bankers into the brokerage business and vice versa wasn’t such an excellent idea after all. We always point out to people who utilize banks for investment advice that their “banker/broker” may be busy making car loans when they come back to the bank for investment questions.

OUR OPINION

With the crumbling of the wall between banking and the securities business, a void appeared in the regulation of both businesses. These combined conglomerates’ activity ranges from insurance underwriting and real estate brokerage to lending, to managing billions of other peoples money and to advising and consulting for business giants both here and abroad. Many of these mega banks earn most of their money from international endeavors. The high speed of internet information has left old time regulators in the dust of the 21st Century.

So who is watching the cash register? The SEC? The New York Stock Exchange? Congress? The Federal Reserve? Our regulatory system is so fragmented you’d think it was the CIA and the FBI before 9-11.

While you’ve never heard a call from this corner suggesting more bureaucracy, isn’t it about time for Congress to establish a new type of institution with strong legal power to look after and regulate the large financial institutions in this country?

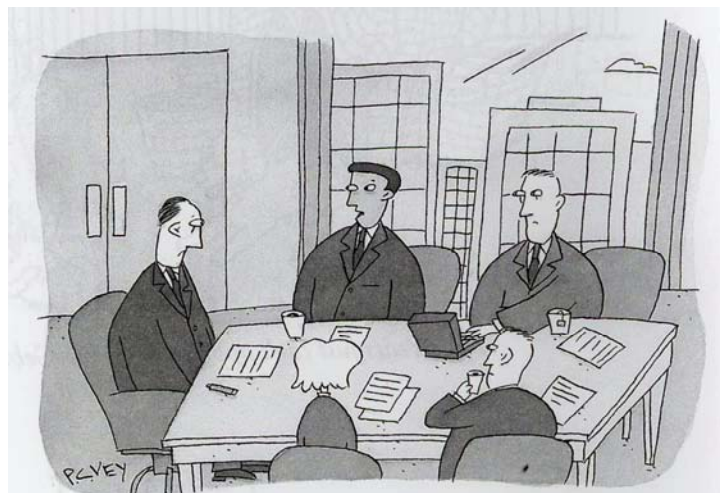
Henry Kaufman, an author and president of an economic and financial consulting firm says, “The 15 largest institutions in the U.S. have combined assets of \$13 trillion.” Mr. Kaufman believes a new regulatory institution is needed and should only monitor the largest entities. Other financial companies should be overseen by the current regulators: NYSE, FINRA (Formally NASD), SEC, individual state agencies, et al.

We agree with Mr. Kaufman when he says: “Now is the time to bring official oversight into alignment with the rapidly unfolding developments in domestic and global financial markets. If not, the shocks and reverberations from the sub-prime mortgage crisis will be a mere prelude to greater injury to our credit system.”

And we say “Amen”.

That’s our take – yours is welcome.

Joe John Tom Jimmy



“WELL, J. B., WE’RE NOT A SUCCESSFUL INTERNET COMPANY BECAUSE WE’RE NOT AN INTERNET COMPANY.”