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Subject: Fwd: I Want To Be Warren Buffet When I Grow Up; Bernanke Punted; AND, Make The Corporations Spend And/or Dividend Their Excess Cash – Create Jobs!

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I want To Be Warren Buffett When I Grow Up; Bernanke Punted; AND, Make The Corporations Spend and/or Dividend Their Excess Cash -- Create Jobs!

The world wind continues. Not that I blame him, but Warren Buffett made an incredible self serving investment in Bank of America to the tune of \$5 billion. His investment did not stem from a place of altruism to save the troubled bank. Buffett received a VIP deal that no ordinary person could get: 50,000 shares of preferred stock which will pay him a 6 percent dividend, or \$300 million a year. Comparatively, a common shareholder would only get a quarterly dividend of one penny a share, which would result in only one-tenth of what Buffett would receive. Tack on a 10 year warrant to buy 700 million Bank of America common shares at \$7.14 a share and you have the sweetest of sweet deals. Buffett's investment was pure capitalism and had nothing to do with his faith in Bank of America or the financial markets. Regardless of what happens to Bank of America, who announced it will fire 30,000 people from its work force, Buffett will get paid back in full on his investment plus all his interest as Bank of America is "Too Big to Fail". The lesson here is that Buffet's investment was a non-event for the economy, but for Buffett extracting an enormous profit because of our government's fault belief that his investment would stabilize Bank of America's stock price.

buffett_buffet 2

Buffett's feel good investment was followed by Bernanke's speech at Jackson Hole. Some expected a magic bullet to hasten economic recovery, while others dreaded the possibility of QE3. However, what Bernanke delivered was more of an anticlimactic shrug when he appeared to say that the recovery of the U.S. economy will take much longer than expected, and that the Fed can no longer achieve it without the aid of politicians and reforms (i.e. housing, public finances, the labor market, the financial sector, education, and competitiveness). Bernanke finally acknowledged the fragility of the U.S. economy and the enormous issue of long-term unemployment. Bernanke is beginning to see the importance of long-term, sustainable fiscal decisions. Miraculously, Bernanke only very briefly touched upon the issue of job growth, the one concern that matters to Americans the most. In

QE3 3

other words, Bernanke completely punted and told the president and congress the Fed really can't do any more and the problem needs to be fixed by congress.

Next came President's Obama's job's speech which sounded more like a campaign speech than anything else. A lot of rhetoric that has given the bi-partisanship in congress doesn't have a chance to get passed as is, even if anyone knew what the heck his job's bill really says. Generalities and rhetoric don't make a bill. People watched the speech, a lot of talking heads spent hours analyzing it, but the markets completely ignored the speech and instead focused on the reality of the severity of Europe's debt crisis. The markets closed down 304 points the day after his speech. His speech was such a non-event that it didn't make a difference – it was too little, too late. Additionally, the markets plunged as investors sold shares and bought Treasuries, sending the 10-year Treasury even lower.

Obama's \$447 billion American Jobs Act includes tax breaks for individuals and businesses, financial aid to states aimed at repairing schools and retaining public sector jobs (e.g. policemen, teachers), extension of unemployment insurance, and money to repair and upgrade transportation infrastructure. It all sounds wonderful, but there is no clear plan for how the bill will be put into action. It's like telling someone you will purchase their house for a million dollars, but you don't say when you will, or how you will finance the purchase.

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My point is we had all these events: Buffet's investment in Bank Of America, Bernanke's speech in Jackson Hole and the President's prime time job speech and bill. Yet they were all meaningless. As I keep saying time and time again, the only thing that matters right now is jobs and a real plan of how to create them. As I said, there are a lot of good things in Obama's American Jobs Act, but the lack of specificity makes it impossible to either implement and/or evaluate. To state the obvious, we are in dire times of economic and political instability. An excess of 10 percent of consumers are affected by long term unemployment, and the government is deep in debt with no more quick fix policies. So I ask myself: who holds the greatest source of wealth in the U.S, and the ability by using that wealth to quickly create meaningful jobs? My answer is U.S. publicly traded companies! Recently, many were alarmed to hear that Apple has more money than the U.S. government according to the latest daily statement from the U.S. Treasury as of July 27th. The government had an operating cash balance of \$73.8 billion at the end of the day, and Apple's last earnings report showed that the company had \$76.2 billion in cash and marketable securities at the end of June. Basically, Apple possesses more cash than the U.S. Treasury.

Surprising to some, but many corporations have a better business plan of saving money than the Fed. And their savings are so good that, according to the Federal Reserve, U.S. corporations held a record \$1.93 trillion in cash on their balance sheets in 2010. This year, companies are expected to save an additional \$230.5 billion. If you consider corporate savings since 2009, this is the largest hoard of cash that U.S. corporations have accumulated in any two-year period since World War II. The reason these companies are hoarding this money may lie in the fact that they see no incentive in investing in a weak economy with very little consumer spending. Simply put, there are not many investment opportunities in our current economy, and the bottom line is that this hoarded cash is not only losing value, but is also the source of a huge U.S. economic risk. We invest in companies to operate successfully, not to hoard our cash, and certainly not to pay CEOs ridiculous amounts of our cash for poor performance.*

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In order to address the amount of cash American corporations are hoarding, we need to do one of two things immediately. We either need to hit these companies with a punitive tax on their excess cash above some agreed upon level, or force them to dividend it out. Some companies have already been forced to do this by their shareholders. For example, in September 2010, Microsoft was forced to raise its dividend 23% to 16 cents a share to appease its investors. Additionally 225 of the S&P 500 companies, through investor pressure, have increased their dividends in 2010, paying an additional \$20.6 billion a year in dividends.

Now that Bernanke has run out of money making tricks, and has turned fiscal reform over to Congress, the U.S. government should set its sights on these corporate hoards of cash in order to immediately stimulate job growth and consumer spending. Congress should impose a tax on excess cash holding to stimulate investments and/or require increased dividends. True, this could be considered heavy handed, but extreme circumstances take extreme measures, and this is one way to solve the problem: spend the cash (not on your CEO's pay) or dividend it out to investors. This will lead to consumer spending and job growth. Everything else is just noise that distracts us from the need to create jobs now.

*It shouldn't be surprising that some of the cash hoards ends up in "runaway CEO pay". The disparity between CEO and workers' pay has grown to completely disproportionate levels. For example, based on 299 companies' most recent pay data for 2010, the combined total of the chief executives amounted to \$3.4 billion. This would be enough to support 102,325 middle income workers' jobs.

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