

# Thoughts On The Government's Financial Reform Proposal

We are a long way from benefiting from any real reform. Though there are elements of the Administration's proposal that I believe could ultimately benefit business and individuals, the reforms appear as little more than political window dressing. Moreover, these initiatives still have to pass into law - and much can happen as well as die on the vine - before legislation gets passed and signed into law by President Obama.

You can download the Treasury's Proposal here:

<http://treasury.gov/news/index1.html>

Here's what's missing in the government's proposal for me:

1. Where is the culpability of the Fed's policies and failed oversight over the past 20+ years? The Fed poured gasoline on the fire of the real estate boom by allowing easy credit terms to flourish as a result of rock bottom interest rates for a long time.

And the Fed didn't prevent any disaster. So, why give it even more power?

2. Where's the examination of out of control leverage that so many individuals (think little to nothing down mortgages to people who couldn't afford them) to the even more egregious actions of hedge funds, banks and other financial institutions where they laid out as little as \$1.60 for \$100 worth of investment. Improper leverage was the giant snowball, the use of which was in complete disregard for sufficient risk management.

3. And, what about the ratings agencies in bed with financial institutions? It's shameful that such conflicts of interest exist and persist where financial institutions pay rating agencies to rate investments in terms of quality and risk. The rating agencies need to be truly independent of the investments they rate.

The truth is we can't prevent financial disasters. Larry Summers was quoted this morning in the Wall Street Journal that the cycles of the past two decades can't continue. Come on! Financial markets, propelled by people's ingenuity and greed, and good old fashioned investing and business have been booming and busting since civilization began.

OK, here's some things that I think are beneficial.

Regulating and bringing derivatives onto big exchanges. We will all benefit from transparency.

Ditto for regulating hedge funds though time will tell if this amounts to inconsequential paper pushing or if required documentation will help prospective and current investors in making prudent decisions.

Better consumer protection. Stating product features clearly will be good. I also think having "plain vanilla" offerings could benefit a lot of people.

What I'd like to see is an effectiveness review of the current regulatory agencies. The last thing we need is to create more oversight, more councils, more organizations. Instead, provide better training in risk management and financial forensics.

Lastly, we all need to take better care of ourselves and take responsibility for educating ourselves so we make better financial decisions. Many people I encounter would benefit from understanding how to manage financial risk in their lives and how to evaluate a potential investment for loss as well as profit. I'll keep pushing this issue. Until next time, stay safe and in good humor.