INFERENTIAL FOCUS BRIEFING

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February 18, 2009

RADICAL UNFAMILIARITY, PART II: DEALING WITH ASSET DEPLETION AND PONDERING A NEW STANDARD OF LIVING

He was one of those who always knew that life was just a leap of faith;
So spread your arms, hold your breath and always trust your cape.
— "The Cape," Eric Bibb, singer-songwriter

The greatness of America lies not in being more enlightened than any other nation,
but rather in her ability to repair her faults.
— *Democracy in America*, Alexis de Tocqueville

Losses caused by the flailing economy continue to mount, furthering the panic that seemed to set in among American consumers last September, when society witnessed some of the most spectacular financial collapses in history. Individuals as well as society's leaders seem confused by the situation, primarily because this is not a typical recession. It was triggered not by typical business-cycle excesses but rather by the collapse of an asset class and its buttressing (tricky) financial instruments. Because individuals do not sense how bad their financial conditions will ultimately get, they are "hunkering down," focusing on one idea: Preserve what you have. Because companies do not know when the downturn will end, they, too, are "hunkering down" and focusing on the same idea: Preserve what you have.

While many of the actions that individuals and companies are taking are actually making the economic malaise worse, some practices are just appearing that could well outlast the recession: Settle on What's Good Enough (Sufficiency), Eliminate Unneeded Duplication (Efficiency), Temper the Turnover (Full Utilization), Do It Better for Less (Innovation), Prove You're That Good (Value Validation), and Get Real (Practicality).

Dealing with Losses

Americans' net worth has declined roughly $9 trillion since the current financial crisis started, and last year, global equity markets lost $32 trillion. These losses were followed by the worst January ever for U.S. equities markets and continuing down markets around the world.

Country Indexes

Here is how some of the world's financial markets closed the week of 1/25/09

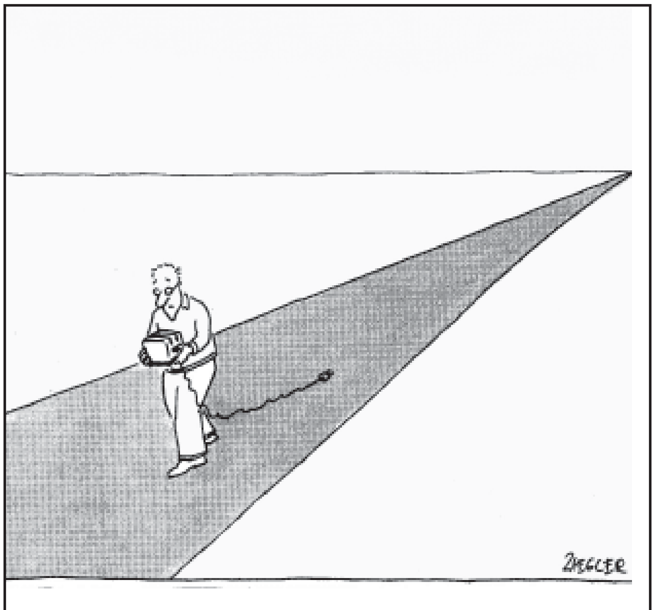
		CHANGE			LOCAL CURR	
COUNTRY	**INDEX**	**WEEK**	**2009**	**YIELD**	**INDEX**	**2009**
Argentina	238.47	-3.2%	-2.7%	3.85	184.37	-2.0%
Australia	269.23	-9.2%	-16.4%	7.37	275.15	-10.4%
Austria	197.74	-14.8%	-19.0%	7.40	157.09	-12.0%
Belgium	198.76	-3.5%	-8.2%	13.43	154.59	-0.2%
Brazil	412.02	-3.0%	0.6%	4.73	1,784.80	1.5%
Britain	226.04	-10.0%	-13.2%	4.96	245.16	-8.7%
Canada	366.13	-4.2%	-5.7%	3.47	331.21	-4.5%
Chile	651.54	-1.3%	6.9%	3.54	569.48	4.3%
China	1,373.07	-6.1%	-14.1%	3.83	11,574.73	-14.1%
Colombia	2,160.36	-4.6%	-4.7%	2.96	2,349.51	-3.3%
Czech Republic	374.14	-12.7%	-18.8%	6.82	1,430.64	-7.6%
Denmark	658.63	-7.7%	-7.0%	2.96	522.02	1.2%
Egypt	191.18	-13.0%	-16.2%	6.60	1,530.77	-15.6%
Finland	442.07	-12.2%	-18.6%	7.30	431.27	-11.6%
France	287.60	-8.7%	-18.5%	6.21	231.36	-11.5%
Germany	219.62	-7.7%	-20.4%	5.88	174.59	-13.5%
Greece	181.58	-8.9%	-15.3%	10.33	346.79	-7.9%
Hong Kong	405.66	-2.8%	-7.6%	4.87	403.98	-7.5%
Hungary	118.83	-13.0%	-23.4%	5.41	1,235.23	-9.4%
India	606.29	-7.2%	-11.0%	1.90	644.05	-10.0%
Indonesia	106.49	-4.7%	-7.9%	6.21	738.88	-4.5%
Ireland	160.01	-9.9%	-9.4%	10.82	138.83	-1.6%
Israel	162.37	-5.0%	-4.0%	4.62	431.15	1.1%
Italy	100.73	-10.1%	-17.9%	10.26	113.88	-10.7%
Japan	91.61	-4.5%	-9.0%	3.04	51.77	-10.3%
Korea	450.67	-6.9%	-12.6%	2.58	138.30	-3.5%
Malaysia	397.69	-4.0%	-4.2%	4.75	128.49	0.3%
Mexico	4,003.65	-5.6%	-12.4%	3.08	61,630.28	-10.9%
Morocco	252.91	-1.7%	-15.7%	3.39	254.23	-9.7%
Netherlands	276.95	-9.3%	-12.9%	7.46	217.78	-5.3%
New Zealand	51.49	-4.2%	-8.7%	7.42	52.07	1.7%
Norway	381.96	-4.2%	-1.5%	6.10	364.74	-1.0%
Pakistan	340.53	-11.5%	-11.5%	16.09	442.15	-11.6%
Peru	943.96	6.0%	-8.0%	3.62	59.54	-7.3%
Philippines	77.54	-5.1%	-0.5%	3.65	183.19	-0.8%
Poland	125.93	-11.9%	-23.3%	7.14	8,607.37	-10.4%
Portugal	150.45	-4.5%	-7.5%	6.81	161.41	0.5%
Russia	158.26	-9.2%	-16.4%	3.94	158.26	-16.4%
Singapore	250.41	-4.3%	-8.8%	6.71	174.15	-4.5%
South Africa	552.70	-8.9%	-17.7%	4.93	287.22	-5.0%
Spain	373.91	-8.6%	-18.6%	7.24	368.49	-11.6%
Sweden	444.81	-6.3%	-15.9%	7.68	548.05	-11.5%
Switzerland	377.91	-6.6%	-12.8%	4.70	273.95	-4.2%
Taiwan	122.52	-3.1%	-9.9%	8.95	32.79	-7.8%
Thailand	32.94	-0.2%	-4.5%	7.56	44.63	-4.2%
Turkey	60.57	-6.4%	-15.4%	4.55	7,630.90	-8.7%

Source: FTSE International, Ltd.

The magnitude of these losses and the continuing slide are atypical of recessions in post-World War II economies worldwide. In fact, the recession is actually not the cause of these problems, but rather an effect (or symptom) of a much larger problem. The duration and depth of the valuation slide should give pause to anyone considering how to respond, for atypical effects might require atypical actions.

The reason for the extreme losses is that **this is not a typical recession**. As we wrote at the time, the economic expansion that started earlier in this decade and ended December 2007 was driven not by upside forces of a typical business cycle – expanding industrial base (manufacturing and services), leading to increasing profits and salaries, leading to increasing capital and consumer spending, leading to increasing gross domestic product (GDP). Rather, the most recent economic expansion resulted from a rapid value inflation of an asset class – in this instance, real estate – funded by tricky financial instruments and unprecedented leverage that gave the impression of nearly limitless liquidity and the absence of risk. Historically, asset-class bubbles have been the result of the excesses that were encouraged by the upside in a business cycle, and in fact, those excesses usually mark the peak of a business cycle. When the cycle turns, the bubble bursts and values start returning to their historical norm (see "Return of the Bad Diagnosis: The 'Asian Flu' and the 'Sub-Prime Problem' in Context," **Special Briefing**, 8/17/07).

In this instance, the asset-class collapse – that is, the bursting of the real estate bubble – **caused** the recession, and not the other way around as was the case in earlier downturns. Said in a different way, we are on the deflationary downside of an asset-class cycle, and like the asset-class inflation, which created an unusual expansion, the asset-class collapse has triggered an unusual economic downturn. In addition, because the asset bubble was itself so extreme and was bolstered by wildly leveraged financial instruments, the collapse and subsequent recession have been extreme.



WHAT I GET TO KEEP FROM MY LIFE'S SAVINGS

For these reasons, corporate leaders who pull out their "recession playbook" – well worn from past recessions – to deal with current economic conditions might discover, to their dismay, that the playbook is not as effective as in the past. To the extent that standard recession practices have any lasting impact at all, they are still addressing only the **effects** of the underlying causes of this crisis – that is, the asset-class collapse, its troubled funding sources and the rippling effects of defective financial instruments.

Practices taken from a playbook for typical recessions (*e.g.*, staff and expense cutbacks), when applied to the current situation, will only address what amounts to the symptoms of the economic disease. In addition, layoffs, for instance, while easing a company's "symptoms" (*i.e.*, squeezed earnings) can actually make the economy's "disease" worse, by forcing more and more people to become delinquent on home loans (due to loss of income), and that, in turn, can spark more problems for financial institutions and so on. For instance, bankers know that for every percentage-point increase in unemployment, a one-percentage-point-increase takes place in credit-card charge offs. As they watch more and more companies add to the unemployment rolls, they know from past observations that at nine percent, the direct percentage-point link vanishes, and credit-card charge offs will increase by much more per unemployment-point increase. (*Wall Street Journal*, 1/26/09; see also "Resourceful Businesses, Part I: Actions and Reactions to Challenging Economic Times, **IF 2920**, 9/11/08)

In this unusual environment, companies taking care of their own interests – as they would effectively do in a recession – are making the larger economic problem worse. George Buckley, chief executive of 3M Corporation admitted this fact straight out: "All of us acknowledge we're collectively making the situation worse." By taking a narrow and parochial perspective, corporate leaders are attending to their companies' needs first, Buckley insists, "not necessarily other people's companies, or, for that matter, the whole U.S. economy." (*Dallas Morning News*, 12/31/08)

Some companies are going beyond even that narrow point of view and laying off workers and cutting costs when their earnings are not suffering. For example, SAP, in its most recent quarterly report, said that sales grew 8 percent and earnings grew 22 percent, positive news that sent its stock shares up 6 percent. At the same time, it announced 3,000 layoffs. Such contradictory actions are sure signals that corporate leaders themselves are confused about what is taking place. In fact, one of SAP's board members admitted as much when he reported, "The only certainty is no certainty." (*Investor's Business* Daily, 1/29/09)

The way executives describe their layoffs provides another insight into just how unclear company leaders are. Nokia Siemens Networks labeled its job cuts a "synergy-related headcount adjustment," while eBay's executives were taking "actions to simplify our organization." Other companies have been "offboarding," "deverticalizing," "surplusing," "rationalizing" and making the hopelessly tautological "strategic review of strategies." Implicitly, such actions are executives' admissions that their companies are not agile or flexible enough to change as quickly and effectively as conditions warrant. They seem to be clearing the room to await the next context to become obvious. (*BusinessWeek*, 12/22/08)

"Here's to missing the big picture."

The fact that the government has spent massively to save financial institutions, stimulate consumer spending and ease corporate liabilities but has been unable to alter the downward path of the economy – indeed, was unable to avoid the largest corporate failure, bailout and nationalization in history – is what has shoved individuals into a world of "radical unfamiliarity," one so unique and worrisome as to prompt the "panic attack" discussed in Part I of this *Briefing*.

The continuing lack of clarity as to what is, in fact, happening and the ongoing uncertainty as to who and what will provide the cure for this atypical economic disease have forced some corporations and most individuals to deploy intermediary tactics to stabilize and manage their own situations as they await with great anticipation and rising expectations more effective national and international actions. The extreme nature of some of these intermediary actions hints at the depth of distrust that now pervades society.

"I was afraid there would be a run on the bank."

Consumers Hunkering Down

In the amazing run-up in real estate values, individuals bought condominiums that had yet to be finished or, in many instances, on which construction had not even started. These "flippers," as the euphemism went, would put a contract on an architectural drawing, get a loan, close on the pile of dirt that might or might not eventually become a building of condominium apartments and then put the pile of dirt back on the market for a higher price to someone else who would willingly make an offer on the same architectural drawing, get an even bigger loan, etc. It was the rarified air of life in the bubble lane.

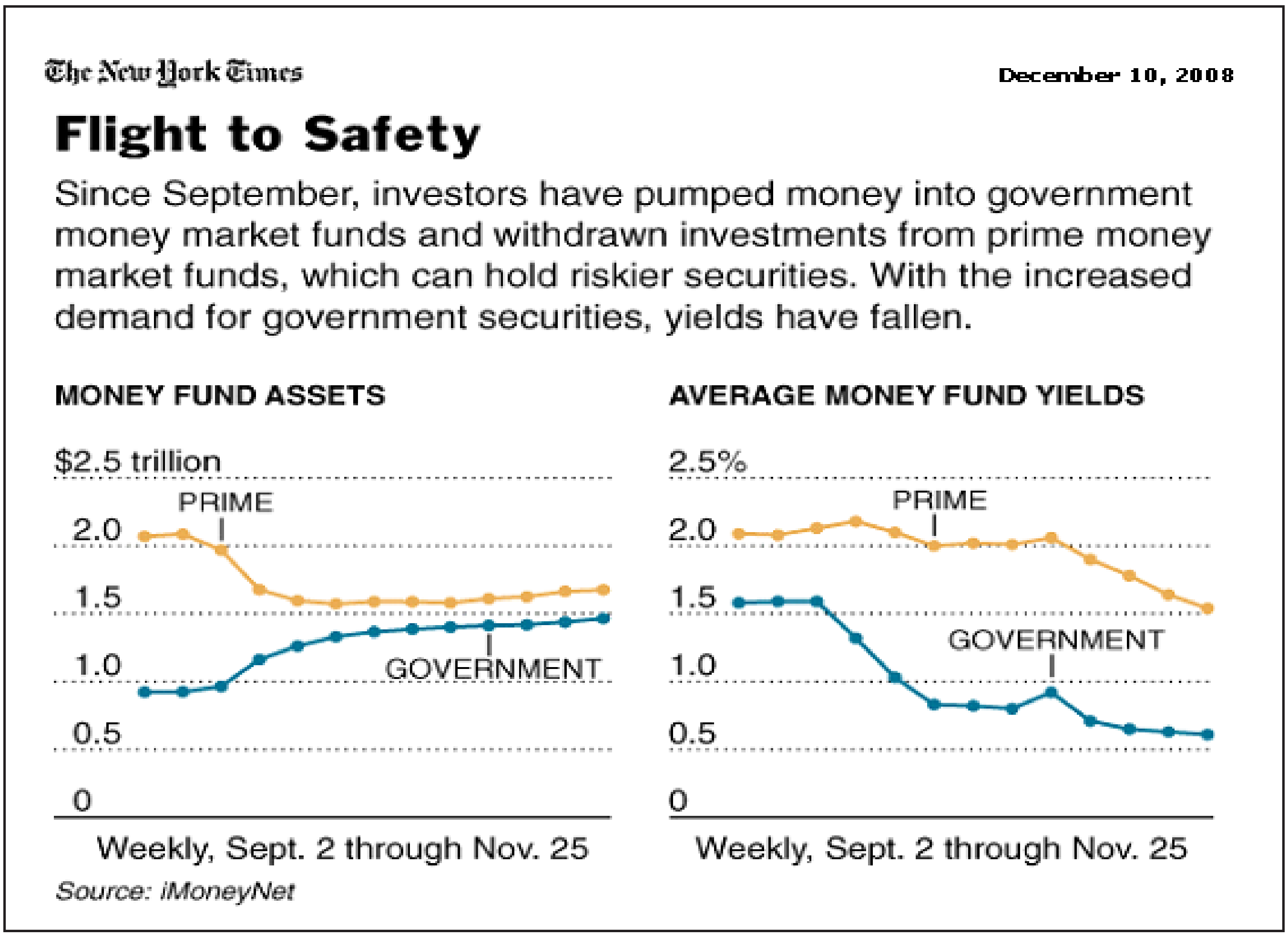
Since many of those condos – at least the ones that eventually were built – have lost as much as 50 percent of their final contract price, since flippers and middle-class workers have lost anywhere from 20 to 40 percent of the value in their retirement accounts and roughly 20 percent of their existing homes' valuations ($4 trillion overall across the U.S.) and since the economy has shed roughly 3 million jobs and seems destined to dispose of another couple million, individuals are now hunkering down and focusing on a dictum that would have been worthy of graffiti writers in Pompeii: "Preserve what you have!" (*Adweek Media*, 1/12/09)

Consumers have been lowering their debt exposure, decreasing spending, searching for lower prices on goods and services and accepting jobs with lower pay, especially if the new jobs provide some kind of security. Individuals are plying part-time job markets for additional revenues, working various job situations to secure some kind of health insurance, moving to areas with a cheaper cost of living and realizing that they will need to work more years to meet even their downwardly revised retirement plans. While doing all these things, individuals have also focused on controlling against downside risks in their financial status:

♦ At the end of November, Americans had stuffed $8.85 trillion into cash or cash-equivalent accounts, a figure that equals 74 percent of the combined value of the Standard & Poor's 500. (*Bloomberg*, 12/29/09)

♦ In November, the personal savings rate increased to 2.8 percent of disposable income up from 1.1 percent in the third quarter of 2008, and then increased 3.6 percent in December, creating a pace of growth that, were it annualized, would approach 6 percent. (*Bureau of Economic Analysis*, 1/15/09; *Reuters*, 2/2/09)

"Oh, O.K. Well, when your family's all through hunkering down, then can Timmy come out and play?"



The individuals' focus on preserving what they have results from the unusual circumstances and conditions that this most unusual economic downturn has been throwing at them. They have less credit available to them, and their homes' declining values have made it more difficult to extract equity from these former "personal ATMs" – in the form of either refinancing with cash out or home-equity lines of credit. The current boomlet in refinancing is noteworthy for the absence of "cash out" features so common just a couple years ago. Job losses are still mounting, wage increases are fading into history and contracting wealth is undercutting even the possibility of spending. With so much uncertainty about where the country is headed economically and with so many changes taking place in their own financial world, individuals are being forced to reassess many things they once took for granted.

"What do I think is necessary?" "What do I find sufficient?" "What do I now need to make retirement possible?" "Should I borrow money to spend, especially for essential things such as health insurance?" "What amount of savings should I have?" "What level of resource risk is prudent in the current economic climate?" "Is my job secure, and if not, what can I do?" "How should I 'invest' in my future?" Individuals are now pondering these kinds of questions, as they seek to reset their lives, lifestyles and mental states to adjust to new financial realities.

"This is Larry. He's new no-money."

Companies Hunkering Down, Too

Corporations are following the same dictum as consumers: Preserve what you have. But actions taken by corporations differ from those taken by individuals, and the two often conflict with each other – actions that help corporations hurt individuals as employees, and actions that help individuals as consumers hurt corporations. That is obvious with corporations' massive layoffs, which threaten the fired workers' ability to pay mortgages, eliminate credit-card debt, spend at local stores and plan for the future. The employees who remain in place after the layoffs feel financial stresses when their employers reduce contributions to retirement accounts, cut back on insurance offerings, freeze or lower salaries and announce additional store, department and plant closings, all actions that companies have taken in the past few months. (*International Herald Tribune*, 1/6/09 and 1/8/09; *New York Times*, 12/21/08 and 1/10/09)

Yet corporate recessionary actions can help individuals as consumers. With store-window signs exclaiming everything from "Our Biggest Sale Ever" to "Going Out of Business," market-induced deflation has come to retail culture. The travel industry is offering specials, restaurants are providing various incentives, service companies are cutting their fees and some car dealerships have even posted "2 for the price of 1" deals. In 2008, consumer prices increased 0.1 percent, the slowest pace since 1954. These kinds of offers and that kind of price inflation help individuals as consumers, as they try to balance shrinking wherewithal and everyday needs, even as they further squeeze corporate margins. (*International Herald Tribune*, 1/18/09; *Dallas Morning News*, 1/17/09)

The corporate practice that seems to be bogging down the economy is the same practice that consumers seem to be doing: hoarding cash. With all the layoffs and cost-cutting exercises, companies are nonetheless not doing anything with the money they have left. For example, as of January, J.C. Penney Company had $2 billion in cash with no debt maturing this year and with no obligation to contribute to its pension plan this year. Yet Penney's has cut back on new store openings. Meanwhile, Cisco has $26 billion in cash, and other tech companies have more. This hoarding of cash, which has become standard operating procedure among

American corporations in this unusual recession, slows the economy in general by retarding liquidity and by slowing the momentum of cash through the economy. Penney's chief executive, Myron Ullman, insists that retailers should be focused only on financial security and cash. (*Dallas Morning News*, 1/21/09; *Fast Company*, 12/08)

Some companies are trying to hold the line on layoffs, knowing that adding to the unemployment rolls threatens mortgages, derivatives, banks and eventually the economy. "If I lay off employees," explained Steve Wynn, head of Wynn Resorts, Ltd., "I cause a ripple effect of insecurity and fear that is much much more difficult to overcome than is raising the price [of rooms] when business is good." Wynn is cutting room rates and reducing costs in other ways, postponing layoffs as a last possible reaction. Elsewhere, employers and employees have made agreements that workers would work fewer hours to avoid layoffs, have tried week-long furloughs to reduce labor costs without turning to layoffs and have agreed to cutbacks in retirement contributions to save jobs. In the public sector, Galveston (TX) firefighters and policemen accepted a 3 percent pay cut in order to avoid layoffs in their departments. Should city coffers suffer additional revenue squeezes, these employees have agreed that they might need to face another round of pay reductions to preserve everyone's job. (*Associated Press*, 12/24/08; *New York Times*, 1/2/09)

"Tag! Your salary's frozen."

Moving On

As suggested by recent revelations of lavish executive-office remodelings, wildly disproportionate bonus provisions and commodious corporate-jet jaunts in the middle of company layoffs and bailouts, some business leaders have been much slower than consumers to realize that the high life in the bubble lane has ended. As we have written elsewhere, any company that could not make handsome profits in the recent past – when costs were low and descending, equities were rising, liquidity was expansive and money was cheap – should never have been in business in the first place. But just as easy as it was to bolster earnings earlier in this decade, it is that difficult now – even if some CEOs have been slow to change their own behavior to reflect that turn in economic conditions (see "The Anxious Age of Revaluations: Governments, Currencies and the Sucking Sound," **IF 2917**, 8/6/08).

This is not only a different kind of recession, it is also a different kind of economy. As a result, individuals and companies are going to have to reconcile their lives and operations with a few near-term realities:

(1) The cost of money and debt in the U.S. is likely to increase, thereby putting downward pressure on the dollar.

(2) Returns on equities and expected returns in other investments could well settle into the single digits.

(3) Foreigners could start looking elsewhere for resources, whether in expertise, services or finished products.

(4) Foreign producers are going to continue to pursue new markets, thereby lessening the economic power and value of the American consumer.

(5) Global competition – after a spell of protectionist nationalism – will resume, even as global investors seek investments "closer to home".

(6) Consumers will, of necessity, become less of a force in the overall American economy.

(7) If pressure on the dollar lowers its value, then foreign labor will provide less of a cost advantage than in the past.

(8) Consequently, labor costs in the U.S. are likely to rise, but economic realities will keep them from rising anywhere near as fast as workers want.

(9) Raw-materials markets will remain volatile and will increasingly depend on the needs and leverage of those who own and market them.

(10) The way out of the current financial crisis will require many more resources and considerably more international collaboration than past efforts to turn around economic downturns.

"How much reality can you handle?"

In this context, we have seen only a few examples of individuals and companies reconciling with realities. Their adjustments aggregate into some general perspectives:

Settle on What's Good Enough (Sufficiency) – As individuals and companies look at their expenses, they are realizing that they have more than they need…of almost everything. At that point, they start assessing what is sufficient. For instance, in the third quarter of 2008, home builders started homes that average 2,438 square feet, down from the second quarter's average of 2,629. Eighty-nine percent of builders say that smaller homes will become their norm in the years ahead. To take another example, shipments of netbooks, stripped down and basic laptop computers, reached 4.4 million units in the third quarter of 2008, surpassing those of regular PCs as consumers realize that they can get done what they typically do on computers with these smaller, less complex devices while paying sometimes as little as $200 for the unit. In one further example, enrollment in the country's two-year colleges has increased by more than 10 percent, while applications to private colleges for next year's freshman class have fallen by roughly 30 percent, as students and their parents rethink long-held assumptions about relationships between cost and ultimate value in education. (*USA Today*, 1/11/09; *Nikkei Weekly*, 12/22/08; *New York Times*, 1/26/09; *Internetnews.com*, 12/24/08; *International Herald Tribune*, 12/23/08)

Eliminate Unneeded Duplication (Efficiency) – While overlapping capabilities can bring a redundancy that provides security in risky times, quite often overlap is simply duplication – having too many ways to do the same thing. That kind of duplication is starting to get some attention. As of June last year, 17.5 percent of American households had cut their landline phone connection, up from 13.6 percent one year earlier. Those households are now relying solely on their cellular phones. Also, more and more home-video consumers are turning away from cable and satellite contracts, preferring to use their computers and the Internet to access programs they want to watch. In another example, Forbes, Inc., plans to merge its heretofore clearly separated Web-site and print operations. Other print publications are doing the same kinds of things, some like the *Christian Science Monitor* converting to a weekly print version with a daily online presence, and others, such as a New England consortium of papers, sharing news staffs with nominal competitors. In a similar manner, NBC combined its television production unit with its Universal Studios operations. (*Investor's Business Daily*, 12/18/08; *Crain's New York*, 1/5/09; *Media Week*, 10/27/08; *Editor & Publisher*, 10/27/08; *Television Week*, 12/22/08)

Temper the Turnover (Full Utilization) – Planned obsolescence kept the automobile industry afloat for decades, and new styles kept the turnover going in clothing stores. Routine product updates, however, are now being challenged by economic realities. Keeping items longer is becoming the norm. Shoe repair stores nationwide report business increases between 20 and 40 percent over the past year, Home Depot reports a near doubling of customers attending weekend do-it-yourself workshops, and barber shops as well as beauty salons note that regular customers are stretching the time between appointments or doing some of their services (*e.g.*, coloring) at home, lowering those businesses' revenues by 10 percent. Overall, consumers are keeping what they have longer before buying new clothes, cell phones and cars and waiting longer between services such as haircuts and stylings. Companies, we anticipate, will do the same with technology, perhaps using the cloud computing system to upgrade their computer systems for much less money than they would spend on full upgrades with expanded storage in house. (*International Herald Tribune*, 1/18/09; *Crain's New York*, 1/12/09; see also "Cloud Illusions: Cloud Computing Tries to Attract Attention," **IF 2922**, 9/17/08).

Do It Better for Less (Innovation) – With consumers in many industrialized nations likely to have less discretionary income in the years ahead, companies must configure products that maintain quality or risk further undermining consumer trust, and they must do so at lower prices. For instance, Sony's new generation of PlayStation 3 video-game console costs 35 percent less to make than the previous PlayStation 3 design. Consolidation of functions into fewer parts and better manufacturing processes have made the advanced model cost less, which, in these kinds of economic times, enables Sony to charge lower prices – although they have held the pricing line so far. In a different kind of cost shifting, NBC decided to eliminate one of its prime-time slots typically filled by expensive scripted programs and replace it with an hour-long variety-comedy show hosted by Jay Leno. The shift will save the company money and could, NBC executives hope, actually attract more viewers. (*Wall Street Journal*, 12/30/08; *Television Week*, 12/22/08)

Prove You're That Good (Value Validation) – The current financial collapse and the ensuing revelations about how financial advisors, institutions and corporations in general have been run have **critically damaged consumer trust and loyalty**. Getting it back will require more than the advertising campaigns that some banks are now trying. Recently, Volvo brought back its 3-year/36,000-mile-free maintenance program for all 2009 models. Essentially, Volvo and BMW, which never halted a similar program, are saying they can assume the consumers' risk of buying a new car because they trust their manufacturing and design processes. On a different level, Hyundai is offering an "assurance" package to any customer who buys one of its cars. The assurance program states that if a buyer finances the car and during the first year of ownership loses his or her job, the customer can return the car without penalty. (*Automobile News*, 12/22/08; *Christian Science Monitor*, 2/3/09)

Get Real (Practicality) – Despite rapidly declining gas prices, Americans have continued to drive fewer miles (driving 4.5 billion fewer miles in November 2008 than the prior month) and ride public transit more frequently (average riders per week in November on Boston's network rose to the highest level in the system's modern history). In addition, voters in last November's elections approved 24 of 32 transportation-related measures, authorizing roughly $75 billion of new expenditures on public transportation. In another arena, 53 percent of consumers say they are using the Internet to research products and prices more than they did a year ago. This kind of activity is shifting their shopping habits, with, for instance, online sales of apparel and accessories increasing by 4 percent last year, while overall retail sales in that category actually declined 21 percent. (*Boston Globe*, 1/7/09; *Progressive Rail*, 12/08; *Investor's Business Daily*, 1/20/09; *Crain's New York*, 1/18/09)

"Is this the kind of stuff that'll help us eek out a living?"

Support and Collapse

Frustrated individuals who have had to deal with frustrated bankers in their current situation have formed a support group: Dating a Banker Anonymous. One of the two women who started the group explained that the need was clearly there: "We put two and two together and figured out that it was the economy, not us." While the group is partly tongue in cheek – overtly fretting, for instance, about cuts in their credit-card allowances – the issue is not. As one psychotherapist explained: "[The crisis] is a big blow to [the bankers'] ego and to their self-esteem, and they may take it out on their partners and children." (*New York Times*, 1/28/09)

The number of individuals seeking psychiatric help jumped 40 percent in the past year, and a certain portion of that demand is related to the economy. A therapeutic retreat called The Haven, an exclusive clinic that has been focusing on "recession psychosis," has seen its small weekly coterie increase from five last August to fourteen this past January. The symptoms The Haven treats include severe anxiety and suicidal tendencies, set off by the economy. "When they come to us," explained one of The Haven's psychiatrists, "they are so far gone they need acute psychiatric treatment." (*New York Times*, 1/31/09)

Psychiatric help did not arrive in time for a distressed California medical technician who shot his wife, their five children and himself. "He was going through some critical situations at the job," explained the deputy police chief, paraphrasing a fax that the shooter had sent to authorities. In fact, the man had just lost his job at a local hospital. (*USA Today*, 1/28/09)

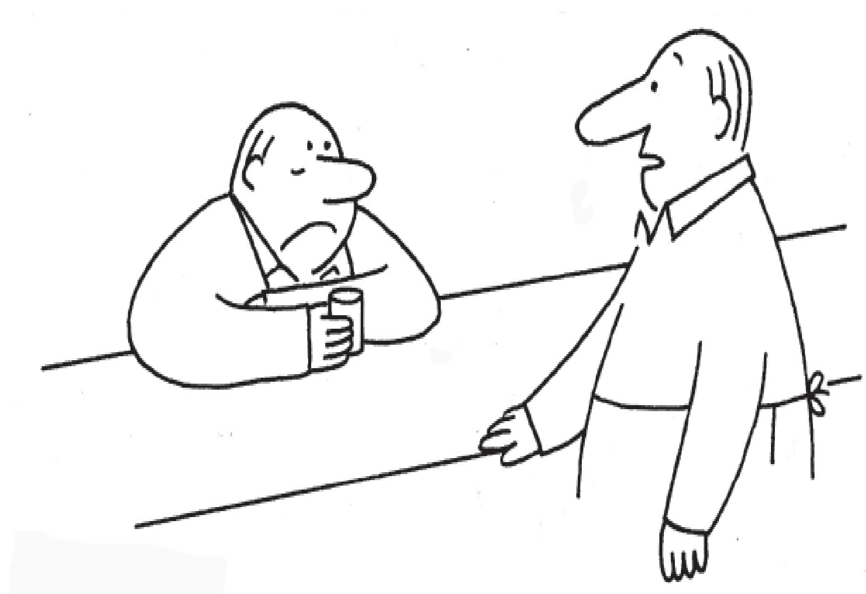
The range of reactions to the current situation has become extreme – from satire to murder/suicide – and that extremity reveals just how unusual this recession is. Part of the shock of this financial collapse has to do with the extreme world that preceded it. As one real estate agent who has had to make deep cuts into her lifestyle noted, "A lot of the way we'd been living was **all an illusion, a fantasy."** (*International Herald Tribune*, 1/18/09)

The agent's bleak assessment received some statistical support in early February, when the Federal Reserve issued its triennial survey of consumer finances. From 2004 to 2007, the years the real estate agent called "a fantasy," American household wealth increased by 17 percent, a considerable portion of which, according to the report, came from "unrealized capital gains." As of October 2008, not only had that entire increase in household wealth been wiped out, but Americans were actually 3.2 percent poorer than they were in 2004. (*New York Times*, 2/13/09)

Part I of this *Briefing* characterized wider consumer reactions, suggesting that individuals as a group had moved from anxiety, which became obvious as 2007 came to a close, to panic, which was triggered by the surprisingly large financial failures of September 2008. Hope broke through that panic during the 2008 presidential election, but such hope has seemingly added to the risk of what might happen should actions of the new administration to remedy the very weak economy fail to work, let alone work as quickly as most people want.

This part of the *Briefing* has tried to aggregate the actions that individuals and companies are taking to soothe their anxiety (or panic) and stabilize their personal financial situations. Despite the election, most individuals are powerless to make the larger, more critical changes needed to turn the global economy around, and so they have decided to focus on preserving and protecting what they have – to stop the bleeding in their own realm, so to speak – and hope that those charged with redressing problems in the large arena get better and more effective than they have been.

As part of their actions, individuals and companies are starting to reveal **some value preferences that could outlast the downturn** – sufficiency, efficiency, full utilization, innovation, value validation and practicality. These are some of the early business and personal responses to a world of radical unfamiliarity.



"You've got to be more specific, Ed. Wake you when what's over?"