Cash is King

Wall Street is crashing because of a crisis in credit. There is plenty of money out there but it is stuck in the safest areas and nobody wants to loan any of it to anybody.

Credit is based on the lender’s confidence that it will be repaid. Extending such credit means that you can trust the basic financial information in the debtor’s statements. Because these statements have been such an inaccurate picture of a debtor’s financial position, the creditor is reluctant to lend based on them, and therefore credit has stalled. There have been too many costly surprises to trust any public financial information.

This is a crisis of accounting standards.

Banks and businesses do not want to lend to each other. One out of three car loans are being rejected. This will devastate the auto industry. In the northeast deliveries of home heating oil now require payment on delivery; no credit till the end of the month.

This is a new problem and no one has yet figured out how to solve it. Reducing interest rates does not seem to matter. Investors are willing to forego any return in exchange for the security of being repaid.

I do not know how or when confidence and trust will return, but when it does the market will rise like a rocket due to the mass of liquidity on the sidelines. But if it the lack of confidence continues it will be a self fulfilling prophecy as businesses falter due to the lack of trust and credit.

Today cash is king.