

BIC LLC News Release

FOR IMMEDIATE RELEASE
11:00 AM CDT July 10, 2009

Fix Compensation, Regulate Executives and Control Systemic Risk

There is significant debate in Washington over how the government can better regulate our private financial system. Of course the discussion has been spurred by the 2008 financial system crash, dissatisfaction most feel over being forced to bailout Wall Street, reports by the Wall Street Journal that nearly \$1.0 billion in legal and advisory fees have been paid to settle the Lehman Brothers liquidation, and the recent projection certain Wall Street banks are on track to pay near record bonuses to employees this year.

The government cannot better regulate the financial system. There already exist plenty of good rules. The problem is they go very unenforced. And practically thinking those rules really can't be enforced. Not just for lack of manpower. But for the fact bank balance sheets are too big and complex for even the most sophisticated Wall Streeters to fully comprehend. Compound this with the fact executives all are not forthright in their disclosures concerning their businesses and risks and you have

~ MORE ~

an impossible task. Did you know, Structured Investment Vehicles, or SIVs, are not mentioned in Citi's 2006 annual report? Yet it was precisely high-risk investments like these that forced government bailout of the firm a mere 20 months after the 2006 report was issued. It is entirely unreasonable to expect a GS bureaucrat to understand the complexities of a large financial firm well enough to create and enforce meaningful rules designed to prevent the next disaster. **Therefore the single most effective way to control risk in the financial system and more broadly, is to regulate executives by changing the way they are compensated.**

Why not simply require bank execs to draw a modest salary and receive the rest of their compensation in stock, not options, but directly purchased common stock that has already been issued and trades? Then we will see what risks they are willing to take when a big chunk of their "real" net worth is invested in the company's common stock.

It is time for Boards all over to significantly change their management compensation models. A great big fat salary topped off by an embarrassing number of stock options is "heads I win, tails I win even bigger" for executives lucky enough to make it to the top. This type of comp scheme encourages risk taking beyond reasonably expected rewards. It does nothing, say again, nothing to protect and serve shareholders, which is the reason Boards exist in the first place.

Here is an interesting approximate fact: In the 1960s the average CEO made about 60 times minimum wage. Today that multiplier is 820. Since barely a dime's worth of shareholder value has been created in this country since 1997, it is time to abandon the "greed-begets-riches-for-the-CEO" comp model in favor of something that better serves folks really taking the risk, the shareholders. Require the managers to become owners!

Please call with questions.

David P. Brady, CFA, CIC, President

Brady Investment Counsel LLC

-End-