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Maria Bartiromo, Fox Business Network, Host, Mornings with Maria Bartiromo:

Welcome back, investors gearing up for the jobs report for the month of August, this is a crucial data point for the Federal Reserve. As it mulls over the timing of it, interest rate increase joining the conversation right now is Gordian Group President Peter Kaufman, Peter good to see you thanks so much for joining us.

Peter Kaufman, President, Gordian Group:

Good morning.

Bartiromo:

Think the Fed raises rates this month?

Kaufman:

Well I think it should, I don't know if it will.

Bartiromo:

Okay. Why do you think it should? Just to get off zero.

Kaufman:

It has to get off zero, you know there hasn't been an interest rate rise in nine years, rates are being artificially tamped down because of the interest rates. I don't think the Fed should be in the business of providing crack cocaine to the stock market and if you know your doctor prescribed an anti-biotic every time you had a cold, a pulled muscle, etc. by the time you really



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had an infection the anti-biotic wouldn't work and so there's no gas left in the tank, there's no bullets left in the gun however you want to phrase it.

Bartiromo:

Such an analogy.

Kaufman:

The economy is doing okay, is at least okay I think everybody can agree it's at least okay and I think that it's gotta come up. Low rates you hear a lot about the boogie man of inflation which certainly hasn't happened yet, but low rates have been hammering savers, you know no incentive to save have been hammering pensioners and those on fixed incomes with fixed instruments like bonds and you also don't hear a lot about, I think that it's a surreal contributor to income inequality because people in companies with money get to speculate and that further divides things. So and finally I think that there's an incredible irony here because those who appraise this administration for the economy turning around and unemployment going low you say well maybe it's time to raise...oh wait a second the economy's fragile and the unemployment is illusory and they try to have it both ways. So I think it needs to rise.

Bill Stone, Chief Investment Strategist, PNC Asset Management:

Yeah, and I think we're on record we think it's going to be September although I will say you know it's probably still maybe just a little over 50% to us even though futures are significantly lower than that in terms of probabilities. Some of the same thing as we do think the economy is strong enough to take it and it probably makes sense to move, it is hard to know because some of the economic studies would say the Fed does consider the volatility of the markets as part of their decision. So it matters what's going on.

Bartiromo:

They're watching markets.

Kaufman:



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Oh yeah.

Stone:

Yeah, you would kind of think they...saying once that they wouldn't because you would say you know say well you know the numbers seem to me anyway good enough to move and there some of the things you talked about where it just makes sense to get off zero eventually. To just you know set that and also to set the precedent that they are probably going to be slow in going up so come in September and then don't do anything probably for the rest of the year.

Bartiromo:

One and done, yep one and done maybe even through '16.

Dagen McDowell, Fox Business, Reporter, Mornings with Maria Bartiromo:

Peter's an emergency room doctor for companies that are in financial straits, right. Talk about...this is Maria's hot topic talk about the energy companies the ones that are highly levered. How much of danger are they to the financial system and a broader economy?

Kaufman:

Well, let's start with the big picture to me there's been a...a cynic might say there's been a conspiracy going on for 60 years, the Middle East raises prices, raises prices on oil until this country starts to get an edge about maybe we should explore alternative energy and soon as that gets a head of steam, prices lower, prices lower the alternative energy thing goes away.

Bartiromo:

Although solar and wind they're taking market share right now.

Kaufman:



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Yeah, but they're not where they should have been or where they could have been.

Bartiromo:

For sure.

Kaufman:

Conversely, now that the prices are so low if they...they're going to keep those prices artificially low they're going to drive a lot of U.S. oil companies out of business.

Bartiromo:

Right.

Kaufman:

And so the problem for a lot these oil companies that I see that we work with at Gordian are the banks are revaluing they're collateral you know twice a year and that's a problem. Their hedges for most of them have run off or are running off. And the Fed is basically telling regulated financial institutions I don't want to see any more loans to these highly leveraged oil companies. And you know they want money to drill, but they don't have any and that leads to the opportunities...

Bartiromo:

But this is the problem because these oil companies are leveraged and as we see oil prices continue to come down the economics will not make sense. So my big issue is that I think this is like sort of the really un-talked, not talked about enough issue that could be a much bigger issue for the economy. How many oil companies would you estimate are super leveraged, right now?

Kaufman:

Oh a lot and you know we talked to them, we're hired by some of them and the opportunities that are here are for stronger, better healed companies to buy...the weaker...I think you'll...



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Bartiromo:

So we'll see deals. We'll see acquisitions.

Kaufman:

I think you'll see deals, it makes a lot more sense for them to buy reserves rather than to you know to drill for them and I think there's a lot of private equity money on the sidelines ready to come in to try and take advantage of this as well.

Bartiromo:

Looking for opportunities, sure, sure.

Kaufman:

Oil's a commodity you know at the end of the day and there are opportunities, they're winners, they're losers it's an incredibly cyclical business, nobody should be surprised that it's a cyclical business. To your point that you made a minute ago you know when companies were making money at a \$100 a barrel now that it's \$45, \$50 a barrel they've got to do twice as much just to do what they were doing before.

Bartiromo:

Exactly, which is why I think this is a dangerous story and actually quite troubling. Peter we'll talk more about it, please come back soon, thanks so much for joining us.

Kaufman:

Absolutely thanks.

Bartiromo:

Peter Kaufman joining us there at Gordian Group.



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