

FACETIME MARIA BARTIROMO



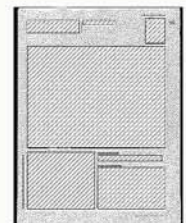
CHUCK SCHWAB ON SCARY MARKETS AND ELECTION '08

I turned to one of Wall Street's most storied veterans for a voice of calm amid the financial firestorm. Chuck Schwab, the granddaddy of discount brokerages, has steered the firm that bears his name through the vicissitudes of Wall Street for more than 30 years. Four years ago, Chairman Schwab, who had stepped back from the day-to-day operations of Charles Schwab Corp., once again became the full-fledged CEO. His firm now handles some \$1.5 trillion in client assets. A generous donor to the Republican Party, Schwab had some surprising comments about the Presidential race between Senators John McCain and Barack Obama.

In a week that saw Washington rush out a dramatic rescue plan for Fannie Mae and Freddie Mac, that saw at best muted optimism about the future from the chairman of the Fed and the Treasury Secretary,

MARIA BARTIROMO
Are the vicious swings in the market scaring away the small investor?

CHARLES R. SCHWAB
When markets go into these tumultuous times—and I probably have been through at least seven or eight in my career—it scares everybody, even the professionals. Nobody goes through them unscathed. We're all somewhat fearful, but yet we know that this is the time to be as strong as you can emotionally, to hang in there with your well-diversified portfolios. You've done all your asset-allocation work months and months ago, so you just have to stick with it. But, yes, we see small investors doing what you would expect, certainly moving [out of stocks] and staying with cash. But we try to encourage them to make sure that they are buying some percentage of equities, staying diversified as we always recommend.



FROM TOP PHOTOGRAPHS BY BRAD TRENT, DIANE BONDAREFF/POLARIS

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Has there been a drop in the number of new Schwab accounts being opened every month?

I see a slight decrease in new accounts and certainly in the funding of new accounts.

This doesn't feel any different to you than past upsets?

They're always different. The facts are always slightly different. And this one is different than any I've experienced before. So we have to go through this period of adjustment and correction in the real estate area, which, of course, has bled into some of our great financial companies. And we also see some bleed into the rest of the economy in terms of retail sales being hurt, especially large transactions like cars. Couple that with high energy costs, and we have a period that we're all trying to live through as quickly as we can.

Friday [July 11] was particularly scary. Do you think that the just-announced rescue plan for Fannie and Freddie will be enough to restore confidence?

It truly is a confidence issue. All professionals knew Fannie Mae and Freddie Mac would be sustained by federal assistance if required. I don't think that was really an issue. But yes, it is scary that it was even contemplated that they

wouldn't [be backed by the government]. I think the Fed and the Treasury are doing all the things they can do. I wish we would do something like they do in firefighting—put a line in the sand a little bit further away from where the fire is that would stop the contagion that's going on.

You mean like another stimulus package?

I was really thinking about the \$300

billion housing package that Congress is working on right now—sort of like what we did in the early '90s, when we put together the Resolution Trust Corp. for the S&L bailout. We need something that would bring to a halt the further reduction and wholesale liquidation that's going on in the subprime world right now.

With the SEC trying to crack down on short-sellers, do you see regulation of the market going too far?

It's very natural for us all to overreact in times of stress, but I'm not a fan of unmitigated shorting. We have nearly \$2 trillion in hedge funds that simply don't have any reporting responsibilities.

Do you have any sense of when we might see the economy turn up?

I think we have to wait until the outcome of the [Presidential] election. Whether it's McCain or it's Obama, we need to have some certainty around the direction we're going in.

It's interesting that the Democratic side is talking about tax increases while we are seeing such a slowdown.

The prospect of tax increases is certainly scary, although we've lived through tax increases in the past, and the economy and the world moves forward. Frankly, I think whoever is elected...those who pay taxes will probably have to pay a little bit more.

Even if John McCain is in the White House?

I think so. John seems to be very much of a maverick. He's not frozen in one camp or another camp. I think he will be flexible and hopefully make the best judgments to maximize capital formation, job formation, and the economy's potential.

How comfortable are you with both presumptive nominees' grasp of the economy?

I'm confident that whether it's foreign affairs or economic policy, they will surround themselves with experts. But there are policy differences. And I just tend to want to have not as dramatic a change going forward, and that's why I lean much more toward McCain. I sort of know what we're going to get in terms of self-defense and general economic policy. I worry about radical changes.

Are you supporting McCain?

Yes.

The Democrats left President Bush a balanced budget and a surplus. If Obama becomes President, he will face massive deficits and a slow economy. How would you convince an undecided voter that Republicans are better stewards of the economy?

Certainly I'm quite conservative in my fiscal thinking and pretty liberal about other policy issues. I think President Bush and Congress were left some really very difficult choices following 9/11. Then the Iraq war occurred and had to be paid for. So a lot of things came into play that led to a deficit. In a perfect world, I would have a balanced budget, low interest rates, and peace in every corner of the country and the world. But, unfortunately, a perfect world generally isn't available. (BW)

Maria Bartiromo is the anchor of CNBC's Closing Bell.

