

April 15, 2007 Review

Comments

AMD warns – in effect business off 20% – stock rockets higher.

No need for any intellectual comments in a market like this

Credit

Commercial Real Estate

- April 11 (Bloomberg) -- Moody's Investors Service, one of the two largest credit-rating firms, will require more protection for investors in securities backed by mortgages on apartment, office and other commercial properties because of "a continued slide" in lending standards. Moody's is raising the minimum subordination level on new commercial mortgage bonds that would be needed to achieve a better debt rating. The higher subordination levels -- or amount of lower-rated bonds needed in the transactions to take losses before the higher-rated securities -- will reverse years of falling investor protection, Moody's said in a statement today. Surging delinquencies on subprime residential mortgages caused by looser lending practices is an "elephant in the room" that has called attention to standards on other loan types, Moody's said. As with home loans, commercial mortgages have been requiring less documentation and including the use of more interest-only loans and secondary financing. "This is a direct response to the slow but steady erosion in underwriting quality within the securitized commercial mortgage lending world," Jim Duca, a group managing director at Moody's in New York, said in the statement. The change in policy, which is to take place "over the next few months," may lead the Wall Street firms and other companies that package mortgages into bonds to sell more of the debt created at lower-rating levels, and hence greater yields. Profit on the transactions would fall, unless the rates charged to new borrowers increase. 'Troubling Trends' Moody's said it lowered protection for bond investors in recent years because earlier deals out-performed its expectations, property owners enjoyed easy access to debt, and rental and property prices were rising. "We had every possible positive thing happening in commercial real estate to support" lower bond-investor protection, including surging property prices and generally declining interest rates, Duca said in an interview. "We're not waiting for delinquencies to happen before we make a move," he said. "We believe we've sort of reached an inflection point." Standard & Poor's, which sees "troubling trends" in commercial-mortgage lending standards, said today that the level of protection for investors it currently requires is adequate.

Commercial-Mortgage Bond Risks Need Addressing, Moody's Says

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aDMEwcv5OgZ8&refer=home>

Commodities

- April 14 (Bloomberg) -- Russian police arrested opposition leader and former world chess champion Gary Kasparov today along with more than 100 supporters and several journalists at an unsanctioned protest against President Vladimir Putin in Moscow. Thousands of riot police swarmed streets around central Moscow's Pushkin Square, the historical focus of democracy protests, after the city's authorities pledged the same display of police force that greeted the last protest in the capital, in December. Kasparov, who leads a loose coalition of opposition groups called The Other Russia, was arrested minutes after the rally was to begin, said his spokeswoman, Natalya Morar. The Other Russia hopes to field candidates in the nation's parliamentary elections in December and presidential election next March. "We demand free elections, not imitations or farces," Mikhail Kasyanov, a former prime minister who has turned against the Putin government, said in a brief speech at Turgenev Square, an alternative site that was sanctioned for the rally. Opposition leaders charge that Putin is forcing Russia into a controlled system where the two main parties will both be supporters of the Kremlin -- United Russia and Fair Russia. [why is this in the commodities section – energy supplies] **Russian Police Arrest Kasparov, Opposition Protesters**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aYwEWGaGzqIc&refer=home>

Currency

- April 10 (Bloomberg) -- China's trade surplus almost doubled in the first quarter, adding to friction as the U.S. takes complaints against its second-largest trading partner to the World Trade Organization. The surplus widened to \$46.4 billion from \$23.3 billion a year earlier, the customs bureau said on its Web site today. The March gap was \$6.87 billion, smaller than economists expected. The U.S. yesterday announced plans to file two cases at the WTO alleging failure to curb copyright violations, 10 days after imposing duties on imports of Chinese coated paper. U.S. lawmakers say China uses an undervalued currency and subsidies to help spur the nation's booming exports of textiles, electronics and toys. "The bulging surplus will intensify trade friction and protectionist initiatives against Chinese exports, especially in the U.S. and Europe," said Wang Qian, an economist at JPMorgan Chase & Co. in Hong Kong. "It will also strengthen the pressure for further appreciation of the yuan."

Diversification

Derivatives

Housing

Housing Finance

- April 13 (Bloomberg) -- General Electric Co. increased reserves at its U.S. subprime mortgage lending unit, cut jobs, tightened standards and reduced loan origination in the U.S. by about two-thirds, the unit's executive said today. WMC Mortgage, acquired by GE about three years ago, provided about \$100 million of GE's \$20.8 billion total profit last year. It originates loans for borrowers with weak credit, called "sub-prime," and self-employed applicants, called "Alt-A" loans. It then typically sells them immediately to Wall Street firms. In the first quarter, WMC, a unit of GE Money, added \$330 million to reserves after taxes for its \$4.5 billion in assets held for sale, said Mark Begor, who runs GE Money in the Americas. WMC "dramatically curtailed" lending, originating less than \$3.4 billion, down from \$9 billion in the fourth quarter. About \$500 million were originated in March, Begor said. **GE's Subprime Unit Adds to Reserves, Tightens Credit Controls**

http://www.bloomberg.com/apps/news?pid=20601206&sid=amzC7_vGdLrw&refer=realestate **Subprime woes take toll on GE results**

http://www.ft.com/cms/s/04ac6de8-e9b4-11db-91c7-000b5df10621,Authorised=false.html?_i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F04ac6de8-e9b4-11db-91c7-000b5df10621.html&_i_referer=http%3A%2F%2Fwww.ft.com%2Fhome%2Furope

Alt-A Mortgage Market Showing Weakness Tuesday April 10, 4:58 pm ET

- **Weakness Spreads From Subprime Mortgage Market to So-Called Alt-A Segment** NEW YORK (AP) -- Turmoil in the mortgage market is ensnaring more companies who lend to people with decent credit. The spread of home lending woes beyond loans to those with weak credit threatens to reduce the availability of loans for some consumers and even threaten the existence of some lenders. Now the so-called Alternative-A mortgage sector, which loans to borrowers with better credit than subprime borrowers but not quite prime, is starting to hurt. One Alt-A lender, American Home Mortgage Investment Corp. of Melville, N.Y., announced late last week that it was having trouble selling its mortgages into the secondary market and would have to cut its earnings forecast for the quarter and the year. Other Alt-A lenders that have taken hits in the market in recent days are First Horizon National Corp. of Memphis, Tenn., which some analysts predict may be forced to sell out to a bigger bank, and M&T Bank Corp. in Buffalo, N.Y. Guy Cecala, publisher of Inside Mortgage Finance Publications in Bethesda, Md., said a "backlash" from the subprime market meltdown is part of the equation. **"While you're starting to see some deterioration of the quality, it's not so much that investors should be dumping (mortgage-backed securities)," he said.**

"But nobody wants to own a security that goes down in value, whether because of public perception or the reality of the market." Doug Duncan, chief economist for the Mortgage Bankers Association in Washington, D.C., said that Alt-A mortgages made up a small share of the U.S. market at about 6 percent of outstanding loans. Loans to prime customers, who are the most creditworthy, make up 74 percent; those to subprime borrowers are about 11 percent, and government-backed loans total about 9 percent. Alt-A borrowers traditionally had credit scores as high as prime borrowers, but often provided less documentation of their finances; in recent years, however, some Alt-A borrowers have had credit scores closer to subprime borrowers and still weren't asked for full documentation. Duncan said he expected to see some increase in delinquencies and defaults in the Alt-A market this year, **but said the bigger problem was that investors appeared less willing to invest in these loans because of the deepening subprime problems.** That will be a factor in slowing mortgage origination this year to an estimated \$2.2 trillion from a peak of \$3.9 trillion in 2003 and \$2.5 trillion last year, Duncan said. Still, **companies that write the Alt-A mortgages are finding that investors are less willing to buy securities that are backed by mortgages -- or are demanding significantly higher returns.** Among the biggest Alt-A lenders in 2006 were IndyMac Bancorp Inc. of Pasadena, Calif; Countrywide Financial Corp. of Calabasas, Calif.; Residential Capital, or ResCap, of Minneapolis, a holding company for the residential mortgage operations of General Motors; EMC Mortgage Corp. in Irving, Texas, a subsidiary of The Bear Stearns Cos.; and Washington Mutual Inc. of Seattle. Glenn Costello, a managing director with the Fitch Ratings agency in New York, said that some of the Alt-A lenders were trying to distinguish themselves from others, arguing that they were worth investors' continued attention because they had lower delinquencies and fewer problems. **"But the fact remains that for some of the riskier products they originate, there's a lack of demand for them" as investors get pickier about the market, he said. "Investors just aren't willing to pay what they used to." [this is much more than a housing foreclosure issue, it is a derivatives and risk issue]**
http://biz.yahoo.com/ap/070410/alt_a_mortgages.html?.v=2&printer=1

Macro Economic

- SAN DIEGO (MarketWatch) -- Nobody knows what's really happening to American households better than a CPA at tax time. I heard from one, who started his email like this: "I am a CPA, CFP who specializes in individual income taxes for affluent Americans. I am shocked by the bad and deteriorating financial condition of many of my clients." I suspected that this CPA, who will remain nameless for obvious reasons, was referring mostly to high interest expenses as home equity balances rise. I was only partially right. In a follow-up, he wrote: "The underlying cause that is apparent to me is years of unrestrained/uncontrolled spending beyond one's means. This is now catching up with many. "It is not so much slower income growth or the jump in interest expense. The problem has progressed through the following stages: "First: The careless tapping of home equity. "Second: Extensive use of credit cards while paying the minimum (if lucky); getting killed on interest and the monthly late payment fees. "Third: To pay bills now due, many are tapping their 401(k)s and or IRAs, taking premature withdrawals (not periodic). The big problem here has been that many have only 20% tax withheld when

the burden is closer to 50%, with the U.S. Tax, a 10% penalty and the state tax. "Two of my clients had to sell their homes last spring to cover their 2005 liabilities; some BIG numbers. These clients had adjusted gross incomes in excess of \$200,000. At least they were lucky because the housing market was firmer a year ago! "Another individual I know (though not a tax client) refinanced to an ARM to lower her monthly payments. Her payments jumped in December by about 20%, which she can't handle. I recently learned that this person opted not to have her real estate taxes paid monthly via escrow. The reason: She couldn't afford the monthly payment when she refinanced. "WHAT are these people thinking?? They never come for advice before they get themselves in a hole! "I am afraid that what I have been seeing is just the tip of the iceberg." He's not alone in that thought. If you're a CPA who has similar stories to tell, and has noticed a change over the years, I'd like to hear from you.

<http://www.marketwatch.com/news/story/story.aspx?guid=495EC07D99DC489EA20E559DEAEE6565&siteid=mktw&dist=nbc>

- April 12 - WASHINGTON (Reuters) - The number of U.S. workers filing new claims for jobless aid jumped to the highest level in two months last week, [while retailers warned of softer sales in April](#) after a stronger-than-expected March, suggesting some weakness in the economy. U.S. import prices, meanwhile, jumped 1.7 percent in March as petroleum prices surged, but prices for non-petroleum imports were up just 0.3 percent, data showed on Thursday. An unexpected 19,000 jump in jobless claims for the week ended April 7 was at least partly due to temporary layoffs associated with school holidays, the Labor Department said, but economists said the data could indicate tightness in the labor market was beginning to ease. Similarly, while retailers reported stronger-than-forecast sales in March, helped by an early Easter and pent-up demand after a cold February, investors focused on retailer forecasts for weaker sales in April. "The million-dollar question is whether the downside risks to the economy are accelerating. The unemployment claims would be a key indicator there," said Chris Rupkey, senior financial economist at Bank of Tokyo-Mitsubishi UFJ in New York. [Stocks closed higher as biotechnology stocks gained and strong retail sales data relieved fears about consumer spending](#). The Dow Jones Industrial Average closed up 68.34 points or 0.55 percent to end 12,552.96. **Jobless claims rise, retailers warn on outlook** [this is a wonderful illustration of the how the reasons given for market moves on a daily basis are nonsense. Note the headline and first paragraph warn of a poor retail outlook and then the daily rise in the market is explained as being due to "strong retail sales data" relieving "fears about consumer spending". Yet another example of the importance of looking at raw information and thinking on your own]

<http://www.reuters.com/article/ousiv/idUSN1239041220070412>

- April 12 (Bloomberg) -- Prices of goods imported into the U.S. rose last month by the most since May 2006, led by a surge in the costs of crude oil and natural gas. The 1.7 percent increase in the import price index was more than twice economists' forecasts and followed a 0.1 percent gain in February, the Labor Department's figures showed. Prices excluding petroleum rose 0.3 percent. Rising prices for energy and other imported goods "likely would boost" broader measures of inflation, Federal Reserve officials said at last month's policy meeting. Officials also said it might "prove necessary" to raise interest rates, according to minutes of the meeting. "It's a pretty inflation-unfriendly piece of

data," said Ethan Harris, chief U.S. economist at Lehman Brothers Holdings Inc. in New York. The recent gain in energy costs ``is one of a number factors that has made the Fed more nervous about inflation." Economists had forecast import prices to rise 0.8 percent, after a previously reported 0.2 percent increase the prior month, according to the median projection in a Bloomberg News survey. Imports account for about 17 percent of all goods and services purchased in the U.S. **Prices of U.S. Imports Rise by Most Since May 2006**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aDDBFvKuCHHM&refer=home>

- Was it only two months ago that market conditions couldn't have looked better? The Dow Jones industrial average ran to new peak after new peak, accompanied by five-year highs for the S&P 500 and the Nasdaq. Then whammo, all three indexes were staggered following the Shanghai exchange's 9% plunge in late February. Huge selloffs rocked Asian and European markets, as well. Many gurus have called this simply a blip, an overdue correction in a market destined to move strongly higher. And indeed, starting in March stocks regained some of their lost ground. So should you be nervous or not? At first blush there's a real cause for concern. The nasty hit the subprime market took in March has continued, and the damage is frightening. Several subprime lenders, such as New Century, NovaStar and Accredited Home Lenders, are down 80% or more from their highs. Their loose underwriting standards suggest that more rot exists at these lenders than we know about. Investment and commercial banks have shut many of the subprime lenders off from fresh capital, which makes their survival questionable. The ripple effect from the subprime lenders has spread to their biggest Wall Street enablers. The stock of Morgan Stanley, Bear Stearns and Lehman Brothers suffered worse than the rest of the market, on fears that the firms' ill-fated dealings with the subprime crowd will spawn bloody writeoffs. Just as bad, Morgan, Lehman and Bear's own subprime lending units could be ripe for writeoffs on defaulted loans to weak-credit home buyers. **That said, the subprime fallout should be reasonably contained.** [I have yet to read any mainstream opinion that the "sub-prime" problem is not "contained. Just another reason to believe it is a smoldering fire waiting for a little oxygen] Unjustifiably, subprime fears have weakened share prices at Freddie Mac and Fannie Mae. Freddie and Fannie, which also have trafficked in subprime loans, nevertheless screened out a lot of the really risky mortgages, so the two giants should encounter little pain. Given their enormous available capital, Freddie and Fannie could be big beneficiaries of the current panic, as other lenders pull back. The same is true for most of the nation's large commercial banks, where subprime loans are a mere fraction of their loan portfolios. Three other obstacles face the market. There are fears that 1) the slowing economy will sink into a recession, 2) corporate earnings growth will slow and 3) the Federal Reserve won't cut rates anytime soon, because inflation shows signs of picking up. At this point, however, I think these fears are unfounded. While it is true that earnings growth could flatten through the rest of the year, the economy is still working at a very high rate of capacity (82%), with unemployment near its lowest level in a half-decade. The economy doesn't need further Fed stimulation now. Although pockets of speculation do exist in private equity and hedge funds, not to mention subprime mortgage lending, they are small relative to the enormous speculation in the late 1990s. Yes, 2007 should be a much more volatile year than we have seen for some time, but it should also provide some excellent opportunities

if quality companies are sold at bargain basement prices. Stocks already are relatively cheap. The price/earnings multiples of the most-watched indexes, namely the S&P and the Dow, are near the lower ends of their ranges for the past ten years. So wince and bear it. This is the type of market where big bucks can be made. **[we finally found a point on which to agree, I think however we are on opposite sides of the trade]: Bad Times Ahead?** http://www.forbes.com/forbes/2007/0423/112_print.html

Retail

Retirement

- Many Americans realize the U.S. retirement system is changing, but haven't begun to adjust so that they are well-positioned for a comfortable retirement, according to a survey released today. The 17th annual 2007 Retirement Confidence Survey, conducted the by non-partisan Employee Benefit Research Institute and Matthew Greenwald & Associates Inc., shows that pension plan changes have left nearly half of U.S. workers less confident about the benefits they'll receive. And of those who have personally experienced reduction in retirement benefits by their employer, nearly two in five indicated they have done nothing to respond. Only 24% said they planned to save more and just 8% said they will save more in the employer's plan as a result of these changes. "EBRI research suggests that the vast majority of employees are likely to need some type of additional savings if they hope to end up with the same amount of retirement savings they would have expected prior to the change," said Jack VanDerhei, a Temple University professor and EBRI fellow and co-author of the 2007 Retirement Confidence Survey, in a statement. Many workers unprepared for pension shifts
<http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070411/REG/70411001/-1/INDaily01&template=printart>

Risk

- NASD has issued a warning to investors about the dangers of margin buying, as the amount of debt U.S. investors took on rose to a record \$321.2 billion in February. The figure topped the previous record of \$299.9 billion in March 2000, at the peak of the last bull market, according to Reuters. Margin debt has more than doubled from \$141.3 billion in January 2003, three months after the bear market bottomed out. The self-regulatory organization's latest investor **alert** comes as many American homeowners are unable to keep up with their mortgage payments. Delinquencies hit 4.95% in the fourth quarter, compared with 4.67% during the third quarter, according to the National Delinquency Survey released by Mortgage Bankers Association released last month. "We are concerned too many investors are unaware they could suffer substantial financial losses by using debt to purchase securities," said Mary L. Schapiro NASD chairman and chief executive, in a statement. "By updating our alert on this topic, we hope to remind investors not to underestimate the risks involved." **NASD sounds alarm on margin buying** **[it would seem likely that this is a month end number and would be post the initial big drop, which could be extrapolated to mean the dip buyers did so to some extent to record credit]**

Savings Rate

- **New York, NY (April 4, 2007)** – Two out of every five adult Americans (41%) feel they cannot afford to buy a home, according to a new poll conducted by Harris Interactive for the American Institute of Certified Public Accountants (AICPA). Of that number, just over half (51%) cite lack of money as the primary reason. “A home is one of the most significant investments you can make,” said Carl George, CPA, Chair of the AICPA’s National CPA Financial Literacy Commission. “It is widely associated with achieving the American Dream. It’s troubling that so many Americans believe their financial position prevents them from owning such an important asset.” American adults also report that their spending and savings habits prevent them from achieving other life goals. The survey found that about one-third of U.S. adults are delaying goals for financial reasons, including higher education (11%), medical procedures (9%), marriage (6%), parenthood (5%) or retirement (9%). **Moreover, 16% of the U.S. adult population is looking for a second or part-time job to meet current expenses.** [not one of these people would be considered to be unemployed] Three in ten U.S. adults (29%) are not able to save any of their money. [does this mean the other 70% just won’t? with a negative savings rate this number seems very low] **HOME OWNERSHIP OUT OF REACH FOR MANY ADULT AMERICANS, AICPA POLL REVEALS** *Other Life Goals Also on Hold*
http://www.aicpa.org/download/news/2007/HOME_OWNERSHIP_OUT_OF_REACH_FOR_MANY_ADULT_AMERICANS_AICPA_POLL_REVEALS.pdf

Tech

- April 9 - SAN FRANCISCO (MarketWatch) -- Advanced Micro Devices Inc. on Monday warned that first-quarter sales came in well short of Wall Street targets, hurt by stepped-up competition from larger rival Intel Corp. Still, AMD shares rose 5% as it also said it would cut capital spending this year by \$500 million, restructure some operations and take other steps to reduce costs. Uche Orji, an analyst at UBS, called AMD's announcement "a welcome capitulation." In a research note, Orji said AMD's plans were "modestly positive as management is finally addressing its cash flow issues." Many analysts feared the semiconductor maker would be cash-strapped later this year unless it raised money or cut spending. The world's No. 2 maker of chips used in PCs and servers, AMD had planned to spend as much as \$2.5 billion this year on factories in a bid to improve its costs per chip and fill new orders for large customers. AMD had won production contracts from new customers including large PC makers Dell Inc. and China's Lenovo Group. Now, AMD says it will reduce planned capital spending by half a billion dollars. The company said it will "significantly reduce" discretionary expenses and limit hiring to "critical" positions. In midday trading, AMD shares rose 64 cents to \$13.50. The Sunnyvale, Calif., company has been cutting prices as it battles Intel in the market for chips used in personal computers and servers. AMD said revenue in the quarter ended March 31 would total about \$1.225 billion, 19% less than the \$1.55 billion expected by analysts surveyed by Thomson Financial. Analysts on average expected the company to lose 30 cents a share. The chipmaker blamed lower average selling prices for its chips and significantly lower unit sales, especially through its distributors. [if this were merely a price issue, unit sales would not have dropped. This is a serious demand

issue.] <http://www.marketwatch.com/news/story/amd-slashes-sales-forecast-shares/story.aspx?guid=%7B6CCEB7C2%2D265A%2D46A5%2D849C%2D99C359910867%7D&siteid=yhoo&dist=yhoo>

Wall Street

- **Is Your Broker An F-Word (Fiduciary)?** 04.09.07, 12:40 PM ET Believe it or not, financial planners are still arguing over whether the interest of their customers comes first. In financial services-speak this is referred to as being a "fiduciary." But that debate could end if the industry's main self-regulatory group, the Certified Financial Planner Board of Standards, adopts a revised Standards of Professional Conduct. **The draft, which is now out for comment for the second time, states that each CFP "shall at all times place the interests of the client ahead of his or her own."** [how sad is it that this even needs to be stated – simply demonstrates the corruption of the current system] The current, somewhat weaker language mandates "reasonable and prudent professional judgment." implications have bitterly split the growing industry of people who offer financial planning advice. There are **armies of advice-giving brokers, consultants and planners** [more correctly stated there are armies of sales people hawking their companies products] from firms including Citigroup, Morgan Stanley, Merrill Lynch and AIG. Even discounter Charles Schwab Corp. has gotten into the act with its growing Private Client business. The best-interest-of-the-clients standard is very close to the legal duty of a fiduciary, a status many planners have been loath to assume explicitly, fearing, among other things, it would open them up to lawsuits. Implicitly recognizing this division, the latest draft uses the dreaded (by some) F-word but imposes that status only on CFPs when they provide actual financial planning services. **That would spare stockbrokers paid on commission who aren't doing any financial planning for a given client at all.** [carrying the reasoning through it is ok for them to operate in something less than the client's best interest] CFP Board rules are binding only on the nation's 55,000 holders of that credential, which is issued only after meeting educational, work experience and ethical standards. But the impact of setting a higher standard is sure to reverberate widely. The new CFP Board view also might gain strength from a federal appeals court decision last month striking down the Securities & Exchange Commission new broker-exemption rule. **That regulation permitted stockbrokers to market themselves as financial advisers, and even collect money manager-like fees, without assuming fiduciary duties so long as the advice rendered was "incidental."** Leading the charge for the stronger language in CFP Board rules has been so-called "fee-only" planners, who are paid only by the client and receive none of their compensation from financial services providers such as insurance companies or mutual funds. Fee-only planners market themselves as free of conflicts. **But a large majority of those purporting to offer financial planning--including most stockbrokers, especially at large wire houses--are paid at least in part by commissions from those financial products sellers.** CFP Board rules allow this method of compensation with proper disclosures. But the commission crowd clearly has been on the short end of the P.R. stick. Years ago, financial planning entailed taking a broad assessment of a client's current situation and suggesting strategies to reach future financial goals, often for retirement and often in a one-time plan. But in recent times, the big money has come in implementing the plan--collecting, say, a 1%-per-year fee for ongoing management of assets. This continuing

relationship has become so lucrative that some financial services providers, like Merrill Lynch, now offer financial plans at little or no cost.

http://www.forbes.com/2007/04/09/financial-planners-fiduciary-pf-ii-in_wb_0409moneyinvesting_inl.html In Pictures: 10 Tough Questions To Ask Your Planner http://www.forbes.com/2007/04/09/financial-planners-fiduciary-pf-ii-in_wb_0409moneyinvesting_inl_slide_2.html

- April 11 (Bloomberg) -- When Buck Meyer thinks about the \$300,000 he lost after he bought a subprime mortgage lender's bonds, he doesn't hesitate to denounce financial titans Bear Stearns Cos., Credit Suisse Group, JPMorgan Chase & Co. and Morgan Stanley. Like the thousands of people who snapped up American Business Financial Services Inc.'s notes yielding 10 times the going rate on Treasury bills, Meyer had no idea that the company was on the verge of bankruptcy. He wondered how something so celebrated as "a kitchen-table startup" by the Philadelphia Business Journal and so lucrative that it paid \$50 million in fees to the four firms for its burgeoning credit, could default on his money. "At what point did it become a Wall Street Ponzi scheme?" said the 52-year-old Meyer, who almost wiped out the nest egg he received from selling his home in Doylestown, Pennsylvania, six years ago. **American Business was offering 13-month notes with a yield of 12.99 percent and an "uninsured money market note" with a yield of 6.05 percent** three months before seeking bankruptcy, according to a filing with the U.S. Securities and Exchange Commission. **[at what point did people become responsible for understanding what they invest in and realizing that outsized returns equal outsized risk?] Subprime Losers Blame Bear, Credit Suisse, JPM, Morgan Stanley**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=avI34G5JBAjQ&refer=home>
- April 10 (Bloomberg) -- Ask Barclays Plc and ABN Amro Holding NV how much takeover advice is worth and they'll prove it's a lot less than what companies in any other industry pay banks for arranging acquisitions. **Bankers hired for the proposed merger of Barclays and ABN Amro may share about \$100 million for what would be the biggest marriage in financial services based on comparable fees from previous deals. That's about one-third less than advisers charged last year for AT&T Inc.'s \$73 billion purchase of BellSouth Corp.,** estimates compiled by New York-based Freeman & Co. show. "Financial institutions understand particularly well the fee world because they live in it," said Frederick Lane, a founding partner and chairman of Boston-based investment bank Lane, Berry & Co. and a former co-head of mergers at Donaldson, Lufkin & Jenrette Inc., which Credit Suisse Group bought in 2000. "They know what they should be paying." Companies like Amsterdam-based ABN Amro and London-based Barclays can reduce their bill because they typically have in-house bankers. Financial-services acquisitions are often larger, less frequently hostile and arranged by executives who have worked with each other on behalf of clients. Banks also are more active issuers of stocks and bonds, meaning advisers are willing to accept lower payment for the chance of winning multiple fee-generating assignments. Barclays, the U.K.'s third-biggest bank, may offer 76 billion euros (**\$100 billion**) for ABN Amro, the largest Dutch bank, analysts at Keefe, Bruyette & Woods Ltd. estimate, exceeding Travelers Group Inc.'s \$70 billion purchase of Citicorp. The nine advisory firms on Barclays's

potential tie-up with ABN Amro could share as little as 0.1 percent of the deal value, according to estimates from Freeman, based on past transactions including New York-based JPMorgan Chase & Co.'s \$58 billion purchase of Chicago-based Bank One Corp. in 2004. ``The service banks give their clients is one of the rare services where there's no technical reason offered for why the price is A not B," said Sylvain de Forges, head of financial operations at Paris-based Veolia Environnement SA, the world's biggest water supplier, which has made more than 10 acquisitions in the past year. ``At least lawyers and accountants provide an estimate of the hours worked." Similar-sized healthcare and consumer mergers, including Procter & Gamble Co.'s \$55 billion friendly takeover of Gillette Co. in 2005, generated fees of almost 0.2 percent, Freeman said. Fees aren't disclosed for most mergers and acquisitions in the U.S. **Barclays, ABN Amro Know Most, Pay the Least for Takeover Advice** [One of the reasons I found this interesting was the acknowledgement that fees on this are related to business hoped for in other areas. On of the reasons Enron was able to pull off what it did was its ability to intimidate investment banks with the fear that if the banks did not do what Enron wanted it would freeze them out in the future.]
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aqK.xPzzy6eo&refer=home>

I Disagree . . . and why

Article of the week:

UM EMBA

A marketing case study in the news:

- Nestlé offered \$5.5 billion to **Novartis**, a Swiss drugs company, for **Gerber**, its baby-food business. The world's biggest food company has been steadily expanding its range of nutritional brands and the deal provides it with most of the baby-food market in the United States.