

April 1, 2007 Review

Comments

“What is endangering America’s money is the same thing that is undermining its position in the world - slipping standards.” From the 3/29 Daily Reckoning
<http://www1.youreletters.com/t/1216996/1469639/23/0/>

A little snippet of the rot that underlies many of the “popular” names in US equities was revealed by DELL after hours Thursday:

An audit committee of the company's board of directors "has identified a number of accounting errors, evidence of misconduct and deficiencies in the financial control environment," the company said in a statement.

Dell's accounting practices are also being investigated by federal securities regulators.

I’m not sure I need to add anything

Credit

- Every credit boom ends with a bust. Although it is impossible to predict the precise timing of an impending recession, one can look out for certain danger signals. Let us begin with the fallacy that consumer spending drives economic growth. It ought to be patently obvious that one cannot consume what has not been produced. In other words, consumption follows production and is its *raison d'être*. In turn, it is the existence of capital goods, i.e., machinery, factories, power stations, etc, that makes the vast production of consumer goods possible. The more capital goods we accumulate the greater the quantity, quality and range of consumer goods and services that can be produced at lower real prices. **Now it is axiomatic in economics that opportunity cost is the true cost of anything; meaning that what we sacrifice to obtain any object or goal is its true cost.** If I choose world trip to a car than the real cost of the trip is the car and its forgone services. It follows that whatever is consumed cannot be invested. **Thus economic growth is forgone consumption, which is commonly called savings.** Hence, if there are no savings then the phenomenon of capital consumption emerges. Statistics tell us that Americans have all but abandoned the habit of saving. I have grave doubts that this is the case. I’m betting that if we take into account pension funds and capital gains we shall find that savings are still positive. Some commentators argue that the so-called ‘wealth effect’ encouraged American to borrow and spend. Whether people cease saving because they feel wealthier is neither here nor there. What matters in this respect is the source of the spending. There can be no doubt that the Fed’s easy money policy has considerably expanded credit. It is this credit expansion that fuelled the boom and thus consumer spending by raising nominal

incomes and funding the rise in household debt, just as in Australia. Therefore, when the party comes to an end consumer spending will drop. **But why must the party stop? Because nothing is for nothing. The Fed's credit expansion set loose economic forces that it does not even acknowledge, let alone control. By using credit to stimulate output it has misdirected production by distorting interest rates. This has caused a lot of companies to embark on otherwise dicey projects because easy credit has misled them into thinking that current demand justifies the investment. What this means is that investment is exceeding savings. The other name for this process is *inflation*** When people save they indirectly shift resources from consumption to the production of capital goods (future goods) and it is this process that increases future output. **On the other hand, to reduce the flow of savings means directing resources to current consumption which will then lower investment causing future living standards to be lower than they would otherwise be. The US economy: the coming recession and what to look for**
<http://www.brookesnews.com/072603usecon.html>

[Perhaps of interest to some of you] I've heard a lot about online high-yield savings accounts, but I've never bothered to look into them. It occurred to me today that **it's ridiculous to keep my "web money" in a no-yield checking account** at Wells Fargo. As my blog revenue grows, I'm throwing away money by not having my savings someplace that pays.

I did some research. I googled for "high yield savings account" and "ING direct" and "HSBC Direct". I followed promising links (and ads) from the search results. As of March 19th, here are the offers that I was able to find with minimal digging. All of these accounts are **FDIC insured**.

- **Countrywide Bank** offers a variable rate, from **4.00% to 5.40% APY**, can link to other bank accounts. *\$1,000 minimum to open.*
- **AmTrust Direct** offers **5.36% APY**, "no monthly service fee or minimum balance fees", can link to other bank accounts. *\$1000 minimum.* This is a money market account.
- **WT Direct** offers **5.26% APY**, no fees, can link to other bank accounts. *No minimum to open, but your interest rate drops if you don't have a \$10,000 balance after 60 days.*
- **E-Loan** offers **5.25% APY**, no fees, "industry's strictest privacy policy". *\$5,000 minimum.*
- **Presidential Online Bank** offers **5.25% APY**, no fees, ATM access, web interface. *\$5,000 minimum to open.*
- **Emigrant Direct** offers **5.05% APY**, no fees, can link to other bank accounts, web interface. *No minimum.*
- **E*Trade** offers **5.05% APY**, no fees, an automatic savings plan, can link to other bank accounts. *\$1 minimum to open.*
- **HSBC Direct** offers **5.05% APY** (with a temporary 6.00% APY promotion), no fees, can link to other bank accounts, web interface. *\$1 minimum to open.* The HSBC web site is a busy mess.

- **Capitol One offers 5.00% APY**, no fees, free checks and ATM card, an automatic savings plan, can link to other bank accounts. *\$1 minimum to open.* This is a money market account.
- **Citibank Direct offers 4.65% APY**, no fees, \$25 sign-up bonus. *No minimum.*
- **ING Direct offers 4.50% APY**, no fees, an automatic savings plan, web interface. *No minimum.*

The **QuickTransfer feature** at E*Trade looks awesome. I love the idea of being able to have one interface to manage *all* my accounts at *all* my financial institutions. Has anyone used this? Do other banks offer similar features?

A reader sent in a story about online banks **last November**, but that discussion was specifically about customer service. I'd like to hear from people who use one (or more) of these banks and can tell me more about the features. **Which one should I choose and why?**

<http://www.getrichslowly.org/blog/2007/03/21/which-online-high-yield-savings-account-is-best/>

- Problems in subprime mortgage loans could be spreading into subprime auto loans...and subprime commercial loans. As to the subprime auto and truck loans alone, there are some \$34 billion outstanding. As to the rest of the loans that were made to shaky borrowers, without proper credit standards, the total may reach into the hundreds of billions. DR 3/29

Commercial Real Estate

Commodities

Currency

- March 31 (Bloomberg) -- China's commerce ministry said U.S. tariffs on imports of coated paper from the nation are unacceptable and it reserves the right to take ``necessary" action, signaling the dispute may escalate. The U.S. Commerce Department, reversing more than two decades of practice, decided yesterday to levy countervailing duties to compensate for alleged Chinese subsidies to exporters. The change of policy opens the way for steel, textile and other U.S. manufacturers to apply for the same protection. The tariffs ``have severely damaged the interests of Chinese industry," Commerce Ministry spokesman Wang Xinpei said in a statement today on its Web site. ``It's unacceptable and China strongly demands the U.S. to reconsider the decision." The dollar fell on concern the levies will provoke trade tensions with China, the second-largest holder of U.S. debt. The department's action comes as U.S. lawmakers, vexed by a record \$232.5 billion trade deficit with China, prepare to consider stiffer measures aimed at fighting what many call the nation's weak currency, subsidies and other unfair trade practices. The Commerce Department said Chinese paper producers benefit from government grants, tax incentives, debt forgiveness and other unfair subsidies. China's exports of coated paper more than doubled in 2006 to \$224 million from their level in 2005, according to U.S. government data. **China Calls U.S. Paper Duties `Unacceptable,' May Respond** **[I am a neophyte when it comes to the implication of**

such things. Further you know I have a significant mistrust of the media. However, with that said, it appears that this is being taken quite seriously by the markets and merits further monitoring]

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aLmSEcA2DZz0&refer=homeDiversification>

- Last week's Federal Open Market Committee (FOMC) meeting sparked a bout of U.S. dollar selling, which pushed the dollar to its weakest level of the year versus the euro: the \$1.34 level. While dollar bears have backed off slightly in the past couple of sessions, the long-term dollar downtrend remains intact. Take a look at the monthly euro/dollar chart seen in Figure 1. As most forex traders are well aware, the U.S. greenback has been firmly entrenched in a bear trend since 2002. The U.S. dollar has plummeted like a rock falling from the sky, retreating from around .85 versus the euro to a low point at \$1.36, scored in December 2004. The market is currently probing and testing that critical resistance zone on the euro/dollar chart. Long-term trend dynamics favor a bust through that ceiling. But given the strength of that resistance and the reluctance by European finance ministers to allow further appreciation of the euro against the dollar, a solid break of the level may be tough to achieve at least initially. Forex traders will want to monitor action closely around the \$1.34/1.36 region in the days ahead. If dollar bears gain enough gumption to break through that level it would open the door for a fresh upswing in euro/dollar. Conversely, if that ceiling holds, additional consolidation and sideways action between roughly the \$1.28/1.34 zone could emerge in the weeks ahead. While this is meant to be primarily a technical column, and yes I do believe it is all in the charts, there are some interesting fundamental dynamics at work surrounding the U.S. dollar looking ahead. Last week, the FOMC held monetary policy steady at 5.25%. The Fed has held the federal funds rate at 5.25% since May 2006. Prior to that, the Fed had been on a tightening spree, ratcheting up the fed funds rate 17 times from 1% in June 2004 to its current level. Some economists currently see the U.S. Fed between a rock and a hard place. After all, economic conditions have been softening in the U.S., in large part due to the weakness in the housing market. Is there a recession looming on the horizon? For now, most economists aren't forecasting that. But the big question ahead is will the U.S. Fed cut rates later this year in order to loosen what some see as "restrictive" monetary policy at 5.25%. Current inflation readings, such as the personal consumption expenditure (PCE) are coming in at 2.3% on a year-over-year basis as of January. That is higher than the Fed would like to see. Unless a softening on the inflation front occurs, the Fed may have its hands tied when it comes to potential monetary loosening later in the year. **Further U.S. Dollar Weakness: Is It Only a Matter of Time? By Kira McCaffrey Brecht** <http://www.sfomag.com/enewsletter/detail.asp?ID=4171>

Derivatives

Housing

- March 28 – “The principal source of the slowdown in economic growth that began last spring has been the substantial correction in the housing market. Following an extended boom in housing, the demand for homes began to weaken in mid-2005. By the middle of

2006, sales of both new and existing homes had fallen about 15 percent below their peak levels. Homebuilders responded to the fall in demand by sharply curtailing construction. Even so, the inventory of unsold homes has risen to levels well above recent historical norms. Because of the decline in housing demand, the pace of house-price appreciation has slowed markedly, with some markets experiencing outright price declines. The near-term prospects for the housing market remain uncertain. Sales of new and existing homes were about flat, on balance, during the second half of last year. So far this year, sales of existing homes have held up, as have other indicators of demand such as mortgage applications for home purchase, and mortgage rates remain relatively low. However, sales of new homes have fallen, and continuing declines in starts have not yet led to meaningful reductions in the inventory of homes for sale. Even if the demand for housing falls no further, weakness in residential construction is likely to remain a drag on economic growth for a time as homebuilders try to reduce their inventories of unsold homes to more normal levels. Developments in subprime mortgage markets raise some additional questions about the housing sector. Delinquency rates on variable-interest-rate loans to subprime borrowers, which account for a bit less than 10 percent of all mortgages outstanding, have climbed sharply in recent months. The flattening in home prices has contributed to the increase in delinquencies by making refinancing more difficult for borrowers with little home equity. In addition, a large increase in early defaults on recently originated subprime variable-rate mortgages casts serious doubt on the adequacy of the underwriting standards for these products, especially those originated over the past year or so. As a result of this deterioration in loan performance, investors have increased their scrutiny of the credit quality of securitized mortgages, and lenders in turn are evidently tightening the terms and standards applied in the subprime mortgage market. Although the turmoil in the subprime mortgage market has created severe financial problems for many individuals and families, the implications of these developments for the housing market as a whole are less clear. The ongoing tightening of lending standards, although an appropriate market response, will reduce somewhat the effective demand for housing, and foreclosed properties will add to the inventories of unsold homes. At this juncture, however, the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained. In particular, mortgages to prime borrowers and fixed-rate mortgages to all classes of borrowers continue to perform well, with low rates of delinquency. We will continue to monitor this situation closely. **Testimony of Chairman Ben S. Bernanke [Since the Fed is one of the major causes of the current crisis, this should scare you into next week]** <http://www.federalreserve.gov/boarddocs/testimony/2007/20070328/>

- March 27 - Federal investigators have opened a criminal probe into the lending practices of homebuilder **Beazer Homes** according to a *Business Week* report Tuesday. The news sent shares of the company plunging \$5.11, or 16%, to \$26.30 in after-hours trading. The Federal Bureau of Investigation, the Internal Revenue Service, the Justice Department and the Inspector General of Housing and Urban Development are all involved in the matter, *Business Week* said. The report cited an FBI spokesman and other people familiar with the probe. The probe is related to a recent report in *The Charlotte Observer* that looked at significantly higher-than-average foreclosure rates for Beazer homes and allegations of abusive lending practices. **Beazer Target of Fed Probe** http://www.thestreet.com/_mktw/newsanalysis/homebuildersconstruction/10347026.html

Housing Finance

- Foreclosures slipped 4 percent in February from the month earlier, but were 12 percent higher than the same time in 2006. "Based on our numbers for the first two months of 2007, foreclosure activity is running at a rate that would project to a 33 percent increase over 2006," said James J. Saccacio, chief executive officer of RealtyTrac. States with the highest foreclosure rates in February were Nevada, Colorado, and Florida. Nevada had one foreclosure filing for every 278 households. Colorado reported one foreclosure for every 345 households, and Florida had one foreclosure filing for every 382 households. Nationwide, one foreclosure occurred for every 884 households. **Foreclosures Likely to Set Record in 2007**

<http://www.realtor.org/RMODaily.nsf/pages/News2007032704?OpenDocument>

- Financially-strapped and bankrupt home owners are pointing the finger at banks and mortgage brokers for selling them on the idea of subprime mortgages. Doug Duncan, chief economist for the Mortgage Bankers Association in Washington, D.C., acknowledges that in some cases aggressive lenders obscured facts and made loans that borrowers couldn't afford. But he, like other lenders, says it was the responsibility of borrowers to read and understand what they signed. About 50 percent of the subprime mortgages were "stated income loans," with no verification of borrowers' incomes, says Paul Leonard, director of the California office of the Center for Responsible Lending. Last year, the Mortgage Asset Research Institute sampled 100 such loan applications and **reported that 90 percent listed significantly higher incomes for borrowers than they had reported on their tax returns.** "Borrowers need to protect themselves and need to read what they're signing," says Nick Larson, an assistant vice president at the Mortgage Asset Research Institute. "At the end of the day, bottom line, you can't stress this enough: The person who is signing the papers is committing themselves financially." **Subprime Fallout: Home Owners vs. Banks**

<http://www.realtor.org/RMODaily.nsf/pages/News2007032603?OpenDocument>

Macro Economic

- **[I found this very interesting. The article is much longer, so if you are interested in seeing it all click on the link]** "The Chinese state has finally confirmed what we have been saying for a number of months: they have announced that \$8 billion of government money has now been authorized and allocated as seed money to begin constructing a state-held Chinese airplane company. Furthermore, the new company will be designed to stand as a competitor to America's Boeing and Europe's Airbus. What makes this a bit shocking is that the Chinese ruling party's commission was so bold that it admitted China still does not have all the technical expertise it needs to build such large planes, but not to worry, it said, that is why they had approved Airbus' request to open a new factory in China -- one that will build four giant A320 jumbo jets a month. "As usual, the government has required that all modern technology in the Airbus plant must be transferred to the Chinese state. This new plant will yield a treasure-trove of missing technology to fill in the gaps in China's knowledge when it comes to building larger civilian and military planes. China has already pulled much technology from dozens of Boeing projects in the country -- enough to allow them to soon build their own small jetliners. They are accepting orders now for a small regional plane, with deliveries to start

in one year.” . . . Adrian Van Eck We reprise Adrian Van Eck’s comments this morning because they speak to a point we have been making for the past few years whenever asked, **“When will the Chinese stop buying our bonds?” Unwaveringly, our response has been, “Whenever the Chinese no longer need us!”** Yet the thought process goes much deeper than that. We here in the U.S. are playing the card game called “Texas Hold ‘Em” whereby you win one hand at a time. The Chinese, however, are playing the board game called “GO.” Now “GO” is played by two people alternately placing black and white stones on vacant intersections of a 19 x 19 rectilinear grid. A stone, or group of stones, is captured (and removed) if it is surrounded by the stones of the opposing color. **As opposed to “Texas Hold ‘Em,” instead of playing to win one hand at a time, the strategy of “GO” is to sacrifice a “stone” here and there to win in the long run. Think about these two different strategies and reread Mr. Van Eck’s comments. Plainly the Chinese are “importing” technology at a MUCH faster rate than they could ever develop it on their own. We have seen this strategy time and time again whereby the Chinese only allow a high tech manufacturing plant to be built if the company’s modern technology is transferred to the Chinese state. So while companies think they are winning “one hand at a time” by being allowed to build this or that plant, the Chinese are importing technology that would take them decades to develop on their own! Eventually China will be able to build Airbuses on their own and with China’s much cheaper labor costs . . . well, you can figure out what is going to happen over the long run.** http://www.raymondjames.com/inv_strat.htm

- **Wall Street reports the joy of spending at pace with income** - March 30 (Bloomberg) -- Americans spent more and a gauge of business activity picked up along with inflation, making it less likely the Federal Reserve will cut interest rates in coming months. Both incomes and spending last month gained 0.6 percent, the Commerce Department said today in Washington. That was twice the increase forecast by economists. Prices rose 0.3 percent, while the National Association of Purchasing Management- Chicago's business barometer jumped to the highest in almost two years. Further reports showed a rise in construction spending and a weakening of consumer confidence. **Growth in wages and employment means consumers have money to help offset rising gasoline prices and weakening home values.** At the same time, the higher-than-expected price report gives Fed Chairman Ben S. Bernanke, who this week described inflation as his chief concern, less room to reduce rates should the economy falter. While people spent more, they were also less optimistic. The Reuters/University of Michigan's final index of consumer sentiment dropped to 88.4 in March from 91.3 in February. The reading, the lowest in six months, compares with a preliminary figure of 88.8. **U.S. Economy: Consumer Spending Gains; Prices Rise** http://www.bloomberg.com/apps/news?pid=20601087&sid=aGEqOTt_48F4&refer=home **Actual data underlying prior story** - Personal income in February 2007 rose 0.6%, to \$11,290. billion. Nominal disposable personal income (DPI) increased 0.5%, while real DPI rose 0.1%. Nominal personal consumption expenditures (PCE) increased 0.6%, while real PCE rose 0.2%. **The personal savings rate as a percentage of DPI was - 1.2% in February.** (i.e. despite the headline propaganda, American’s used 1.2% of savings to fuel spending, 60% of which was spent on services) Personal saving -- DPI less personal outlays -- was a negative \$119.6 billion in February, compared with a negative \$115.1 billion in January. Personal saving as a percentage of disposable personal

income was a negative 1.2 percent in February, the same as in January. **Negative personal saving reflects personal outlays that exceed disposable personal income.** Saving from current income may be near zero or negative when outlays are financed by borrowing (including borrowing financed through credit cards or home equity loans), by selling investments or other assets, or by using savings from previous periods. For more information, see the FAQs on "Personal Saving" on BEA's Web site. For a comparison of personal saving in BEA's national income and product accounts with personal saving in the Federal Reserve Board's flow of funds accounts and data on changes in net worth (which help finance consumption), go to <http://www.bea.gov/bea/dn/nipaweb/Nipa-Frb.asp>. **Further the .6% increase in income was 65.4B, increase in disposable income 53.8B.**

- We have heard reassuring utterances that subprime paper constitutes a fraction of the total mortgage market and, therefore, the current meltdown should not be a major strain on the economy. The fact remains, however, that money is fungible. So, for example, we cannot yet determine the extent to which a tightening of credit for subprime mortgages will spread to other forms of lending (e.g. credit card debt, auto loans) to less-than-creditworthy consumers. It would not surprise us if subprime mortgage-type underwriting looseness had infected other consumer markets. **It is also uncertain which institutions are holding most of the subprime mortgage securities and how their balance sheets will be affected. Another unknown is how seriously the subprime mortgage meltdown will hit the investment banks that have derived substantial fees in recent years from the packaging and sale of subprime paper (and which often retained the riskier elements of those transactions).** Without a clear sense of the role of subprime credit in the overall economy, any investment decision is, at best, guesswork. To be sure, we are already seeing some investors venture into the subprime market, such as the recent \$200 million liquidity infusion provided to **Accredited Home Lenders** (nasdaq: [LEND - news - people](#)) by Farallon Capital Management and the purchase of a \$1.7 billion subprime portfolio by an affiliate of **Fortress Investment Group** (nyse: [FIG - news - people](#)). Such examples aside, I believe it is still early in the game to be making long-term bets on the direction of the battered subprime mortgage market. **Investing now, absent a better understanding of the risks and stronger signs of stability, is like trying to catch the proverbial falling knife.**

http://www.forbes.com/2007/03/28/subprime-mortgage-pf-guru-in_hn_0328soapbox_inl.html?partner=daily_newsletter

- March 29 (Bloomberg) -- The Standard & Poor's 500 Index is more likely to fall than rise above its six-year-high reached Feb. 20 because the threat of faster inflation and slower growth persists, said Marc Faber, an investor who predicted the stock market crash in 1987. "We're right where the market would usually be at the start of a bear market," Faber said in an interview from Copenhagen. "Financial stocks are not performing well and this is usually a bad indicator for the market." A measure of financial shares has retreated 5.9 percent since Feb. 20. Countrywide Financial Corp., the biggest U.S. mortgage lender, and Lehman Brothers Holdings Inc., the fourth-biggest U.S. securities firm by market value, led the losses. Inflation and rising oil prices may restrain economic growth and keep stocks from completing a rebound from the Feb. 27 rout that sent the

S&P 500 to its worst plunge in four years, Faber said. "What the government publishes as inflation isn't the cost-of-living increase for the average household in America," said Faber, who oversees \$300 million at Hong Kong-based Marc Faber Ltd. Increases in corn, wheat, soybean and meat prices have driven food costs up for most Americans, he said. Emerging markets, including China, may fall more than the U.S., according to Faber. Rising oil prices and defaults on mortgages by the riskiest borrowers in the U.S. reduce the cash available for investments in those markets, he said. Growth in the U.S. current account deficit has boosted global equities, he added. **Faber Says U.S. Stocks Suggest 'Start of Bear Market'**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aH4g9qcnPxvo&refer=home>

- March 28 (Bloomberg) -- The words "New Century" used to flash several times a day on caller ID at Taleo Mexican Grill in Irvine, California, where diners wash down Salmon Veracruz with \$7 hand-shaken margaritas. Reservations were often for 10 or more. Not anymore, said Nic Villarreal, the owner of the restaurant, located two blocks from New Century Financial Corp.'s headquarters. "We don't get any." In Irvine, where just nine months ago office vacancies approached a three-year low, home prices were at an all-time high, and unemployment was less than the national average, at just 3.6 percent, the unraveling subprime mortgage market is ruining the recent prosperity. Hometown lenders including New Century and Ameriquest Mortgage Co. already have fired more than 3,000 people, house and condominium prices are down 17 percent since June and office vacancy rates are poised to double this year, said John McDermott, regional manager for Orange County at commercial real estate broker Sperry Van Ness. "It's a huge engine that has been shut off," McDermott said. "I don't know where the new influx of jobs are if you take the lending market out of the equation." New Century, Irvine's second-biggest employer, may be forced to seek bankruptcy protection after the lender to people with bad or limited credit said New York-based Morgan Stanley and UBS AG of Zurich were among the companies that cut off access to \$17.4 billion of credit lines. New Century is supposed to be the anchor tenant of an almost-complete, 20-story office tower being built by Maguire Properties Inc. The collapse of the subprime industry probably will affect everyone from printer-paper suppliers to office-maintenance companies to retailers who depend on employees of lenders including New Century for sales, said Jacquie Ellis, president of the Irvine Chamber of Commerce. Before its collapse, New Century had 7,400 employees, compared with 8,600 at the University of California, Irvine, she said. "Massive Layoffs' Coming "There are going to be massive layoffs and maybe something worse than that," Ellis said. "You wonder what impact it's going to have on other companies as well." **Subprime Mortgage Collapse Eviscerates**

California Headquarters

<http://www.bloomberg.com/apps/news?pid=20601109&sid=aOjASNOLKcQ&refer=home>

- March 26 (Bloomberg) -- A slowdown in business investment that the Federal Reserve expects to end without much damage to the economy may instead linger long enough to hurt job growth. Business spending may be a significant overlooked risk to the Fed's forecast of moderate economic growth this year, economists say. When spending growth tapers off, a slowdown in hiring almost always follows, according to researchers at

Commerzbank AG. "The weakness in capital spending is alarming," says Joseph LaVorgna, chief U.S. economist at Deutsche Bank Securities Inc. in New York. "If capital spending is weak and getting weaker, the next thing companies will do is slow hiring." Fewer new jobs would mean less consumer spending, deepening the malaise in a U.S. economy already burdened by slumping housing demand. The combination might force the Fed to shift its focus more toward shoring up growth. Fed policy makers, led by Chairman Ben S. Bernanke, last week stuck to their view that the economy will keep expanding "at a moderate pace." Their most recently published minutes, from the January meeting, indicated that while business investment had proven weaker than anticipated, they still expect improvement before year's end. Private economists may not be so sanguine. They have cut their forecasts of business spending three times since December, and now expect it will grow this year at the slowest pace since 2003, according to surveys by Blue Chip Economic Indicators. That's after expenditures on equipment and software fell last quarter by the most in four years. "Under the Radar" "With so much attention on the housing market, this is perhaps a serious risk that's flying under the radar," says Brian Sack, a former Fed economist and now vice president of Macroeconomic Advisers LLC in Washington. "We still think business spending will grow at a solid pace this year, but recent data has alerted us to the risks." **Business-Spending Slowdown May Sap Job Growth, Surprising Fed**
<http://www.bloomberg.com/apps/news?pid=20601103&sid=aqSE0LuPpKkU&refer=us>

Retail

- March 29 (Bloomberg) -- Dell Inc. said it found evidence of misconduct and errors in its accounting amid investigations into the computer maker's financial results. The shares fell as much as 8 percent in extended trading. The world's second-biggest personal-computer maker will miss an extended deadline for filing an annual report. Officials are still trying to determine if Dell will need to restate financial results, the Round Rock, Texas-based company said today. The remarks heightened concern among investors after a probe by the U.S. Securities and Exchange Commission, started in August 2005, was escalated into a formal investigation in November. Dell has said the probes indicated possible errors related to so-called accruals and reserves -- estimates of expenses or losses that have occurred but haven't been paid out yet. **Dell Finds Misconduct as It Finishes Accounting Probe**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aX2DvruYrdmg&refer=home>

Retirement

Risk

Savings Rate

Tech

Wall Street

- March 26 (Bloomberg) -- Stocks worldwide are moving closer in tandem than at any time in two decades, reducing opportunities for money managers and forcing investors used to buy-and-hold strategies to trade more like hedge funds. Jack Ablin at Harris Private Bank is betting the Standard & Poor's 100 Index will rise and betting against the Russell 2000 of smaller shares. At BNP Paribas SA, Talbot Stark's clients expect the volatility of the S&P 500 and Nasdaq 100 will diverge. Morgan Stanley Global Wealth Management's David Darst says investors should look for industry groups that are least aligned with the U.S. market. Benchmark indexes for the U.S., Europe, Japan and developing nations all added between 1.2 percent and 2.9 percent this year. The similar returns for industrialized and emerging markets, small and large companies, and global industry groups have made it more difficult for investors to increase returns. "Correlations create arbitrage opportunities," said Ablin, who oversees \$50 billion as chief investment officer of Harris in Chicago. "We're going to take advantage of it rather than just bemoan the fact that we can no longer get diversification." **Global Stocks Trade in Tandem [positive correlation means no place to hide in a serious downdraft – diversification as practiced by the average investment advisor will not work IMO]**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aTrm5ymTmIBw&refer=home>

I Disagree . . . and why

[Article of the week:](#)

A market correction is coming, this time for real

By William Rhodes (the senior vice-chairman of Citigroup, and chairman, president and chief executive of Citibank,)

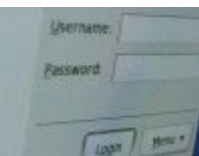
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The recent market turmoil should not have been un-expected. We are living in an increasingly interdependent world. Times have been good, even with the volatility of the past few weeks sparked by the Shanghai market and then fuelled by the subprime sector in the US. We have been living in extraordinary times in a global "Goldilocks" economy - not too hot, not too cold. The macro-economy still looks pretty good but the shaking of the trees over the past few weeks has, it is to be hoped, awakened investors and lenders to the risks in the marketplace.

High growth in emerging markets continues, as exemplified by the tremendous growth in China and India. Western and eastern Europe are growing. The Russian economy, driven by energy, has been strengthened well beyond what

was expected a few years ago. The Middle Eastern oil-exporting countries are going through a boom fuelled by oil and gas: it is different from earlier periods of high oil prices because this time a substantial amount of the money is staying in the region, rather than being invested elsewhere as in the 1970s.

Africa is in many ways going through something of an economic renaissance. The Japanese economy also has improved and the US locomotive has continued, maintaining good growth of more than 3 per cent in 2006 notwithstanding the downward revision of fourth-quarter growth from 3.5 to 2.2 per cent.



However, much of the good news has come as a result of extraordinary levels of liquidity pouring into opportunities around the globe. To a large extent this is due to the Federal Reserve's expansionary monetary policies early in the decade and the US administration's fiscal stimulus. The yen carry trade has also facilitated the buoyant expansion of investments and leverage evident everywhere today. The low spreads, the tremendous build-up of liquidity, the reach for yield and the lack of differentiation among borrowers have stimulated both dynamic growth and some real concerns.

Pockets of excess are becoming harder to ignore. Problems in the housing and mortgage area such as the subprime sector in the US are one such example of excess that should come as no surprise. As lenders and investors inevitably become more discriminating, liquidity will recede and a number of problems will surface. Too many countries and companies with vastly different risk profiles are still commanding similar pricing.

It has been my experience that periods of economic expansion tend to last between five and seven years. We are entering the sixth year of expansion in the US. **Against that background, I believe that over the next 12 months a market correction will occur and this time it will be a real correction.** I said as much last spring during the Inter-American Development Bank meetings in Belo Horizonte, Brazil. Soon afterwards, in May 2006, the markets did experience a correction but it was so mild and short-lived that it was in a way less effective than no correction at all. I say that because it left the inexperienced with the impression that it would be smooth sailing from there on.

Market developments in the past few weeks should be seen as a warning. What has been evident for a number of months is that, in the US, we are seeing lagging inflation and slower growth. Whether this means that we are going to have to fend off recessionary tendencies is not yet clear. However, what is clear to me is that in the next year a material correction in the markets will occur.

During the last big adjustment that started in July 1997 in Thailand and spread to a number of Asian economies including South Korea, followed by Russia in 1998 - and led ultimately to the bail-out of Long Term Capital Management, the US hedge fund - a number of today's large market operators were not yet in the mix.

Today, hedge funds, private equity and those involved in credit derivatives play important, and as yet largely untested, roles. The primary worry of many who make or regulate the market is not inflation or growth or interest rates, but instead the coming adjustment and the possible destabilising effect these new players could have on the functioning of international markets as liquidity recedes. It is also possible that they could provide relief for markets that face shortages of liquidity.

Either way, this clearly is the time to exercise greater prudence in lending and in investing and to resist any temptation to relax standards.

The writer is senior vice-chairman of Citigroup, and chairman, president and chief executive of Citibank

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<http://www.ft.com/cms/s/06246766-dd93-11db-8d42-000b5df10621.html>

How I'd Hack Your Weak Passwords

If you invited me to try and [crack your password](#), you know the one that you use over and over for like every web page you visit, how many guesses would it take before I got it?

Let's see... here is my top 10 list. I can obtain most of this information much [easier than you think](#), then I might just be able to get into your e-mail, computer, or online banking. After all, if I get into one I'll probably get into all of them.

1. Your partner, child, or pet's name, possibly followed by a 0 or 1 (because they're always making you use a number, aren't they?)
2. The last 4 digits of your social security number.
3. 123 or 1234 or 123456.
4. "password"
5. Your city, or college, football team name.
6. Date of birth - yours, your partner's or your child's.
7. "god"
8. "letmein"
9. "money"
10. "love"

Statistically speaking that should probably cover about 20% of you. But don't worry. If I didn't get it yet it will probably only take a few more minutes before I do...

Hackers, and I'm not talking about the ethical kind, have developed a whole range of tools to get at your personal data. And the main impediment standing between your information remaining safe, or leaking out, **is the password you choose**. (Ironically, the best protection people have is usually the one they take least seriously.)

One of the simplest ways to gain access to your information is through the use of a [Brute Force Attack](#). This is accomplished when a hacker uses a specially written piece of software to attempt to log into a site using your credentials. [Insecure.org](#) has a list of the Top 10 FREE Password Crackers [right here](#).

So, how would one use this process to actually breach your personal security? Simple. Follow my logic:

- You probably use the same password for lots of stuff right?
- Some sites you access such as your Bank or work VPN probably have pretty decent security, so I'm not going to attack them.
- However, other sites like the Hallmark e-mail greeting cards site, an [online forum](#) you frequent, or an e-commerce site you've shopped at might not be as well prepared. So those are the ones I'd work on.
- So, all we have to do now is unleash [Brutus](#), [wwwhack](#), or [THC Hydra](#) on their server with instructions to try say 10,000 (or 100,000 - whatever makes you happy) different usernames and passwords as fast as possible.
- Once we've got several login+password pairings we can then go back and test them on targeted sites.
- But wait... How do I know which bank you use and what your login ID is for the sites you frequent? All those cookies are simply stored, unencrypted and nicely named, in your Web browser's cache. (Read [this post](#) to remedy that problem.)

And how fast **could this be done**? Well, that depends on three main things, the length and complexity of your password, the speed of the hacker's computer, and the speed of the hacker's Internet connection.

Assuming the hacker has a reasonably fast connection and PC here is an estimate of the amount of time it would take to generate every possible combination of passwords for a given number of characters. After generating the list it's just a matter of time before the computer runs through all the possibilities - or gets shut down trying.

Pay particular attention to the difference between using only lowercase characters and using all possible characters (uppercase, lowercase, and special characters - like @#\$%^&*). Adding just one capital letter and one asterisk would change the processing time for an 8 character password from 2.4 days to 2.1 centuries.

Password Length	All Characters	Only Lowercase
3 characters	0.86 seconds	0.02 seconds
4 characters	1.36 minutes	.046 seconds
5 characters	2.15 hours	11.9 seconds
6 characters	8.51 days	5.15 minutes
7 characters	2.21 years	2.23 hours
8 characters	2.10 centuries	2.42 days
9 characters	20 millennia	2.07 months
10 characters	1,899 millennia	4.48 years
11 characters	180,365 millennia	1.16 centuries
12 characters	17,184,705 millennia	3.03 millennia
13 characters	1,627,797,068 millennia	78.7 millennia
14 characters	154,640,721,434 millennia	2,046 millennia

Remember, these are just for an average computer, and these assume you aren't using *any word in the dictionary*. If Google put their computer to work on it they'd finish about 1,000 times faster.

Now, I could go on for hours and hours more about all sorts of ways to compromise your security and generally make your life miserable - but 95% of those methods begin with *compromising your weak password*. So, why not just protect yourself from the start and sleep better at night?

Believe me, I understand the need to choose passwords that are memorable. But if you're going to do that how about using something that no one is ever going to guess AND doesn't contain any common word or phrase in it.

Here are some password tips:

1. Randomly substitute numbers for letters that look similar. The letter 'o' becomes the number '0', or even better an '@' or '*'. (i.e. - m0d3ltf0rd... like modelTford)

2. Randomly throw in capital letters (i.e. - Mod3lTF0rd)
3. Think of something you were attached to when you were younger, but DON'T CHOOSE A PERSON'S NAME! Every name plus every word in the dictionary will fail under a simple brute force attack.
4. Maybe a place you loved, or a specific car, an attraction from a vacation, or a favorite restaurant?
5. You really need to have different username / password combinations for everything. Remember, the technique is to break into anything you access just to figure out your standard password, then compromise everything else. This doesn't work if you don't use the same password everywhere.
6. Since it can be difficult to remember a ton of passwords, I recommend using [Roboform](#). It will store all of your passwords in an encrypted format and allow you to use just one master password to access all of them. It will also automatically fill in forms on Web pages, and you can even get versions that allow you to take your password list with you on your PDA, phone or a USB key. If you'd like to download it without having to navigate their web site here is the [direct download link](#).
7. Once you've thought of a password, try Microsoft's [password strength tester](#) to find out how secure it is.

Another thing to keep in mind is that some of the passwords you think matter least **actually matter most**. For example, some people think that the password to their e-mail box isn't important because "I don't get anything sensitive there." Well, that e-mail box is probably connected to your online banking account. If I can compromise it then I can log into the Bank's Web site and tell it I've forgotten my password to have it e-mailed to me. Now, what were you saying about it not being important?

Often times people also reason that all of their passwords and logins are stored on their computer at home, which is save behind a router or firewall device. Of course, they've never bothered to change the default password on that device, so someone could drive up and park near the house, use a laptop to breach the wireless network and then try passwords from [this list](#) until they gain control of your network - after which time they will own you!

Now I realize that every day we encounter people who over-exaggerate points in order to move us to action, but trust me this is not one of those times. There are 50 other ways you can be compromised and punished for using weak passwords that I haven't even mentioned.

I also realize that most people just don't care about all this until it's too late and they've learned a very hard lesson. But why don't you do me, and yourself, a favor and take a little action to strengthen your passwords and let me know that all the time I spent on this article wasn't completely in vain.

Please, be safe. It's a jungle out there.

<http://onemansblog.com/2007/03/26/how-id-hack-your-weak-passwords/>

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Economics in real life!

March 30 (Bloomberg) -- The U.S. Commerce Department, reversing more than two decades of practice, decided today to levy new duties on imports from China to compensate for Chinese subsidies to exporters.

The change of policy by the Bush administration, which debated the action for months, applies initially to imports of coated paper from China. It also opens the way for steel companies, textile producers and other manufacturers facing competition from China to apply for the same protection.

"This decision is the most significant step toward a stronger trade policy with China than we have experienced in this decade," Republican Representative Phil English of Pennsylvania said in a statement today.

Concern that the decision might provoke trade tension with China sent stocks down and the dollar lower. The Dow Jones Industrial Average slipped 16.11, or 0.1 percent, to 12,332.64 at 1:53 p.m. in New York. The dollar fell 0.32 percent to \$1.3374 against the euro at 1:55 p.m. in New York.

China is the second-largest U.S. trading partner behind Canada and holds more than \$350 billion of U.S. debt. The move comes as Congress is preparing to consider stiffer measures aimed at fighting what many lawmakers call China's unfair subsidies, weak currency and other trade practices.

Under decade-old practices, antidumping duties are the only ones that have been applied on products from countries such as China with managed economies because it is difficult to identify subsidies in those nations.

Commerce Department Applies New Duties Against China

http://www.bloomberg.com/apps/news?pid=20601087&sid=aSIEjVq7p_vk&refer=home

U.S. Stocks Fall on China Tariffs; Dow Heads to Quarterly Loss

By Michael Patterson

March 30 (Bloomberg) -- U.S. stocks fell on the last trading day of March, dragging the Dow Jones Industrial Average to its first quarterly loss since June 2005, on concern new duties on Chinese imports may provoke a trade war.

Exxon Mobil Corp. and General Electric Co., the world's biggest companies by market value, led a drop in the Standard & Poor's 500 Index after the government reversed more than two decades of practices and decided to expand tariffs on Chinese manufacturers.

“It's raising concerns that it could trigger a trade war between the U.S. and China,” said Sam Rahman, who oversees \$1.3 billion as head of U.S. equities at Baring Asset Management Inc. in Boston.

<http://www.bloomberg.com/apps/news?pid=20601087&sid=atrae2MSw1Qc&refer=home>