

April 8, 2007 Review

Comments

It's all good right?

April 6 - "U.S. payrolls added 180,000 jobs in March, pushing the unemployment rate down to 4.4% for the month, according to a report from the Department of Labor. The last time that the unemployment rate was lower was in May 2001, The unemployment rate fell 4.5% in February and 4.6% in January."

More good news right? Maybe not. A few things jump out to me. First the reference point May 2001. In May 2001 we were in the middle of the 70plus percent drop in the NASDAQ and the economy was far from humming along. Second and IMO more importantly, if we are at record foreclosures in one of the rosier times for employment, what will happen if things get less rosy????

We will see . . .

P.S. Sticking my head in the lion's mouth yet again, I have prepared another were-we-are-where-I-think-we-are-going missive. I've attached it as well as my most recent SVan article for your reading pleasure.

Credit

- April 6 (Bloomberg) -- Consumer credit increased in February as Americans piled on more credit-card debt, Federal Reserve figures showed. Auto loans also rose. Consumer credit, or non-mortgage loans to individuals, increased \$2.973 billion, or 1.48 percent at an annual rate, to \$2.410 trillion, the Fed said today in Washington. In January, consumer debt rose \$6.61 billion. Households faced with tapped out home equity loans and falling real estate values may be turning to higher-interest-rate credit cards so they can keep up their pace of spending, economists said. "There's some tentative evidence of a shift into credit cards," said Robert Dederick, president of RGD Economics in Hinsdale, Illinois. "Logic suggests there would be. If you take the last few months together, the data are consistent." Revolving debt, such as credit cards, rose \$2.494 billion for the month after rising \$1.229 billion a month earlier, according to the Fed's statistics. Non-revolving debt, such as auto loans and mobile home loans, climbed \$479 million for the month after rising \$5.381 billion a month earlier. **U.S. Consumer Credit Increases on Credit Card Debt**
<http://www.bloomberg.com/apps/news?pid=20601068&sid=actUZNqYRh0A&refer=economy> Monthly consumer credit report
<http://www.federalreserve.gov/releases/g19/current/default.htm>
- April 4 (Bloomberg) -- Borders Group Inc., 15 hours after announcing it would sell \$250 million in convertible notes, said "feedback" from investors has persuaded it to scrap the plan. Financing options are being re-evaluated, the company said in a statement today. Borders, the second-largest U.S. bookseller, had planned to use the proceeds to pay down

debt. Spokeswoman Anne Roman declined to provide details of the feedback, only saying it came from "several" investors she wouldn't identify. The company reported an unexpected fourth-quarter loss last month and plans to close half of its Waldenbooks stores and may sell most international operations. Investors may have thought that issuing the debt would reduce the chance of a leveraged buyout, said David Dreman, whose Dreman Value Management LLC is the company's largest shareholder. He said he didn't contact the company about the notes. "There was some shareholder opposition, probably major shareholder opposition, from those that own big blocks," said Dreman. "Apparently they thought this would possibly hurt their ability to open the room for an eventual buyout." Borders, based in Ann Arbor, Michigan, has been named as a possible acquisition target for private-equity investors, who would use debt to purchase the company in what's called a leveraged buyout. Chief Executive Officer George Jones said last month that investors should "not waste time thinking" about such speculation.

Borders Takes 15 Hours to Scrap Convertible-Note Sale

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aaqE66kThq6w&refer=home>

Commercial Real Estate

- April 4 (Bloomberg) -- The vacancy rate for U.S. apartments climbed to 6 percent in the first quarter, the highest in almost two years, as the number of available properties increased, real estate research firm Reis Inc. said. Memphis, Tennessee, had the highest vacancy rate at 11 percent, followed by Colorado Springs and Tulsa, Oklahoma, according to the study by New York-based Reis. The national vacancy rate was the highest since the second quarter of 2005, when it was 6.5 percent, and compared with a rate of 5.9 percent in the first quarter of 2006. "Our expectation is the national vacancy rate will rise modestly through the end of 2007," Reis Chief Economist Sam Chandan said in a telephone interview. "We're starting to see a larger number of completions coming on line." The supply of available apartments is expanding at a pace that will accelerate as warmer weather causes construction to pick up. In some markets, demand for rentals is growing so quickly that developers are converting to rentals buildings they had hoped to sell as condominiums, Chandan said. Failed Lenders The pool of renters could increase as subprime mortgage lenders fail, making it more difficult for people with weak credit scores to get financing to buy. New Century Financial Corp., once the second-largest U.S. subprime lender, filed for bankruptcy this week. Scheduled increases in adjustable rate mortgages will also cause cash-strapped owners to lose their homes, the study said. "The full extent of how this will play out remains to be seen," Chandan said.

[increased apartment supply equals puts more pressure on housing as part of any purchase decision should include cost of renting versus cost of owning] **U.S. Apartment Vacancies Rose to 6% in First Quarter**

<http://www.bloomberg.com/apps/news?pid=20601206&sid=aGI2bIwf13A&refer=realestate>

Commodities

- ALTHOUGH recent wobbles in the equity markets have seemed to revolve around the weakening prospects for American economic growth, one growth-sensitive asset class has continued to race ahead. As of March 27th *The Economist's* commodity-price index, which excludes oil, was up 23.1% over the previous 12 months. The first quarter of 2007 saw metals prices reach new heights, even though zinc suffered a 25% fall. That decline was offset by strength in nickel, tin and copper. The other commodities to show strong gains this year are food-related, with cocoa, pork bellies and soybeans all surging strongly. The most important commodity of all, oil, has also flexed its muscles. On March 27th the crude price surged \$5 in ten minutes on reports of clashes between American and Iranian forces. Those rumours turned out to be false, but the real-life seizure of 15 British servicemen helped push the price per barrel into the mid-\$60s. A number of factors are at work. Paul Horsnell, head of commodities research at Barclays Capital points to tight fundamentals in the metals markets. Inventories ended 2006 at an all-time low, and there have been supply disruptions in both lead and tin. Meanwhile, demand from Asia remains strong; the Baltic Dry Freight index, which reflects the cost of shipping commodities, has reached its highest level since 2004. In foodstuffs, we are still seeing the ripple effects of a drive to switch from oil to ethanol and related products. Farmers are shifting acreage from soybeans to corn (hence the upward pressure on soybean prices). And higher feedstuff costs are helping to raise livestock prices

Commodity prices look set to go on rising

http://www.economist.com/daily/columns/marketview/PrinterFriendly.cfm?story_id=8948670

- April 2 (Bloomberg) -- Commodities are beating stocks and bonds for the first time in nine months, and the quarterly rebound is likely to continue on China's increasing imports of raw materials. Oil, gold, soybeans and sugar for delivery at the end of the year on the New York Mercantile Exchange and the Boards of Trade in Chicago and New York show at least a 3.7 percent appreciation, beyond the 5.7 percent gain in the UBS Bloomberg CMCI index of 28 commodities through March. "When we look at the supply and demand" of most commodities, there's a lot "to be very bullish about," said Larry Kantor, co-head of research in New York at Barclays Capital Inc., which told customers last week to buy tin, gold and corn. China has "a voracious demand for raw materials." **Commodities Trounce Stocks, Bonds on Oil, Soy Revival**

<http://www.bloomberg.com/apps/news?pid=20601109&sid=a1KjROpWWE9I&refer=home>

Currency

- April 5 (Bloomberg) -- China ordered banks to set aside more money as reserves for the sixth time in less than a year to slow inflation and investment in the fastest-growing major economy. The deposit reserve ratio will rise by 0.5 percentage point to 10.5 percent starting April 16, the People's Bank of China said today in a statement on its Web site. That matches the size of the previous five increases. Central bank Governor Zhou Xiaochuan is concerned that cash from a record trade surplus is stoking excess investment in an economy that expanded 10.7 percent last year, the fastest in more than a

decade. The central bank last month raised interest rates to an eight-year high to reduce the risk of loans fueling inflation and asset bubbles. "Chinese authorities have a significant liquidity problem on their hands," said Tim Condon, an economist at ING Bank NV in Singapore. "The government's probably acting in response to the very buoyant loans growth we saw in January and February. They're going to keep watching this." **China Raises Bank Reserve Ratio for 6th Time in Year**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=ajEe45NuiySA&refer=home>

- April 4 (Bloomberg) -- The dollar fell the most in more than a week against the euro and weakened versus the yen as signs of a U.S. economic slowdown increased the likelihood that the Federal Reserve will reduce borrowing costs in the third quarter. The U.S. currency also tumbled to a 10-year low versus the Australian dollar as reports showed U.S. service industries expanded at a slower rate last month and factory orders rose in February less than economists forecast. Crude oil plunged, curbing the U.S. dollar's losses, as Iranian President Mahmoud Ahmadinejad said the 15 Britons seized 13 days ago will be freed. The data "pointed to the slowdown in the U.S. economy, raising concern that we might see lower interest rates this year," said Robert Fullem, vice president of U.S. corporate currency sales in New York at Bank of Tokyo-Mitsubishi UFJ Ltd. "The Iran news could give some relief to the dollar, but I think the market already priced this in." The dollar fell 0.29 percent to \$1.3369 per euro at 4:08 p.m. in New York. It was the biggest drop since March 26. The dollar declined 0.21 percent to 118.70 yen, sliding from a five-week high of 119.09 earlier today. **Dollar Declines Most in a Week Versus Euro on Signs of Slowdown**

http://www.bloomberg.com/apps/news?pid=20601083&sid=aMF6oxcGhe_o&refer=currency

Diversification

Derivatives

- March 30 (Bloomberg) -- U.S. homebuilders may trigger a "correlation crisis" similar to the credit sell off in 2005 when Ford Motor Co. and General Motors Corp. lost their investment-grade credit ratings, according to Bank of America Corp.'s securities unit. The ratings cuts to the automakers triggered losses for banks and hedge funds holding the riskiest parts of collateralized debt obligations, securities that package bonds, loans and credit-default swaps and use the income to pay investors. An increase in the perceived risk of default by homebuilders such as Dallas-based Centex Corp. and Lennar Corp. in Miami could cause similar losses this year, Banc of America Securities LLC analysts Glen Taksler and Jeffrey Rosenberg wrote in a report today. Construction company profits have plunged since the five-year U.S. housing boom ended a year ago. Rising inventories of unsold homes and reluctance by potential buyers wary of falling prices has stifled sales. "We see increasing risk signals that remind us of the run-up to the 2005 correlation meltdown," the analysts wrote in the report titled "The Correlation Crisis of 2007?" **Bank of America Warns of New 'Correlation Crisis'**

<http://www.bloomberg.com/apps/news?pid=20601009&sid=apl3CcA.P81M&refer=bond>

Housing

- April 4 (Bloomberg) -- Mortgage applications in the U.S. fell for the third consecutive week as purchases cooled and fewer homeowners refinanced, an industry report showed today. The Mortgage Bankers Association's index of applications to buy a home or refinance a loan dropped 3.2 percent last week to 649.5 from the prior week. Home-purchase applications and refinancing both declined to the lowest levels in five weeks. The report may raise concern that a recovery from the residential real-estate slump may take longer as defaults on subprime mortgages rise. Federal Reserve Chairman Ben S. Bernanke has said a bigger housing decline is a risk to the central bank's forecast for "moderate" economic growth. "I don't see a dramatic pickup in sales in coming months," said Phillip Neuhart, an economist at Wachovia Corp. in Charlotte, North Carolina. "Issues in the subprime market are a headwind, and inventories are still very high. When housing does recover, it'll be a very slow process." The mortgage applications figures follow a report from the National Association of Realtors yesterday that helped ease concern the real-estate market will get even worse. The report showed more Americans signed contracts to buy previously owned homes in February. The Realtors' index of signed purchase agreements rose 0.7 percent after dropping 4.2 percent in January, yesterday's report said. Economists had forecast a decline. The mortgage bankers group's purchase index fell 2 percent to 402.9 last week, from 411.1 the prior week. It is down 8.1 percent from the same time last year. **U.S. MBA's Mortgage Applications Index Fell 3.2% Last Week**
<http://www.bloomberg.com/apps/news?pid=20601170&sid=aBU4bG709pZs&refer=home>
- April 4 (Bloomberg) -- Todd Alford put his Dearborn, Michigan, house on the market in February when he lost his job as a Ford Motor Co. marketing executive. He hasn't received any offers. "The real estate market has plummeted because of auto industry layoffs and the foreclosures that go with it," said the 37-year-old Alford, who put a \$215,000 price tag on his family's three-bedroom brick bungalow. Alford is selling in an area where almost no one is buying. Metropolitan Detroit led the nation in foreclosures last year as the auto industry's losses left more than 350,000 people jobless, giving the state the highest U.S. unemployment rate. While regulators and lawmakers focus on the crisis in subprime mortgages, **Detroit is evidence that even borrowers with good credit aren't immune to the risk of default.** The percentage of prime loans in Michigan that were overdue by at least 90 days was 0.67 percent in the fourth quarter of 2006, third-highest in the U.S. after Mississippi and Louisiana, states that are still struggling to recover from Hurricane Katrina, according to a March 13 report from the Mortgage Bankers Association. A year ago, the Michigan rate was 0.59 percent. About 78 percent of Michigan mortgages are prime, given to the most creditworthy borrowers, just above the 77 percent national rate, the mortgage trade group in Washington said. Even homeowners who haven't fallen behind on their mortgage payments are feeling the pain of foreclosures, said John Kilpatrick, president of Greenfield Advisors, a Seattle real estate consulting firm. **Living on a block with multiple foreclosures can result in a 10 percent to 20 percent decrease in property values,** he said. In some cases that can wipe out the equity of homeowners or leave them owing more on their mortgage than the house is worth. "Auction Signs" "If you see a neighborhood with a couple of foreclosures

on the block, a couple of auction signs in the yards, that's going to be a neighborhood that's stigmatized," Kilpatrick said. "The innocent houses that just happen to be sitting next to those properties are going to take a hit." The challenges facing homeowners in the Detroit area show what can happen in a market where prices fall and an economy dependent on a single industry falters, said Ralph Marcus Maupin Jr., a real estate investor in Highland, Michigan, a Detroit suburb, who runs a seminar called "Foreclosure Bootcamp." "We've had a tremendous loss of industry and we've seen people refinance their loans to pull equity out only to see their house value drop," Maupin said. "People have over-borrowed, they've seen adjustable rates go up, and they can't pay their mortgage because they've lost their jobs." Home Prices **The Detroit median home price fell 5.8 percent in the past three years**, even as prices rose nationwide by 14 percent, data from the National Association of Realtors show. The median price of a house in the Detroit metropolitan area was \$154,600 in the fourth quarter, trailing the U.S. median of \$219,300, the Chicago-based trade group said. "I could have sold this house 10 times over but everyone's credit is gone to hell in this state," said Robert Springer, a carpenter who's trying to sell a property he renovated in Eastpointe, Michigan, 30 minutes north of Detroit. "Everyone used their homes as cash cows when the market was good, taking out home equity lines of credit, and now no one is paying them back." Michigan's unemployment rate was 6.9 percent at the start of 2007, the highest in the U.S., according to the Bureau of Labor Statistics. "Motor City," as Detroit is known for its concentration of automakers and parts suppliers, has seen the rate hover near 7 percent since January 2003 as Ford, the second-largest U.S. automaker, and General Motors Corp., the largest, reduced expenses to compete with Toyota Motor Corp. and Nissan Motor Co. A job loss isn't the only cause of a real estate crisis for prime borrowers, said Maupin, who teaches a class on property investing at Wayne County Community College. A transfer can mean trouble, too. A few weeks ago one of his students told Maupin he had been transferred to California and was worried he won't sell his suburban Detroit home for enough money to pay off the mortgage. "Falling prices and foreclosures affect everybody, they're not discriminating," said Maupin. "There's fear in the market because tomorrow your neighbor could go into foreclosure and there goes your value. If you need to sell for one reason or another, you can't." Oak Tree On Wildemere Street in the northwest corner of Detroit, where properties sell for double the city's median price, Tudor-style homes with two-car garages line the street. About a quarter of the houses stand empty, many with signs announcing foreclosures and pending auctions. Freddie Mac, the second-largest U.S. mortgage buyer, in February foreclosed on a brick home on the street, near the private Detroit Golf Club where Edsel Ford, former head of Ford Motor, once played. The two-story brick house was purchased in 2005 for \$275,000. Now it stands empty and old Christmas decorations hang over the front door. Guttled Homes While foreclosures have only begun to sap the value of Detroit's more expensive neighborhoods and the suburbs where white-collar auto executives live, they've already gutted many lower-income areas, such as the blocks around 30th Street, about two miles from the city center. Rows of foreclosed houses, many with plywood-covered windows, stand with both their front and back doors wide open. Wells Fargo & Co., the fifth-biggest U.S. bank, owns a 30th Street house it foreclosed on in October, nine months after its owner refinanced the property using a subprime mortgage that adjusts every six months, according to the deed and mortgage

records. The 1,149-square-foot Victorian, its white clapboards marred with graffiti, sits on a corner lot. The open back door reveals a kitchen with bead board wainscoting and a peeling linoleum floor. Like most of the empty houses on the block, thieves have stripped it of its pipes, electric fixtures, and anything else of value. Lending Standards ``It's amazing what people will steal from empty houses," said Jon Werner, a real estate investor from Livonia, Michigan, who buys foreclosed properties, fixes them up and rents them. ``They'll even take the wiring out of the walls. If you find a foreclosed house that still has its furnace, that's a big plus." **Tighter lending standards may slash subprime mortgage sales in half this year and cut by 25 percent so-called Alt A mortgages lent to people who have close to a prime rating, estimates Ivy Zelman, a New York-based analyst at Credit Suisse Group, who covers homebuilders.** The new requirements will force some prospective homebuyers to save more money for a down payment or pay off some of their debt before they can secure credit. **Detroit Home Sellers See Dearth of Buyers as Foreclosures Climb**

<http://www.bloomberg.com/apps/news?pid=20601206&sid=aPtjONAgSIXc&refer=realestate>

Housing Finance

- SAN FRANCISCO (MarketWatch) -- American Home Mortgage Investment Corp. cut its first-quarter and full-year profit forecast by more than 25% Friday after being hit by problems in the secondary market for home loans and mortgage-backed securities. The company also said that it's stopped offering some types of so-called Alt-A mortgages because of the high cost of delinquencies on those loans. The warning suggests that problems in the subprime-mortgage business have begun spreading to other parts of the home-loan industry. American Home said that first-quarter earnings will be roughly 40 cents to 60 cents a share, down from its previous view of \$1.11 to \$1.17 a share. For 2007, it forecast earnings of \$3.75 to \$4.25 a share, compared with the \$5.40 to \$5.70 a share it previously predicted. The company also announced that it is cutting its quarterly dividend to 70 cents from its previous level of \$1.12 a share. **"During March, conditions in the secondary-mortgage and mortgage-securities markets changed sharply," said Michael Strauss, American Home's chief executive, in a statement. "While the market may recover ... our working assumption must be that current market conditions will persist."** American Home also indicated that it continues to be affected by the high cost of delinquencies, especially on Alt-A mortgages, and that it's been forced to repurchase some of these loans. **The company announced that it's stopped offering certain types of Alt-A loans that have been particularly prone to rising delinquencies and repurchases. Those are loans where the homeowner borrows a relatively high portion of the value of a property and simply states an income, rather than documenting it.** American Home also said that it plans to raise the interest rates charged on mortgages. Shares of American Home closed at \$25.84 on Thursday, down 25% so far this year. by: [LEND](#)), have been hit hard this year by rising delinquencies and foreclosures. Subprime loans are offered to poorer borrowers with blemished credit records, so many experts expected trouble in this corner of the mortgage market once house prices stopped rising quickly. But American Home isn't a subprime lender. In early March, the company issued a statement to clear up any "confusion" about the type of loans it offers. Most are adjustable-rate mortgages and so-

called Alt-A loans, which often require less documentation. American Home even offers conventional fixed-rate home loans. Subprime mortgage are less than 1% of its total loan portfolio. Still, American Home said Friday that earnings will be lower because investors in the secondary-mortgage market and the market for mortgage-backed securities (or MBS) offered to buy its loans at "materially lower" prices. Lower prices for AA-, A-, BBB-rated MBS and riskier bits known as residual-mortgage securities also triggered losses in American Home's investment portfolio, the lender added.

<http://biz.yahoo.com/bw/070406/20070406005122.html?.v=1>

- More borrowers are falling behind on their payments, as an increasing number of mortgages adjust. At the same time, lenders are clamping down on borrowers with poor credit and low or unpredictable income. Subprime lending could decline as much as 50 percent this year from last year's total of \$600 billion, says David Liu, a mortgage analyst at UBS AG.

<http://www.realtor.org/RMODaily.nsf/pages/News2007040403?OpenDocument>

- **I agree with this guy!!** ☺ <http://www.southernvanity.com/featureStory.htm>
- SAN FRANCISCO, April 4 (Reuters) - The percentage of home owners with subprime mortgages who are dangerously falling behind on monthly home loan payments rose to a record high in February, according to a First American LoanPerformance report provided on Wednesday to Reuters. Some analysts said the delinquencies would continue to climb, adding to troubles in the subprime mortgage industry. At least 20 lenders have gone out of business. New Century Financial Corp. <NEWC.PK> filed for Chapter 11 bankruptcy protection on Monday, marking the biggest collapse of mortgage lenders in the housing downturn. "It's going to get worse," said Richard DeKaser, chief economist for National City Corp., a Cleveland, Ohio-based bank holding company. "Whether delinquencies, foreclosures, what have you, there will be further bad news as the year plays on." **Past due subprime mortgage payments at record high**

http://yahoo.reuters.com/news/articlehybrid.aspx?storyID=urn:newsml:reuters.com:20070404:MTFH80858_2007-04-04_21-09-34_N04370379&type=comktNews&rpc=44

- AUSTIN, Texas (Reuters) - Problems in the subprime mortgage market have not spread but are clouding the outlook for housing and the U.S. economy as a whole, Federal Reserve Bank of Dallas President Richard Fisher said on Wednesday. "Thus far, the damage from the subprime market has been largely contained. ... Quality problems have arisen primarily for adjustable-rate subprime loans, which are only about 8.5 percent of home mortgage debt outstanding," he told the Austin Mortgage Bankers Association. "Nevertheless, because 40 percent of homebuyers last year were non-prime ... borrowers, housing markets may feel some short-term pains, making it less clear whether housing construction has bottomed and how long the housing downturn may last. Fortunately, the financial system and the economy are strong enough to weather this storm," he said. **[let's see what he says in 3 months] Subprime problems clouding outlook: Fed's Fisher** <http://www.reuters.com/article/ousiv/idUSN0423583520070404>

- April 3 (Bloomberg) -- Shares of Accredited Home Lenders Holding Co. **jumped** as much as 26 percent after the subprime mortgage company got financing commitments totaling \$1.1 billion from two lenders. **[please stop reading before the penultimate paragraph, it is irrelevant that the auditors quit rather than complete the audit of**

this blue chip] Accredited's stock **rose** \$1.88 to \$10.36 at 10:47 a.m. New York time in Nasdaq Stock Market composite trading. The San Diego-based company obtained a \$500 million commitment from a large commercial bank and renewed a \$600 million credit line with an investment bank, Accredited said in a statement yesterday after the close of regular trading. It didn't name the companies. Shares of subprime lenders -- those that lend to homeowners with lower credit ratings or high debt burdens -- have plunged after defaults surged to a four-year high. Accredited depends on commercial and investment banks for financing so it can make loans to homeowners, which it then sells in packages to investors. "Some people are bottom-fishing, trying to see if some of the subprime lenders will survive with additional liquidity," said Mark Batty, an analyst at PNC Wealth Management, which oversees about \$50 billion. "It's a risky purchase. Is the funding Accredited has got going to be adequate or will they need more? It's very difficult to judge. **[It's not difficult to judge what happens when you borrow money at 13% to lend it at 8% - maybe they intend to make it up on the volume]**" Batty said PNC isn't looking to buy any subprime lender shares. Unless such lending is part of a bigger financial company, such as Citigroup Inc. or Wells Fargo & Co., the business depends too much on financing from other institutions, Batty said. PNC owns Citigroup and Wells Fargo shares. Cash on Hand Accredited is also in talks to renew a separate \$650 million credit line, the company said. The company has about \$350 million of available cash on hand after the most recent financing agreements, according to the statement. Accredited had faced a cash crunch as creditors Goldman Sachs Group Inc., Morgan Stanley and Merrill Lynch & Co. demanded collateral to cover losses on mortgages that defaulted. Accredited said yesterday it sold \$800 million of loans to investors. The loans fetched an average of 100.63 cents per dollar of face value, the company said. That was on top of the \$2.7 billion of debt it sold last month at a loss. The company has agreed to sell another \$400 million of loans in the second quarter, at 100.625 cents per dollar of face value, it said. Possible Sale Accredited said the "strategic options" it has been considering may include a merger or raising more capital. **[wait a while and see if they aren't considering the "strategic option" NEWC.PK just exercised]** Matt Howlett, an analyst at Fox-Pitt Kelton in New York, estimates the company may be worth as much as \$380 million, or more than \$14 a share. Accredited's underwriting organization gets more valuable as other lenders fold, Howlett has said. More than 30 mortgage lenders closed operations or sought buyers in the past 12 months, according to Bloomberg data. **The company's auditor, Grant Thornton LLP, quit on March 30, Accredited also said yesterday. There had been no disagreements with Grant Thornton on accounting principles, practices or financial disclosure, Accredited said. Grant Thornton said it would have to expand the scope of its audit "significantly," which might be the reason behind the decision, Accredited said. [Who needs an auditor to opine on the fairness with which the financial statements are presented when the banks don't care, the regulators don't care and the people investing your money don't care?? It's all good!!!]** The departure of the auditor **may delay** [how about they are subject to delisting for their failure to file on March 16th -- oh those pesky exchange rules] **timely** [of course timely for FNM was several years, but you just don't need financial statements anymore I guess] preparation of securitization paperwork and state regulatory licenses, and filing of the 2006 annual report, Accredited said. **Accredited Shares Rise on \$1.1 Billion in Financing (Update2)**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aVOIdoI8T17w&refer=home> **Fremont Shares Tumble After Grant Thornton Quits as Auditor** [they need to hire LEND's PR guys] April 3 (Bloomberg) -- Shares of Fremont General Corp., a mortgage lender ordered by U.S. regulators to stop offering subprime loans, slid as much as 7.5 percent after Grant Thornton LLP resigned as auditor, saying the company failed to provide needed information. Fremont's stock fell 27 cents to \$6.25 at 9:45 a.m. in New York Stock Exchange composite trading, after reaching \$6.03 earlier today. Shares of the Santa Monica, California-based company have lost more than 60 percent this year. Grant Thornton sought more information from Fremont, saying its audit needed to expand "significantly" because of the industry in which the company operates, according to a filing Fremont submitted yesterday to the U.S. Securities and Exchange Commission. The company said it had complied with the requests. "At no time did the company either fail to provide to Grant Thornton any requested information on a timely basis or communicate to Grant Thornton that it was opposed to any additional procedures or testing," the filing said. "The company repeatedly has requested that Grant Thornton complete its audit." Fremont was cited by regulators last month for giving loans to borrowers unable to repay them. The company shut its home-lending operations early last month, put employees on paid leave and hired Credit Suisse Group to sell the mortgage unit. Accredited Shares Accredited Home Lenders Holding Co. said in a separate SEC filing yesterday that Thornton resigned as its auditor. No reason was given. <http://www.bloomberg.com/apps/news?pid=20601170&sid=acuKckZ.VVAo&refer=home>

- April 2 (Bloomberg) -- Shares of M&T Bank Corp., the New York bank partly owned by Warren Buffett's Berkshire Hathaway Inc., fell the most since 1998 after the firm cut its earnings forecast because of weaker-than-expected demand for mortgages. The stock tumbled \$9.88, or 8.5 percent, to \$105.95 at 4:25 p.m. in New York Stock Exchange composite trading. The Buffalo, New York-based company last week cut its first-quarter profit forecast by \$7 million because so-called Alt-A mortgages it tried to sell attracted lower bids than predicted. M&T also said rising defaults mean it must buy back some loans it previously sold. Shares of mortgage lenders have dropped this year as defaults on subprime loans rose to a four-year high. **Companies that offer Alt-A mortgages, a category considered at less risk of default, have said in the past month that investors are mistaking them for subprime lenders and unfairly punishing their shares.** M&T "is among the first banks to report that recent issues in the subprime arena have, in fact, spread upward to 'higher-quality' borrowers," wrote Joseph Fenech, managing director at Sandler O'Neill & Partners LP, in a note to investors. "We would not be surprised to see similar-type pre-announcements from other banks." Fenech rates M&T stock a "hold." [Remember "there is no problem with subprime" . . . then "the problem is only in subprime" . . . now "the problem is confined to Alt A?????" - there is no containment folks, things will get much worse before they get better] **M&T Shares Fall on Lower-Than-Expected Mortgage Bids**

<http://www.bloomberg.com/apps/news?pid=conewsstory&refer=conews&tkr=MTB:US&sid=aP6WiWw3Uioo>

- April 2 (Bloomberg) -- Sales of bonds backed by subprime mortgages are tumbling as investors and bankers, concerned about rising delinquency rates, pull back from what had been one of Wall Street's fastest growing businesses. About \$79.3 billion of securities

backed mainly by loans to people with poor credit or high amounts of debt were issued this year, down 37 percent from \$125 billion in the same period last year, according to a March 30 Citigroup Inc. report. Packaging mortgages into bonds was the fastest-growing part of the debt market since 1995. Lehman Brothers Holdings Inc., Countrywide Financial Corp. and Morgan Stanley were last year's three biggest issuers of securities backed by subprime mortgages and home-equity loans, according to Citigroup. Subprime debt sales "will go down a lot as lending standards get tighter," said Scott Simon, managing director and head of mortgage- and asset-backed securities at Newport Beach, California-based Pacific Investment Management Co., manager of the world's largest bond fund. Fees from securitizing debts including mortgages, auto loans, aircraft leases and credit-card receivables almost tripled in the past five years to \$5.6 billion, Bank of America Corp. analyst Michael Hecht estimated. Underwriting Fees The subprime portion of the business alone may have brought in \$540 million of fee income last year, when Bear Stearns Cos. said about \$540 billion of the bonds were issued. Underwriting fees for subprime mortgage securities last year were about 10 basis points, or 0.1 percent of the value of the bonds issued, according to Mark Adelson, head of structured-finance research at Nomura Securities Inc. in New York. Sales this year may fall by as much as 40 percent, said Bill Martin, a portfolio manager of \$35 billion in mortgage bonds at New York-based TIAA-CREF. The share of subprime borrowers making late payments rose in the fourth quarter to 13.3 percent, the highest in four years, according to the Mortgage Bankers Association, a Washington-based trade group. At least 30 lenders halted operations, went bankrupt or sought buyers since the beginning of 2006. **Subprime Mortgage Bond Sales Plunge in First Quarter**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aXOgVZW8Reg&refer=home>

- April 2 (Bloomberg) -- New Century Financial Corp. became the biggest subprime mortgage company to go bankrupt after the lender, which specialized in loans to people with poor credit records, was overwhelmed by customer defaults. The company filed for Chapter 11 protection today in Wilmington, Delaware, from creditors that include Morgan Stanley and Goldman Sachs Group Inc. About 3,200 people, more than half the workforce, will lose their jobs at the Irvine, California-based company, which said it agreed to sell its mortgage billings and collections unit to Carrington Capital Management LLC for \$139 million. New Century rode the U.S. housing boom to become the largest independent provider of mortgages to borrowers with low credit ratings, only to collapse into insolvency as a rising number of customers failed to repay their loans. New Century extended about \$60 billion in loans last year, second only to London-based HSBC Holdings Plc in total U.S. subprime mortgages granted. "They're clearly going to be the poster child for bad practices in the mortgage industry," said Matthew Howlett, an analyst at Fox-Pitt Kelton in New York. "When all is said and done, the management team will be to blame." Late payments on U.S. subprime mortgages reached a four-year high in the fourth quarter, the Mortgage Bankers Association reported. At least 30 home lenders have halted operations or sought buyers in the past 12 months, including four that have gone bankrupt since last November, according to data compiled by Bloomberg.

New Century, Biggest Subprime Casualty, Goes Bankrupt

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aSDEg5FnwDow&refer=home>

Macro Economic

- April 2 (Bloomberg) -- St. Louis Federal Reserve Bank President William Poole said he would have a "high hurdle" for favoring interest-rate cuts if inflation stays near the current pace. "There would have to be a high hurdle for me to want to be cutting rates if the economy is only marginally and tentatively on the weak side" and inflation isn't slowing toward 2 percent, Poole said after a speech in New York today. Fed Chairman Ben S. Bernanke and fellow policy makers said last month they were more concerned about bringing down inflation than about the economy faltering. Poole reiterated that his goal for inflation is 1.5 percent, plus or minus 0.5 percentage point. **Poole Has 'High Hurdle' for Lowering Interest Rates** [for any of you wondering where this ends up, click on this link: <http://www.answers.com/topic/stagflation>]
<http://www.bloomberg.com/apps/news?pid=20601068&sid=aTBFOrt65bMg&refer=economy>
- April 4 (Bloomberg) -- New Jersey's public pension system is short billions of dollars from years of missed payments that will have to be made up, Governor Jon Corzine said. Corzine, in an interview today with WCBS Newsradio, said that until he took office last year, the state had taken a "holiday" since 1997 from making its annual contributions. "The fact is we just didn't put the money in the pension system and we have a big gaping hole," Corzine, a Democrat, said. "It is a big problem and I have been talking about it since I have been in office." Corzine's comments came in response to a New York Times report today that said the state failed to make contributions or overstated payments to its retirement fund for years, calling into question how much money is in the system. The state's Division of Investment has said it has \$78.4 billion in investments to pay retirees. **New Jersey's Corzine Says Fund Has 'Big Gaping Hole'** [this is very sad and, once again, probably just the tip of the iceberg in pensionland]
<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a7DEPVuEoUYQ>
- April 4 (Bloomberg) -- Service industries in the U.S. expanded at a slower rate last month as costs increased, raising concern the housing slump is spilling over into other parts of the economy. The Institute for Supply Management's index of non-manufacturing businesses including banks, builders and retailers slid to 52.4, the lowest in almost four years, from February's 54.3, Tempe, Arizona-based ISM said today. Readings above 50 point to growth in services. The slowdown in services, which make up almost 90 percent of the economy, raises doubt about the economy's ability to keep expanding at the "moderate" pace forecast by the Federal Reserve. Consumer demand is softening as rising defaults on subprime mortgages deepen the housing slump. Manufacturing growth also slowed last month. "Business sentiment is weakening," said Kevin Logan, senior market economist at Dresdner Kleinwort in New York. "Sales are slowing, and businesses are looking out and seeing that it's going to be harder to make money because costs are rising." Prices Jump The institute's measure of prices paid, a gauge of operating costs, rose to 63.3, the highest since August, from 53.8. **U.S. ISM Services Index Falls in March as Costs Rise**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=a1TLUMznkg78&refer=home>

- April 2 (Bloomberg) -- Manufacturing growth in the U.S. slowed more than forecast last month and raw-materials costs jumped, reinforcing concerns that a cooling economy isn't reducing inflation. The Institute for Supply Management said today its factory index fell to 50.9, from 52.3 in February. The median estimate of economists surveyed by Bloomberg News was for a drop to 51.4. A sub-index of prices rose the most in seven months, while measures of employment and new orders declined. Manufacturing, which accounts for about 12 percent of the economy, won't contribute to the pickup in growth predicted by the Federal Reserve, the report suggests. Soaring costs for fuel and metals might make some firms reluctant to invest and force them to pass on higher costs. Persistent inflation pressures also mean the Fed is unlikely to cut interest rates in coming months, economists said. ``This makes the Fed's dilemma more acute in the sense that growth is very soft and the inflation numbers are ticking up or even surging for manufacturers," said Nariman Behraves, chief economist at Global Insight Inc. in Lexington, Massachusetts. ``At a time when manufacturing is so weak, to see inflation this strong is very troubling." **U.S. Economy: Manufacturing Growth Slackens, Costs Up**

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

Retail

Retirement

- Most successful investors will end their lives with surplus assets they did not need. The remaining sums will range from perhaps a few thousand dollars to many millions. Over the next few decades, these surplus funds will amount to trillions of dollars. What happens to this wealth will have a potentially enormous effect on our economy and our society as well as our children and grandchildren. **My 500-year estate plan**
<http://www.investorsalley.com/marketcap/03-26-07/feature.html>

Risk

- According to James Montier of Dresdner Kleinwort, his measure of risk appetite [in the U.S. stock market], "The Fear and Greed Index," has risen to new extremes. Montier's Fear and Greed Index is based on a simple risk-adjusted calculation of global equity performance relative to government bonds and yields similar results to other indicators of risk appetite. The track record of this contrary indicator isn't perfect, and nor does a high level of risk appetite (irrational exuberance) necessarily lead to a financial calamity. However, high readings in the past led at least to a minor correction (8% - 10%) in the S&P 500, such as occurred in 1997 (twice), and in 2004 and 2006. But in three instances, Montier's index's high readings – in 1987, 1998 and 2000 – led to more serious declines of 22% in 1998, 40% in 1987 and 50% after the 2000 peak. As Albert Edwards notes, "investors are at risk of a snapback. When risk appetite evaporates so too does liquidity. Poof!" **from a free email I received – i.e. I have no verification, but since it supports my thinking I will pass it along as true (I've learned that from the mass media).**

Savings Rate

Tech

- April 4 (Bloomberg) -- Micron Technology Inc., the largest U.S. maker of computer memory chips, reported a second-quarter loss of \$52 million after its expansion into flash memory increased costs and an inventory glut sent prices plummeting. The loss was 7 cents a share, compared with a profit of \$193 million, or 27 cents, a year earlier, Boise, Idaho-based Micron said today in a statement. Sales rose 16 percent to \$1.43 billion in the period ended March 3. Prices for personal-computer memory chips, the company's biggest revenue source, have sunk close to the cost of production. Efforts by Chief Executive Officer Steve Appleton to diversify also face challenges. Prices are sliding in Micron's flash-memory business, and Motorola Inc. has cut orders for its mobile-phone camera sensors. "I do not think we are quite at the bottom," said Eric Ross, an analyst at ThinkEquity Partners in New York. "We still have problems over this quarter and maybe the next one." Micron's shares rose 49 cents, or 4.1 percent, to \$12.56 in extended trading. They had dropped 16 cents to \$12.07 at 4 p.m. in New York Stock Exchange composite trading. The shares have fallen 13.5 percent this year. The rise in late trading may reflect speculation that Micron is close to making a comeback, **[it is truly astounding that all news is simply a reason for some people to buy]**, Ross said. "Investors have really focused on trying to call the bottom here," he said. Micron is facing "challenging market conditions" Appleton said in the statement. Decreases in the company's costs of flash-memory production were "eclipsed" by the 30 percent decline in the average selling price, he said. Micron started a joint venture last year with Intel Corp. to produce flash memory chips for portable electronics, such as digital cameras and Apple Inc.'s iPod. The companies sought to challenge Samsung Electronics Co. and Toshiba Corp. for a share of a booming market. "Our timing couldn't have been worse," Mike Sadler, **Micron's head of sales**, said in February. While unit shipments of such chips rose 40 percent that month, according to the Semiconductor Industry Association, prices fell 50 percent. **Micron Technology Reports Loss Amid Expansion Costs**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=adfcSGGmVxKM&refer=home>

Wall Street

- April 2 - The brokerage industry roared its way to record profits last year, posting earnings not seen since the burst of the tech stock bubble. **[an interesting reference point]** According to the Securities Industry and Financial Markets Association of New York and Washington, the securities industry had profits of \$33.1 billion in 2006, 4.7% above the previous record of \$31.6 billion in 2000. And the record mark from last year was 88.2% above the \$17.6 billion the industry earned in 2005, according to SIFMA. The securities industries performance in 2006 was led by exceptionally strong trading gains and record underwriting revenue, SIFMA said in a statement. SIFMA represents the interests of 650 securities firms, banks and asset managers. Securities industry hits record high
<http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070402/REG/70402053/1/INDaily01&template=printart>

- April 2 (Bloomberg) -- **Bankers are salivating over about \$2 billion of fees from leveraged buyouts in the first quarter, [that's not being spend to build factories, it is simply a fee charged to change ownership]** and that's just a fraction of what they're assured of earning in the busiest year so far for mergers and acquisitions. The value of announced LBOs surged 40 percent to \$188 billion, led by the record \$43 billion agreement to acquire Dallas-based power producer TXU Corp., data compiled by Bloomberg show. The boom is making private-equity firms led by New York- based Kohlberg Kravis Roberts & Co. and Blackstone Group LP the most lucrative part of investment banking for Wall Street. ``What was deemed to be possible a year ago when we thought the limits were \$25 billion to \$30 billion have been easily beaten, particularly in the U.S.," said Gavin MacDonald, the London-based head of European M&A at Morgan Stanley, the second- biggest securities firm by market value. A \$100 billion deal ``isn't outside the realms of possibility," he said. LBO firms have raised more than \$210 billion since the start of 2006, while falling bond yields mean they can borrow enough to afford at least \$2 trillion of acquisitions, according to Bloomberg data. At the same time, Blackstone and KKR are gathering \$20 billion or more for new record-sized funds.
Bankers Mull \$100 Billion LBO in Year of Record Deals
<http://www.bloomberg.com/apps/news?pid=20601109&sid=a1TsgEyHK80Q&refer=home>

I Disagree . . . and why

Cheapest Stocks in Two Decades Signal Bull Market (Update1) [irresponsible hucksterism. For my rebuttal see attached commentary – I've included it so I know where to find it when the rose fails to bloom]

By Michael Tsang, Daniel Hauck and Nick Baker

April 2 (Bloomberg) -- The U.S. economy is slowing. Mortgage defaults are rising. And stocks are the cheapest in 20 years, a ``buy" signal for some of the world's biggest money managers.

BlackRock Inc., Fisher Investments Inc. and Schroders Plc, which manage about \$1.4 trillion, say stocks are inexpensive relative to bonds. Profit of companies in the Standard & Poor's 500 Index, the benchmark for American equity, is growing faster than shares, and represents a yield of 6.53 percent compared with 4.65 percent for 10-year U.S. Treasury notes.

The gap -- the widest since 1986, according to data compiled by Bloomberg -- is encouraging investors because earnings forecasts indicate the U.S. will keep growing, while bond yields show confidence that inflation will stay in check.

``I'm on the wildly optimistic side of things," said Kenneth Fisher, who oversees about \$38 billion as chairman of Fisher Investments in Woodside, California. ``The economy is stronger than people think it is."

Fisher's optimism held through the first quarter even as stocks posted the biggest weekly drop since 2003 in the period ended March 2. They retreated as much as 5.9 percent from the S&P 500's six-year high on Feb. 20.

As many as 2.4 million Americans may lose their homes because of the collapse of subprime lenders and foreclosures, Mike Calhoun, president of the Center for Responsible Lending, a Durham, North Carolina-based nonprofit group, testified to Congress last week.

Lennar Corp., the biggest U.S. homebuilder, reported a 73 percent drop in first quarter profit and said it couldn't give a full-year forecast, two months after predicting this year would be as good or better than 2006. New Century Financial Corp., the second-biggest subprime lender, disclosed a criminal probe.

Earnings Outlook

The S&P 500 withstood a 1.1 percent decline last week to eke out a 0.2 percent gain for the quarter. The index has now advanced in seven of the last eight quarters.

Stocks in Europe and Asia also rose for a third straight quarter. The Dow Jones Stoxx 600 Index added 2.5 percent, while the Morgan Stanley Capital International Asia-Pacific Index advanced 2.9 percent.

Companies in the S&P 500 were forecast to earn \$92.76 per "share" of the index as of March 30, providing an earnings yield of 6.53 percent, analyst estimates compiled by Bloomberg show. That would be the highest since 1991 when compared with yields based on reported net income.

The 1.88 percentage-point advantage stocks yield over Treasuries is the biggest since at least 1986. The more stocks yield in profit compared with the interest on bonds, the cheaper shares become on a relative basis. This measure was cited by former Federal Reserve Chairman Alan Greenspan in 1997 and is commonly known as the Fed model.

'Stay Invested'

Analysts have underestimated profit growth for S&P 500 members in 13 of the last 15 quarters, data compiled by Thomson Financial showed as of March 23.

"The valuation disparity is big enough that you want to make that relative bet," said Robert Doll, who oversees \$1.1 trillion as chief investment officer at BlackRock in Plainsboro, New Jersey. "Our view is 'stay invested' because the bull market is not over, because the economic cycle is not over."

Some investors say the gap isn't enough to keep stocks rising in the face of increasing mortgage defaults, falling consumer confidence and slowing economic growth.

"The issues that we face for the consumer through the housing sector are real, and are going to drag on economic activity for some time," said Wendell Perkins, who helps oversee \$1.6 billion

at Johnson Asset Management in Racine, Wisconsin. "You could easily end up with a negative year" for stocks. His \$152 million Johnson Family Large Cap Value Fund has beaten the S&P 500 for seven straight years.

Surging Defaults

Global markets tumbled Feb. 27 after Greenspan said the U.S. may slip into recession this year. Since then, a meltdown in the subprime mortgage market for loans to borrowers with poor credit histories heightened concern the housing slowdown will spill over to the broader economy and drag down stock prices.

More than 30 lenders have halted operations, gone bankrupt or sought buyers in the past 12 months as defaults on subprime loans surged. Delinquencies on the loans reached a four-year high in the fourth quarter, the Mortgage Bankers Association said.

Concern about foreclosures pushed the Conference Board's index of consumer confidence last month down from a five-year high, while a private report showed home prices declined in January for the first time in at least six years.

Recession Concern

Economists at Morgan Stanley, Nomura Holdings Inc. and HSBC Holdings Plc reduced their first-quarter U.S. economic growth forecasts last week after a report on durable goods orders raised concern a decline in business spending was deepening. Morgan Stanley cut its estimate to 1.6 percent from 2 percent.

The economy grew at an annual 2.5 percent pace in the fourth quarter, the government said in its final revision last week.

Johnson Asset's Perkins agreed with Greenspan's estimate that there is about a one-in-three chance of a U.S. recession this year. Stock indexes may fall at least 10 percent if that happened, Perkins said.

For BlackRock's Doll, valuations are attractive enough to help keep the rally in U.S. stocks from derailing. Doll cited the Fed model as one such measure.

Doll is also confident a slowdown caused by the housing slump will give the Fed more incentive to spur economic growth by cutting borrowing costs. He forecasts the S&P 500 will climb to 1549 by year end, implying a 9.2 percent gain in 2007.

'Inevitable March'

The S&P 500 had the biggest weekly jump in four years, rising 3.5 percent, after investors interpreted the Fed's statement on March 21 to mean the central bank's policy makers abandoned their bias toward raising U.S. borrowing costs.

The Fed dropped a reference to the potential for "additional firming" in interest rates, language repeated since it ceased two years of increases in August. Last week, Fed Chairman Ben S. Bernanke clarified the central bank's position by saying that while inflation remains his main concern, "a little more flexibility might be desirable" in monetary policy.

Traders expect about a 60 percent likelihood the Fed will cut its benchmark rate by a quarter-point to 5 percent in August, according to fed funds futures. The central bank has left its overnight lending rate at 5.25 percent since August.

According to the median forecast of 73 economists Bloomberg surveyed from March 1 to March 7, the Fed will cut its rate to 5 percent in the fourth quarter.

"The phrase I've been using is that the Fed has been and will continue to be on an inevitable march to lower their target rate," BlackRock's Doll said.

More Bullish

Jim Paulsen at Wells Capital Management is more bullish, saying stocks will advance even without rate cuts by the Fed.

He credits the cheap valuations of shares for helping spur the latest rebound. The same reason has kept almost all retreats during the four-year rally from reaching 10 percent, he said.

The only such "correction" took place between Nov. 27, 2002, and March 11, 2003. The S&P 500's 15 percent decline during that span coincided with the run-up to the U.S. invasion of Iraq on March 19 that year.

A week before the bull market began in October 2002, shares of companies in the S&P 500 traded at 26.5 times reported profit. Now, the price-earnings ratio, or the inverse of the earnings yield, stands at 17.1 times.

"Earnings have chronically grown faster than stock prices," said Paulsen, who oversees \$175 billion as Wells Capital's chief investment strategist in Minneapolis. "That is certainly contributing to the oddity of no big corrections."

He expects the S&P 500 may reach at least 1600 this year, which represents a 13 percent gain for 2007.

Drop in Yields

Russ Koesterich, at Barclays Global Investors in San Francisco, which has \$1.7 trillion in assets, says the Fed model overstates the value of stocks when bond yields are as low as they are now. The lower yields go, the higher the implied value of stocks, even though equities may not be worth more when the economy slows, he said.

While stocks are the cheapest versus bonds since at least 1986, yields on 10-year Treasuries are 1.56 percentage points lower than the monthly 6.21 percent average in the past 20 years.

The S&P 500 would have to climb to 1791.21 to be fairly valued relative to bonds, or a 26 percent increase from last week's closing price of 1420.86, based on the Fed model. For the index to equal its all-time closing high of 1527.46 in March 2000, it needs to rise 7.5 percent.

“There are limitations to the Fed model when interest rates are this low,” said Koesterich, who views stocks as neither overly cheap nor expensive relative to earnings. “Basically what happens is you start to come up with some absurd valuations.”

‘A Little Hysterical’

Koesterich says a gain of 10 percent to 12 percent for the S&P 500 this year will hinge on the Fed cutting rates and the housing slowdown remaining “pretty much limited to subprime.”

For AIM Investments' Fritz Meyer, concerns about the housing market are overblown. He sided with Bernanke's assertion that the economy will continue to “expand at a moderate pace” and defaults and delinquencies among subprime borrowers won't stanch demand for mortgages to more qualified home buyers.

Concern about subprime “got a little hysterical,” said Meyer, the Denver-based senior investment officer at AIM, which oversees \$149 billion. “Stocks can and should do pretty well, absent the economy slipping closer to recession, which I don't expect.”

Fed officials forecast in February growth of 2.5 percent to 3 percent this year and 2.75 percent to 3 percent in 2008.

More Incentive

The widening gap between what companies yield in earnings and the cost of borrowing gives buyout funds, which have an estimated \$1.6 trillion to spend, more incentive to take companies private, according to Schroders' Alan Brown.

That will help turn any sell-off into a buying opportunity, as mergers and acquisitions help shore up demand, he said.

About \$593 billion in takeovers involving U.S. companies have been announced this year, 44 percent more than the \$411 billion of deals announced during the same period last year, according to data compiled by Bloomberg.

“As long as earnings yields are staying well north of financing costs, there's an absolute wall of private-equity money looking to get employed if stock prices start retracing,” said Brown, who oversees \$229 billion as Schroders' head of investments in London. “Even if the negative story comes more to the fore, it should give one some encouragement.”

To contact the reporter on this story: Michael Tsang in New York at mtsang1@bloomberg.net ; Daniel Hauck in New York at dhauck1@bloomberg.net .

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<http://www.bloomberg.com/apps/news?pid=20601109&sid=aIEj7C7IEUeI&refer=home>

Pending Sales of Existing Homes Rose 0.7% in February (Update2) [see my point re “touting every statistic as THE bottom – the fact is no single report good or bad signifies much of anything. It is the trend of months worth of data that matters and in housing that data has been VERY ugly] April 3 (Bloomberg) -- More Americans signed contracts to buy previously owned homes in February, easing concern the real- estate market will worsen.

The index of signed purchase agreements, or pending home resales, rose 0.7 percent to 109.3, after a revised 4.2 percent drop in January, the National Association of Realtors said today in Washington. The index was down 8.5 percent from February 2006.

Rising incomes and lower prices are making homes more affordable, offsetting concern that subprime mortgage defaults will add to the glut of properties already on the market. Federal Reserve policy makers forecast the damage to the economy from the housing slump will be contained, allowing the expansion to proceed at a “moderate” pace.

“Housing is groping for a bottom here,” Eric Green, chief market economist at Countrywide Securities in Calabasas, California. “Consumers are feeling better about getting into the market.”

Stocks added to gains and yields on U.S. Treasury securities rose after the report eased concern housing would weaken the economy further. The Dow Jones Industrial Average was up 98 points at 10:13 a.m. in New York.

Economists expected pending sales to drop 0.5 percent, from an originally reported 4.1 percent January decline, according to the median of 15 forecasts in a Bloomberg News survey of economists. Estimates in the Bloomberg survey ranged from a gain of 1.2 percent to a 1.6 percent drop.

‘Encouraging’ Gain

The gain in the February “is encouraging,” said David Lereah, the real-estate agents group's chief economist in a statement. “The data suggests an underlying stabilization is taking place in the housing market, but it will take another month or two to clarify.”

The Realtors group's data on pending home sales go back to January 2001, and the organization started publishing the index in March of 2005.

The index of pending home resales is considered a leading indicator because it tracks contract signings. The Realtors' existing-homes sales report tracks mainly closings, which typically occur a month or two later.

The existing-home sales report is based on a sample of about 40 percent of transactions in the multiple listing service used by real estate agents, while the pending-sales index covers about 20 percent.

Regional Breakdown

Today's report showed pending resales rose in two of four regions. They increased 4.5 percent in the South and 2.9 percent in the Midwest. Sales dropped 6 percent in the West and 1.3 percent in the Northeast.

The figures suggest the disparity between sales of existing and new homes may continue. Sales of previously owned homes unexpectedly surged in February by the most in three years, the Realtors' group reported last month.

That report also contained some negative news. The supply of previously owned homes for sale increased even as sales jumped. Sales of existing homes, which account for 85 percent of the market, dropped 14 percent in the 12 months after reaching a record 7.21 million annual pace in September 2005.

Purchases of new homes, which make up the remaining 15 percent, fell in the first two months of the year, according to figures from the Commerce Department. February sales were the weakest in almost seven years, while the supply of unsold new homes at the current sales pace rose to the highest in 16 years, Commerce reported on March 26.

Construction Declines

A decline in new-home construction, which subtracted 1.2 percentage points from economic growth in the fourth quarter, is showing few signs of letting up. Private residential construction spending fell 1 percent in February after a 1.7 percent drop the prior month, a Commerce Department report last week showed.

Economists are concerned that mounting defaults on subprime mortgages -- loans to people with poor or little credit histories -- may throw more properties onto the market and weaken prices further. Foreclosure filings in February rose 12 percent from a year ago, RealtyTrac, an online listing of foreclosed properties, said last week.

New Century Financial Corp. this week became the biggest subprime mortgage company to go bankrupt after the lender was overwhelmed by customer defaults. The Irvine, California-based company filed for Chapter 11 protection yesterday. Since the start of 2006, more than 30 lenders have halted operations, gone bankrupt or sought buyers as defaults on subprime mortgages surged last year.

Bernanke Sanguine

Fed Chairman Bernanke, who still expects the economy will expand at a "moderate" pace, last week told lawmakers he expects the subprime fallout "is likely to be contained."

Still, "this forecast is subject to a number of risks," he said. "To the downside, the correction in the housing market could turn out to be more severe than we currently expect, perhaps exacerbated by problems in the subprime sector."

Builders are still hurting. Lennar Corp., the largest U.S. homebuilder by revenue, last week reported a 73 percent plunge in fiscal first quarter earnings, and said it may miss its 2007 profit goal.

"Market conditions are very difficult across the country," Miami-based Lennar's Chief Executive Officer Stuart Miller said on a conference call. "It is unclear today where there is another shoe to drop."

To contact the reporter on this story: Shobhana Chandra in Washington
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<http://www.bloomberg.com/apps/news?pid=20601087&sid=a57UeCIaqCh4&refer=home>

[Article of the week:](#)

[From a free email I receive:](#)

An Epic Mania

By Dr. Marc Faber

When I continually hear and read about "excess liquidity", "sustainable record corporate profits", "new highs", "Goldilocks economy", and that "central bankers today are smarter than in the past", I wonder whether the 19th-century economist John Ramsay McCulloch wasn't on to something when he wrote: "In speculation, as in most other things, one individual derives confidence from another. Such a one purchases or sells, not because he has had any really accurate information as to the state of demand and supply, but because someone else has done so before him" (J. R. McCulloch, Principles of Political Economy, 2nd ed., London, 1830).

What McCulloch omitted to add is that speculators not only buy assets because someone else has done so in the past, but because they expect that in the future someone else will enter the market and purchase the asset from them at an even higher price, since "excessive liquidity" will surely push asset prices higher.

Not since I started out in the glorious business of investments in 1970 have I seen so much conviction among investors that all asset prices will continue to increase in value based on "excessive liquidity" and "money printing".

During my career, I have experienced four investment manias of epic proportions. By "epic proportions" I mean investment bubbles that, when they burst, caused serious economic pains to either an important sector of the economy, a whole country or an entire region. Those four investment manias were the parabolic increase, between 1970 and 1980, in the prices of precious metals, oil, mining and energy-related equities.

The second "big" investment mania surrounded Japanese equities and real estate in the late 1980s. It culminated in Japanese stocks commanding a larger market value than the combined values of the US, British, and German stock markets. Then, in the 1990s, we had several rolling investment manias in the emerging markets, which ended with the devastating Asian crisis of 1997, and the Russian crisis and LTCM in 1998. In the fourth and last great investment mania, the object of speculation was the telecommunications, media and technology (TMT) sector on a worldwide scale, and we all know very well how that ended.

At the end of each investment mania, investors believed in some sort of "excess liquidity" that would drive the object of the speculation forever higher. But as Albert Edwards so eloquently explained in a recent scathing report entitled "Lies, rhubarb, poppycock, bilge, utter nonsense, caravans and liquidity" (see Dresdner Kleinwort Global Strategy Report, January 16, 2007), "liquidity is the hocus pocus of the investment world. It means totally different things to different people but is often cited as being a major driver for buoyant markets".

Most presciently, Edwards explains that with respect to investment manias, "when markets are rallying but seem expensive, when new issues fly out of the door and when fundamental analysis often appears to fail to explain events, the safe haven for the market commentator is often to rely on the explanation that there is lots of liquidity." I urge our readers never to forget these words!

What is peculiar to the current investment environment is that liquidity is supposed to come from not just one or two sources, but from everywhere! From OPEC surpluses, from the US Fed and other central banks, from the Asian current account surpluses (excess savings), from the Yen and Swiss Franc carry trade, from the large size of money market funds and bank deposits, from rising asset prices, leverage, and a tidal wave of private equity funds, and from artificially low interest rates. It's no wonder that, given such beliefs, asset markets are all flying to the moon!

Every epic investment boom lifted prices far higher than anyone could have. But once the boom comes to an end, most, if not all, of the price gains that occurred during the mania are given back. In 1992, silver prices were lower than they had been in 1974. In 2003, the Nikkei was lower than at its high in 1981. In 2002, in dollar terms, most Latin American markets were no higher than in 1990 and most Asian markets had declined to their mid- or late 1980s level. And in those manias where prices didn't retreat in nominal terms to the level — or, as frequently happened, to below the level — from where the investment boom had begun, prices retreated in inflation adjusted terms to those levels.

Adjusted for inflation, in 2001 the CRB Index was far lower than it had been in 1971, while precious metals, oil, and grains were all either no higher, or lower, than they had been in the early 1970s.

[Eric's note: Likewise, adjusted for the dollar's weakness since 2000, the "record high" Dow Jones Industrial Average is very far below record territory, according to Faber. In a recent issue of Barron's he gripes: "I don't understand why you measure the market's performance strictly in dollars. Since 2000, the euro has appreciated 60% against the dollar. The Dow Jones is at a new high, but it's down 38% in euros."]

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The Journal of Accountancy feature "Smart stops on the web" mentioned a site with financial definitions. It might be worth bookmarking for basic information.
<http://www.investorwords.com/>