

The Other Side of the Street December 12, 2007

Comments

A first ever special mid-week edition.

As even casual observers know the Fed cut interest rates AGAIN yesterday. The news was sold AGAIN. This apparently rankled many on Wall Street, so their cronies at the Fed this morning announced a heretofore super secret plan to save the day. The particulars of the plan are much less important than the following:

- It was intended to shore up the liquidity crisis in the credit markets
- It was done once before – in September 2001 as a result of the terrorist attacks that shut down the worlds largest financial center for a number of days.
- The news hit the wires at 9 a.m. ET and the Dow futures went from up 100 to up 270 as the news hit (the other indices moved comparably but we will use the Dow for simplicity)
- The Dow basically opened at 13,700 up 270. It then proceeded to go virtually straight down for the next 6 hours trading just below 13,300 just before 3:30 ET. In other words, the reaction to the announcement other than the huge jump on the headline was a 400 point drop in the first 6 hours.
- At some time after 3 a rumor was floated that the Fed would make an emergency rate cut tonight/tomorrow morning. This was the proximate cause of a 170 point move up in the last 20-30 minutes.
- The players most in need of a liquidity bailout include WM which traded at 18.50 on the news in the pre-market and CFC which traded at 12.30. They closed at 16 and 10.5 respectively (i.e. both LOST more than 10%)

Please review the foregoing and decide for yourselves whether the 9 am announcement was **“very well received by the market”** or whether markets appeared to have reacted with **“with the confidence and the feeling that the Fed is going to help out the financial system.”** Does it seem the market wanted to **“celebrate that”**.

It is the foregoing nonsense and nothing else that is holding up the US equity markets. We are in a recession whether anyone cares to acknowledge it or not. We are in a bear market that will endure for years and wipe out trillions of dollars in wealth. The “dream retirements” promised if only you use the computer program most financial advisor use to spit out numbers will in fact be just that a dream. The dream will be a nightmare.

News in Fantasyland

The following unfortunately is supposed to be entirely based on a true story and no names were changed to protect the culpable. Instead this is how Bloomberg reported the events mentioned above:

U.S. Stocks Gain on Fed's Liquidity Boost; Exxon, AT&T Rise

By Eric Martin



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Dec. 12 (Bloomberg) -- U.S. stocks rose, led by technology and energy shares, after the Federal Reserve and four other central banks added cash to the financial system in the biggest concerted liquidity injection since the 2001 terrorist attacks.

Exxon Mobil Corp., Cisco Systems Inc. and AT&T Inc. led the advance and a gauge of stock market volatility fell the most in a week. Gains were limited as Wachovia Corp. and Bank of America Corp. said credit-losses will widen.

The Standard & Poor's 500 Index added 8.95, or 0.6 percent, to 1,486.6. The Dow Jones Industrial Average increased 41.13, or 0.3 percent, to 13,473.9. The Nasdaq Composite Index climbed 18.79, or 0.7 percent, to 2,671.14. About eight stocks rose for every five that fell on the New York Stock Exchange. Benchmark indexes in Europe also advanced after the announcement.

“The course the Fed was on didn't seem to be working,” said Doug Peta, a New York-based market strategist at J&W Seligman & Co., which manages about \$20 billion. “We've got this new medicine we can try. **I think we all can celebrate that.**”

The cash injection helped the S&P 500 recoup about a quarter of its loss from yesterday, [or the SP futures got pumped to 35 point jump on the news. Form there the SP dropped like a stone nearly 50 points. Thankfully someone thought to spread a rumor that there would be another in the dialy “Fed will save us” rumors so we could jam the tape and get Bloomberg to write about what a greta day we had] when the Fed's quarter-point rate cut disappointed

investors. The Fed is coordinating the measures with the European Central Bank, Bank of England, Bank of Canada and Swiss National Bank.

Exxon, the world's biggest oil company, climbed \$1.64 to \$91.92. Cisco, the largest maker of computer-networking equipment, added 78 cents to \$28.80.

AT&T

AT&T advanced \$2.25 to \$41.71, the steepest gain in the Dow average. Lehman Brothers Holdings Inc. increased its share-price estimate for the biggest U.S. phone company by 8 percent to \$54. AT&T yesterday announced a \$15.2 billion stock buyback plan and raised its dividend 13 percent.

The Chicago Board Options Exchange Volatility Index decreased 4.8 percent to 22.47. Lower readings in the so-called VIX, derived from prices paid for S&P 500 options, indicate traders expect smaller share-price swings in the next 30 days.

The Fed will make up to \$24 billion available to the ECB and Swiss National Bank to increase the supply of dollars in Europe. The U.S. central bank also plans four auctions, including two this month that will add as much as \$40 billion, to increase cash in the U.S.

Very Well Received'

The central banks' actions are a response to a surge in short-term borrowing costs. The three-month dollar London interbank offered rate, a gauge followed by central bankers, rose to a two-month high of 5.15 percent a week ago.

Obviously, this is being very well received by the market," said Richard Sichel, who helps manage about \$1.5 billion as chief investment officer at Philadelphia Trust Co. in Philadelphia. **It helps with the confidence and the feeling that the Fed is going to help out the financial system."**

Bank of America fell \$1.22 to \$43.43. The nation's second- biggest bank expects writedowns to increase and "weak" earnings through the first quarter of next year. **You certainly can assume results will again be quite disappointing,"** said Chief Executive Officer Kenneth Lewis in a presentation to investors. The final writedowns are "unknowable," he said, "but we expect to be profitable in the fourth quarter."

Wachovia, the fourth-biggest U.S. bank, slid \$1.42 to \$40.53 after saying it may double its provision for loan losses in the final quarter and it can't predict when credit markets will return to normal.

TED Spread'

As the offered rate declined and yields on Treasury securities soared today, the gap between three-month dollar Libor and the three-month bill yield shrank to 2.07 percentage points from

2.20 yesterday. The Treasury-Eurodollar, or TED, spread, a gauge of banks' willingness to lend, widened to 2.40 percentage points in August, the biggest in more than 20 years, as risk aversion pushed Libor higher and Treasury yields lower.

Homebuilders in S&P indexes climbed 1.5 percent as a group, rebounding from their biggest loss ever yesterday. D.R. Horton Inc., the fourth largest U.S. homebuilder, advanced 56 cents to \$13.77. Centex Corp. rose 93 cents to \$23.91.

Ford Motor Co., the country's second-biggest automaker, climbed 9 cents to \$7.06 after the Financial Times said the company may disclose its preferred bidder for the Jaguar and Land Rover brands this week. The offers may range from \$1.8 billion to \$2.2 billion, the Financial Times reported, adding that two people close to the auction said they expect a response from Ford as early as today.

Goldman Oil Forecast

Chevron Corp., the second-largest U.S. oil company, added \$1.89 to \$91.78. Goldman Sachs Group Inc. lifted its average 2008 forecast for crude oil to \$95 from \$85 a barrel on "technological and political uncertainty." Oil futures, traded on the New York Mercantile Exchange, may rise to as much as \$105 a barrel by the end of next year, Goldman said. Today, oil rose \$4.37 to \$94.39 a barrel, the biggest gain since January, on speculation the central banks' cash injection will spur economic growth.

Microchip Technology Inc. gained \$1.42, or 4.7 percent, to \$31.62. The computer-chip maker said fourth-quarter profit will be higher than previously estimated and authorized a new share buyback program.

Intel Corp., the world's largest maker of computer chips, added 35 cents to \$27.28. Texas Instruments Inc., the biggest maker of chips for mobile phones, rose 44 cents to \$33.37.

Manitowoc Co. climbed \$4.31, or 9.9 percent, to \$47.86, the steepest gain in the S&P 500. The maker of construction equipment raised its 2007 profit forecast on increased demand for cranes. Annual profit will be as much as \$2.60 a share, Manitowoc said, 10 cents more than the upper end of the company's previous prediction.

Sallie Mae

SLM Corp., also known as Sallie Mae, plunged \$3.45, or 11 percent, to \$28.49. The biggest U.S. education lender cut its 2008 earnings forecast and said J.C. Flowers & Co. refused to reopen acquisition negotiations. A group of buyers, led by J.C. Flowers, Bank of America and JPMorgan Chase & Co., rejected a "new proposal to acquire the company with no preconditions," Sallie Mae said. The company said it would pursue "all available recourse," including an existing lawsuit.

Boeing Co. dropped \$1.78 to \$86.92. The world's second-biggest commercial-plane maker was downgraded to "equal weight" from "overweight" at Morgan Stanley. Risks related to its new

787 Dreamliner may weigh on the stock, analysts said. Boeing said yesterday it's still working through "wrinkles" in the supply chain for the plane and will deliver the first aircraft as scheduled in late 2008.

Airlines Fall

Morgan Stanley also lowered its view on the airline industry to "cautious" from "attractive." The AMEX Airline Index of 14 companies dropped 4.5 percent. Earnings will fall 11 percent next year because of higher oil prices and a U.S.-led slump in demand, the International Air Transport Association said, lowering its profit forecast for the second time in three months. US Airways Group Inc. fell \$2.28, or 13 percent, to \$15.31. AMR Corp., the parent of American Airlines, dropped \$1.18 to \$16.63.

Office Depot Inc. fell \$1.95, or 11 percent, to \$15.04, the biggest decline in the S&P 500. The world's second-largest office-supplies retailer expects "continued erosion" of sales and earnings in the fourth quarter because of declining demand from business customers.

The Russell 2000 Index, a benchmark for companies with a median market value of \$600 million, gained 0.7 percent to 771.71. The Dow Jones Wilshire 5000 Index, the broadest measure of U.S. shares, rose 0.5 percent to 14,993.96. Based on its advance, the value of stocks increased by \$88 billion.

AMR Corp. (AMR US)
AT&T Inc. (T US)
Bank of America Corp. (BAC US)
Boeing Co. (BA US)
Centex Corp. (CTX US)
Chevron Corp. (CVX US)
Cisco Systems Inc. (CSCO US)
D.R. Horton Inc. (DHI US)
Exxon Mobil Corp. (XOM US)
Ford Motor Co. (F US)
Intel Corp. (INTC US)
Manitowoc Co. (MTW US)
Microchip Technology Inc. (MCHP US)
Office Depot Inc. (ODP US)
SLM Corp. (SLM US)
Texas Instruments Inc. (TXN US)
US Airways Group Inc. (LCC US)
Wachovia Corp. (WB US)

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