

The Other Side of the Street February 17, 2008

Comments

Sorry, I missed the comments section this week (thanks to Brett for keeping me on track to get this out). See Feb 24 for “catch up comments”. I held off on sending this since I had some articles to share (I had emailed them to myself while in Ann Arbor).

Notes

- Feb. 15 (Bloomberg) -- DBS Group Holdings Ltd., Southeast Asia's largest bank, said fourth-quarter profit fell 18 percent after it wrote down investments linked to U.S. subprime mortgages.
- A growing share of home sales are from foreclosures, especially in states hardest hit by the housing bust. In some parts of California lately, nearly 50 percent of home sales come from foreclosed houses. The trend, which is putting additional downward pressure on home prices, is most notable there and in Nevada, Colorado, Tennessee and Michigan, but is also evident in Ohio, Georgia, Florida and Arizona, according to an Associated Press comparison of 2007 sales and foreclosure data. In Nevada, for example, 17.5 percent of home sales were from foreclosures, more than quadruple the number in 2006. The growing proportion of foreclosure sales is both a symptom and cause of worsening conditions in the weakest housing markets, real estate experts say. Homeowners who aren't on a deadline to sell are yanking their properties off the market, and this means the remaining inventory is increasingly held by banks eager to unload foreclosed properties at fire-sale prices rather than carry the costs on their books.
- **Consumer confidence fell again this week, making its second-steepest drop on record** in the 22-year weekly ABC News index -- a drop surpassed only during the 1990-91 recession. Down 4 points this week, 6 points last week and a net 17 points this year, the Consumer Comfort Index now stands at -37 on its scale of +100 to -100, its lowest since November 1993. It's fallen this far this fast once before, in October 1990, as the 1990-91 recession gathered steam. Confidence has been falling in lockstep with other negative economic news. A downturn in the service sector of the economy for the first time since 2003 sent stocks reeling last week, while the credit and housing crises continue apace. **In a danger sign, this week less than half of Americans rate their own finances positively, a first since 1993.** The CCI has fallen by a significant margin in four out of the last five weeks, **a sustained drop that also has been matched just once previously, when it fell significantly for four weeks straight in September to October 1990.** Last week's 6-point drop was unusual; the index has lost 6 or more points in a single week just 11 times in 22 years of weekly surveys. **And its drop recalls the index's 13-points decline in the month leading up to the 1990-91 recession, and its 14-point drop in the month leading up the recession in 2001.** INDEX □ The index is based on Americans' ratings of their current finances, the national economy and the buying climate. This week 49 percent rate their personal finances positively, less than half for the first time since November 1993, down 9 points this year and 8 points off the long-term average. Less, 26 percent, call this a good time to buy things, the same as last week at a level not previously seen since July 1993. Positive ratings of the buying climate

are down 5 points since the start of the year and 12 points below the long-term average. Fewer still, 20 percent, rate the national economy positively, down 11 points this year and down 7 points in the last two weeks. It's 20 points below its long-term average, 40 percent, and again hasn't been this low since November 1993. TREND □ The CCI's drop this year is its steepest since it tumbled 19 points in October 1990. It follows a downward 2007, averaging -2 in the first quarter, -9 in the second, -12 in the third and -18 in the fourth. Six weeks into 2008, the index's average for the year so far is -27, well below its 2007 average, -11, and its long-term, 22-year average of -10. While far below its record high, +38 in January 2000, the index also is better than its record low, -50 in February 1992. GROUPS □ The CCI is higher in better-off groups, but this week it slid to -5 among people in households with \$100,000-plus incomes, entering the negative range for the first time in three years of tracking for that income group. It continues to vary sharply by economic standing. The index is -59 among those with the lowest incomes, -25 among those who've been to college while -46 among high-school dropouts, -35 among whites but -46 among blacks and -30 among men while -43 among women. And partisan differences remain; the index is -8 among Republicans, compared with -41 among independents and -50 among Democrats. Here's a closer look at the three components of the ABC News CCI: NATIONAL ECONOMY □ Twenty percent of Americans rate the economy as excellent or good; it was 22 percent last week. The highest was 80 percent Jan. 16, 2000. The lowest was 7 percent in late 1991 and early 1992. PERSONAL FINANCES □ Forty-nine percent say their own finances are excellent or good; it was 52 percent last week. The best was 70 percent last reached in January 2000. The lowest was 42 percent March 14, 1993. BUYING CLIMATE □ Twenty-six percent say it's an excellent or good time to buy things; 26 percent said so last week. The highest was 57 percent Jan. 16, 2000. The lowest was 20 percent in fall 1990. METHODOLOGY □ Interviews for the ABC News Consumer Comfort Index are reported in a four-week rolling average. This week's results are based on telephone interviews among a random national sample of 1,000 adults in the four weeks ending Feb. 11, 2008. The survey began in December 1985.

Weblinks

Credit

- Feb. 14 (Bloomberg) -- GMAC LLC, the auto and mortgage lender controlled by Cerberus Capital Management LP, **may run into ``substantial difficulty'' if credit markets don't improve**, said Stephen Feinberg, founder of the private-equity firm. ``We have detailed contingency plans in a continuing worsening environment," Feinberg wrote in a Jan. 22 letter to investors, a copy of which was obtained by Bloomberg News. **``However, if the credit markets continue to decline and we find ourselves in a prolonged environment of capital market shutdown, GMAC could run into**

substantial difficulty." GMAC, the former financing arm of General Motors Corp., lost \$2.3 billion last year as record U.S. home foreclosures led to an increase in bad loans and auto-lending profit declined, the Detroit-based company said Feb. 7. GMAC is in talks with potential buyers about parts of its Residential Capital mortgage unit, which posted a \$4.3 billion loss. "The point of the letter was to underscore the risks in the investment," Price said, referring to GMAC. **"We don't expect everything we outlined to go wrong and we remain bullish on the investment."** The implosion of the subprime-mortgage market six months ago, coupled with a slowing U.S. economy, sent investors fleeing from all but the safest government bonds. **Two rate cuts by the Federal Reserve in January that lowered the benchmark fed funds to 3 percent haven't helped to bring investors back to the corporate bond and loan markets.** Bonds Falter GMAC's \$4 billion of 8 percent bonds due in 2031 fell 0.75 cent to 80.25 cents on the dollar today, according to Trace, the bond-price reporting system of the Financial Industry Regulatory Authority. The debt yields 10.2 percent, or 559 basis points more than similar-maturity Treasuries, Trace data show. The notes traded at 83 cents and a yield of 9.9 percent in December. **GMAC May Face 'Substantial Difficulty,' Cerberus Says** http://www.bloomberg.com/apps/news?pid=email_en&refer=home&sid=an15nuhm7JxA

- Feb. 13 (Bloomberg) -- **The Federal Reserve's interest-rate cuts last month have failed to lower borrowing costs for many companies and households, increasing the chance of further reductions from the central bank. Companies are paying more to borrow now than before the Fed reduced its benchmark rate by 1.25 percentage point over nine days in January, based on data compiled by Merrill Lynch & Co. Rates on so-called jumbo mortgages, those above \$417,000, have increased in the past month, making it tougher to sell properties and risking further price declines.** "It's the clogging up of the credit markets that worries me most," Harvard University economist Martin Feldstein said in an interview in New York. "The Fed has done a lot of cutting, the question is whether it's going to get the traction that it did in the past." Lenders and investors are demanding greater compensation for offering credit as losses mount on subprime-mortgage securities and concerns grow that ratings of bond insurers will be cut. Elevated borrowing costs mean Fed Chairman Ben S. Bernanke will have to reduce rates further to revive the economy, Fed watchers said. Banks have been forced to abandon loan sales or offer discounts of as much as 5 percent for companies including Harrah's Entertainment Inc., First Data Corp. and Alltel Corp. in the past six months because of investor reluctance to buy debt perceived to be too risky. **Fed Interest-Rate Cuts Fail to Lower Borrowing Costs** http://www.bloomberg.com/apps/news?pid=email_en&refer=home&sid=aUBDfKosxdlg
- Feb. 13 (Bloomberg) -- Bonds sold by U.S. municipal borrowers with rates set through periodic auctions failed to attract enough buyers as banks including Goldman Sachs Group Inc. and Citigroup Inc. that run the bidding won't commit their own capital to the debt. Rates on \$100 million of bonds sold by the Port Authority of New York and New Jersey, with bidding run by Goldman, soared to 20 percent yesterday from 4.3 percent a week ago, according to data compiled by Bloomberg. Presbyterian Healthcare in Albuquerque and New York state's Metropolitan Transportation Authority also experienced failures, officials said. What began three weeks ago with too few bidders for auction-rate debt backed by relatively small entities, such as Georgetown University and

Nevada Power, has widened in recent days to include large issues of state governments, such as New York state's Dormitory Authority. The auction failures provide new indication of Wall Street's unwillingness to commit capital amid \$133 billion in credit losses and asset writedowns. "It's the beginning of the end for the auction-rate market," said Matt Fabian, a senior analyst with Concord, Massachusetts-based Municipal Market Advisors. "Banks have stopped supporting the market." **Auction-Bond Failures Roil Munis, Pushing Rates Up**
http://www.bloomberg.com/apps/news?pid=email_en&refer=home&sid=aVE0T47ZqK5c

- Feb. 13 (Bloomberg) -- Government bonds will rise for the next six months in the world's biggest debt markets as the U.S. economic slowdown spreads to Europe and Asia, a survey of Bloomberg users showed. Bonds will rally in the U.S., Germany, U.K., Italy, France, Japan and Hong Kong, according to the monthly Bloomberg Professional Global Confidence Index, which canvassed more than 6,800 users from New York to Paris to Tokyo. Swiss bonds are the only debt whose yields may increase, the index indicated. Government securities returned 2.11 percent this year as investors sought a haven from declining stock markets and losses on securities tied to subprime mortgages, according to Merrill Lynch & Co. index data. Officials from the Group of Seven industrialized nations said in a statement Feb. 9 that turmoil in financial markets may force the countries' central banks to lower interest rates to shore up the global economy. Financial markets are forecasting "a moderate easing cycle," said Jack Malvey, the chief global fixed-income strategist at Lehman Brothers Holdings Inc. in New York, who participated in the survey. "It's certainly not over by the middle of the year." **Government Bonds to Rally for 6 Months as U.S. Slowdown Spreads**
http://www.bloomberg.com/apps/news?pid=email_en&refer=home&sid=aVxFOVOzM0Po
- Feb 12 2008 FT - South Korea's liquidity squeeze was supposed to be temporary, exacerbated by the traditional year-end tussle for funds. So why are the country's banks trying to tap Malaysian ringgit bond markets? And why was Korea Development Bank obliged to pay a premium when it issued US dollar-denominated bonds last month? Korean banks are structurally more susceptible to credit jitters than their Asian peers. Unlike their neighbours, they lend more than they attract in deposits. Those dynamics became even more pronounced in 2007 as savers switched funds out of banks, partly as a result of deregulation, and lending volumes surged: last year loan/deposit ratios stood at around 120 per cent. Korean won deposits, which made up 64 per cent of liabilities in 2003, fell to just 50 per cent by the third quarter of 2007, according to Credit Suisse, while short-term foreign debt comprised almost 12 per cent of total assets in the first quarter. This increasing reliance on capital market funding, added to fierce competition for deposits, has raised financing costs. **Korea's credit squeeze**
<http://www.ft.com/cms/s/1/4d44eb22-d94e-11dc-bd4d-0000779fd2ac.html>
- Feb. 12 (Bloomberg) -- Billionaire investor Warren Buffett said he offered to assume responsibility for \$800 billion of municipal bonds guaranteed by MBIA Inc., Ambac Financial Group Inc. and FGIC Corp. Buffett's Omaha, Nebraska-based Berkshire Hathaway Inc. would provide so-called reinsurance for the debt, he said in an interview with CNBC television. The offer excludes the bond insurers' subprime-related obligations. One company has already rebuffed the proposal and the two others haven't

responded, Buffett said in the interview. Berkshire Hathaway, which gets about half its earnings from insurance, is looking to make money in the municipal guaranty business that provided MBIA, Ambac and FGIC with 14 years of uninterrupted profit until last year. The three companies are on the verge of losing their AAA credit ratings that would cripple their sales to municipalities after losing \$5 billion from insuring mortgage-related securities. **“The Buffett plan basically cherry picks out the only worthwhile parts of the portfolio,” said David Havens, a credit analyst at UBS AG in Stamford, Connecticut. “It leaves them with a terrible mix of business.”** CDO Expansion The bond insurers lend their AAA stamp to \$2.4 trillion of debt, and face potential losses of as much as \$41 billion if the value of debt they insure continues to decline, according to JPMorgan Chase & Co. analysts. “If you gave up your entire municipal business, that's the book of business where the value in the companies is right now,” said Robert Haines an analyst in New York for CreditSights Inc., an independent bond research firm. “You'd essentially be ceding that whole book to Buffett and what you'd be left with would be the book of business where all the troubles are.” Under Review MBIA's AAA insurance rating is being reviewed by Moody's Investors Service, Standard & Poor's and Fitch Ratings. Ambac's insurance unit had its AAA rating cut to AA by Fitch and is being scrutinized by Moody's and S&P. FGIC's guaranty business had its top rating cut to AA by Fitch and S&P and is being reviewed by Moody's. Credit-Default Swaps Credit-default swaps on MBIA were trading at 17.5 percent upfront and 5 percent a year, up from 16 percent initially and 5 percent a year yesterday, according to London-based CMA Datavision. That means it costs \$1.75 million upfront and \$500,000 a year to protect \$10 million in MBIA bonds for five years. Ambac's upfront price rose to 17.5 percent from 15.5 percent yesterday, CMA data show. Credit-default swaps are financial instruments based on bonds and loans that are used to speculate on a company's ability to repay debt. They pay the buyer face value in exchange for the underlying securities or the cash equivalent should a borrower fail to adhere to its debt agreements. A rise indicates worsening perceptions of credit quality; a decline, the opposite. The threat of downgrades was great enough for New York Insurance Superintendent Eric Dinallo to attempt to organize a bank-led rescue of bond insurers. Bank Rescue “I am pleased that this provides one option to protect municipal issuers and investors,” Dinallo said in a statement today in response to Buffett's plan. **Eight banks including New York-based Citigroup Inc. and UBS AG in Zurich are working on financing for Ambac, a person briefed on the plan said two weeks ago. [so why was this market moving news on Feb 22nd?]** Credit Agricole SA's Paris-based Calyon unit is leading talks to bail out FGIC, the Wall Street Journal reported last week, citing people familiar with the situation. **Buffett Offers to Assume Muni Liabilities of Insurers** http://www.bloomberg.com/apps/news?pid=20601087&sid=apKhncN_rZC8&refer=home

- Feb. 11 (Bloomberg) -- College Loan Corp., a San Diego- based lender, said some bonds it issued with rates determined through periodic auctions failed to attract enough bids. The company wouldn't say which specific issues failed or identify the banks that managed the auctions. Demand for bonds in the \$360 billion auction-rate securities market is waning on investor concern that dealers who collect fees for managing the bidding on the bonds won't commit their own capital to prevent failures. Reduced appetite for auction-rate debt in the municipal market also reflects expectations that the

credit strength of insurers backing the securities may deteriorate. "It is unfortunate that certain auctions did not clear," said John Falb, chief financial officer at College Loan in an e- mailed statement. Falb said investors couldn't have been concerned about the quality of the College Loan Corp. bonds, which are backed by government-guaranteed student loans. Auction bonds issued by Sallie Mae, the largest student loan lender, also failed to attract enough bidders last week, according to a report today by Keefe, Bruyette & Woods, a New York-based securities firm. The report said weak demand for auction securities may not extend to other debt backed by the same pool of student loans. Thomas Joyce, a spokesman for Reston, Virginia-based Sallie Mae, couldn't be reached for comment on the status of the company's auction securities. Failure Consequences Auction bonds have interest rates that are determined by bidding that typically occurs every seven, 28 or 35 days. When there aren't enough buyers, as has occurred in recent months on some securities, the auction fails and bondholders who wanted to sell are left holding the securities. Rates at failed auctions are set at a level spelled out in bond documents. **Fitch Ratings in a Dec. 19 report said some issuers of student-loan backed securities "have been faced with the possibility of failed auctions."** Ratings on the debt may be cut as rising rates at auctions shrink the gap between what the student loan companies pay on their bonds and what they collect on the student loans they hold, Fitch said. **"It seems that the dealers are no longer willing to bid in large amounts for these issues,"** said Lee Epstein, chief executive at Money Market One, San Francisco-based securities firm specializing in short-term securities. Dealer Support Bidding by dealers is essential to the smooth functioning of auction securities and banks are now wary of loading their balance sheets with the bonds, Epstein said. Failures are concentrated in securities that were privately sold, he added. Officials at Sallie Mae, the largest student loan lender, couldn't be reached for comment on the status of their auction securities. In the municipal market, at least two auctions run by Lehman Brothers Holdings Inc. failed on Jan. 22, the first day the bond investors could react to a ratings downgrade of Ambac Financial Group Inc.'s main insurance units. Debt issued by electric utility Nevada Power reset at 6.757 percent, the maximum proscribed under the terms of the bonds, while securities from Georgetown University reset at 6.604 percent. Ambac insures Nevada Power's debt, while MBIA Inc.'s MBIA Insurance Corp. guarantees Georgetown's debt. **Auction-Bond Failures Spread to Student Loan Debt** <http://www.bloomberg.com/apps/news?pid=20601087&sid=aBoA.zr2Pzyw&refer=home>

- Senior global policymakers have raised projections for the size of subprime-related credit losses in a move that implies financial institutions will have to increase write-offs. Speaking after the meeting of Group of Seven finance leaders, Peer Steinbrück, German finance minister, said the G7 now feared that write-offs of losses on securities linked to US subprime mortgages could reach \$400bn. **This is sharply higher than the \$120bn credit losses that Wall Street banks and other institutions have revealed in recent weeks – and also far bigger than the US Federal Reserve’s estimates for subprime losses last year of \$100bn-\$150bn.** But G7 finance ministers admitted that it remained unclear where much of this subprime pain would eventually emerge, not least because the path of the credit crunch was still uncertain. Mr Steinbrück and other ministers appealed to financial institutions to provide “prompt and full disclosure” of losses, to restore confidence. **“The next 10 days to two weeks will be crucial because we are going to**

have the first audited accounts [from financial institutions] since the crisis started,” added Mario Draghi, governor of the Bank of Italy and chair of the Financial Stability Forum, a committee of international supervisors and central bankers. Mr Draghi said regulators were ready to force banks to reveal their losses and replenish their equity ratios. **He did not rule out the possibility that governments might eventually need to inject capital into banks, although he stressed that market solutions should take precedence.** The comments followed a weekend of G7 talks that were dominated by the credit turmoil and the implications of these problems for the global economy. The finance ministers said they stood braced for individual and collective action to ensure financial stability and avoid recession. **They conceded that growth was likely to slow in all their economies, since the world was facing what Hank Paulson, US Treasury secretary, called a “challenging and uncertain environment”, due to tighter credit, a deterioration of the US housing market, higher oil prices and rising inflation.** But Mr Paulson said he believed the US stood a good chance of avoiding recession. “I believe that we are going to keep growing. If you are growing, you are not in recession, right?” He said the G7 discussion focused on “how we minimise the spillover that is going on in the capital markets into the broader economy”. He said he was not disappointed that Japan and European countries had rejected the idea, floated by Dominique Strauss-Kahn, International Monetary Fund head, for joint efforts to stimulate their economies by fiscal packages. **He implied that other countries would not escape a US downturn, describing decoupling as a “myth”. Subprime losses could rise to \$400bn**
<http://www.ft.com/cms/s/0/8727f20c-d80a-11dc-98f7-0000779fd2ac.html>

Commercial Real Estate

Commodities

Currency

- Feb. 11 (Bloomberg) -- **The euro rose against the dollar and yen after European Central Bank President Jean-Claude Trichet signaled policy makers were in no hurry to cut interest rates.** The euro gained against 11 of the 16 most-traded currencies after Trichet said yesterday the economic “fundamentals were good” and no one on the ECB council sought a cut at their meeting last week. The currency slumped last week as Trichet said uncertainty about growth was “unusually high.” “The euro is firmer on the strength of comments Trichet made,” said Ray Attrill, director of foreign exchange research at Forecast Ltd. in Sydney. “If you thought the euro had fallen on the ECB’s change of tone, then this accounts for a recovery.” G-7 Meeting The Canadian dollar fell against 12 of the 16 most-active currencies after Bank of Canada Governor Mark Carney signaled at a weekend Group of Seven meeting in Tokyo he will lower borrowing costs. Canada’s currency fell to 0.9997 against the U.S. dollar from 0.9992 on Feb. 8, and traded at 107.45 yen from 107.40 yen. Moves in currencies may be exaggerated as trading is likely to be below average because of Chinese New Year celebrations and a public holiday in Japan today, Attrill said. “Inside the governing council we had no calls for an increase of rates, but equally no calls for cutting the rates,” Trichet said in an interview

with Japan's Nikkei newspaper and other news organizations on Feb. 10. The G-7 finance ministers and central bankers ended the weekend meeting with a statement that "downside risks persist" for the global economy, such as a U.S. housing slump and tighter credit conditions. Without proposing specific remedies, the G-7 pledged "appropriate actions, individually and collectively." **Euro Gains on Speculation ECB in No Hurry to Cut Interest Rates**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=asKscTs8c5S4&refer=home>

Diversification

Derivatives

- Feb. 11 (Bloomberg) -- Banks are driving the cost of protecting corporate bonds from default to the highest on record as they seek to hedge against losses on collateralized debt obligations, according to traders of credit-default swaps. Contracts on the benchmark Markit iTraxx Crossover Index soared 18 basis points to 548 today at 12:20 p.m. in London, according to JPMorgan Chase & Co. The Markit iTraxx Asia Ex- Japan Series 8 Index soared the most in one day, rising 15 basis points to an all-time high of 144.5, according to BNP Paribas SA. The Markit CDX North America Investment Grade Index rose 2.5 basis points to 132, Deutsche Bank AG prices show. **"Banks have taken losses, spreads are going wider and they are just cutting positions,"** said Andrea Cicione, a senior credit strategist at BNP Paribas in London. **"Lenders are probably reducing risk positions in a deteriorating credit environment by unwinding CDOs."** Banks are facing mounting writedowns on CDOs, securities that package credit-default swaps, bonds or loans, as the fallout from the collapse of U.S. subprime mortgages spreads across financial markets. The Group of Seven estimates banks worldwide will suffer writedowns of \$400 billion on home loans, German Finance Minister Peer Steinbrueck said at a weekend meeting of officials and central bankers in Tokyo. Credit-default swaps are financial instruments based on bonds and loans that are used to speculate on a company's ability to repay debt. They pay the buyer face value in exchange for the underlying securities or the cash equivalent should a borrower fail to adhere to its debt agreements. A rise indicates worsening perceptions of credit quality; a decline, the opposite. CDO Downgrades Fitch Ratings may downgrade all of the \$220 billion of CDOs it assesses that are based on corporate securities because of rising losses, the New York-based company said last week. CDOs with AAA grades that are based on credit-default swaps and aren't actively managed may face the steepest reductions of as much as five steps, the company said. Ratings firms are responding to criticism that they failed to react quickly enough as increasing defaults on subprime mortgages caused a plunge in the value of CDOs. Fitch, a unit of Fimalac SA in Paris, lowered \$67 billion of mortgage-linked CDOs in November, slashing some top-rated debt to speculative grade, or junk. Credit-default swaps on Carlsberg A/S in Copenhagen, the largest Nordic brewer, jumped 22 basis points to 157, according to CMA Datavision in London. The company is buying brewer Scottish & Newcastle Plc with Heineken NV. **CDO Losses Driving Credit-Default Swaps to Record, Analysts Say**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aUy4mptKrdjA&refer=home>

Housing

Housing Finance

- Feb. 13 (Bloomberg) -- **By the end of this year as many as 15 million U.S. households may owe more on their mortgages than their homes are worth**, according to an estimate from Jan Hatzius, chief U.S. economist of New York-based Goldman Sachs Group Inc. That may fuel an increase in foreclosures, erode prices, and increase mortgage bond losses, he said in a Feb. 1 report. **“If borrowers who are underwater go into foreclosure, the properties are likely to be sold at discount prices and will further depress the price of housing,”** said Robert Engle, a Nobel laureate in economics who teaches at New York University's Stern School of Business in Manhattan. **“It becomes a spiral.”** **Thirty-nine percent of people who purchased a home two years ago already owe more than they can sell it for, according to a Feb. 12 report from Zillow.com, a real estate data service.** Only 3.2 percent who bought five years ago are in that situation, the report said. **Sunset Wedding U.S. property owners took out about \$318 billion of equity from their homes in 2006 by refinancing home loans, according to Freddie Mac, the world's second-largest mortgage buying company. Add to that \$146.2 billion lent in home equity lines of credit, according to the Federal Reserve. In all, \$2.2 trillion of home equity has been liquidated since 2001, which was the first of five years of record-setting house prices and sales. Americans Selling Homes See Prices Go Below Mortgage**
http://www.bloomberg.com/apps/news?pid=email_en&refer=home&sid=aW1IhWAI7qd
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- Feb. 12 (Bloomberg) -- IndyMac Bancorp Inc., the second- biggest independent U.S. mortgage company, posted a record fourth-quarter loss and suspended its dividend “indefinitely” as the housing slump entered its third year. IndyMac fell as much as 11 percent in New York trading after reporting a net loss of \$509.1 million, or \$6.43 a share, compared with a profit of \$72.2 million, or 97 cents, in the same period a year earlier. The Pasadena, California-based company was expected to have a loss of \$1.57, the average estimate of seven analysts surveyed by Bloomberg. After reporting the company's first annual loss in its 23- year history, Chief Executive Officer Michael Perry said IndyMac will return to profitability by tightening lending standards, curtailing new home construction and lot financing and ending most home-equity loans. IndyMac has lost 80 percent of its market value in the past 12 months on concern it may not survive as a separate company. **“A forecast of profitability in 2008 looks optimistic,”** said Brian Horey, a general partner at Aurelian Partners LP, a New York-based investment firm that last year moved from betting against shares of subprime lenders to betting against companies focused on better credits, including IndyMac. **“The loans they originated in the last two years put them near the eye of the storm, and credit costs are likely to be an ongoing problem.”** Perry said in an interview last month that IndyMac has a **“good shot”** at rebounding from losses in 2007 and posting a profit in the second half of this year. Falling interest rates on home mortgages may encourage homeowners to refinance and boost production of loans above previous forecasts, he said. IndyMac's decision to curtail lending **“leaves us still with a pretty substantial and solidly profitable production model that we expect will produce over \$40 billion in home loans,”** he said. The company

forecasts it will need to add \$372 million in reserves for loan losses in 2008, down from \$1.45 billion last year. "This is the key driver of our expected return to profitability," Perry said. Suspending the annual dividend of \$1 a share and reducing IndyMac's balance sheet by 14 percent because of limited lending will "free up" \$400 million of added capital. The moves will avert the need for "fire-selling either the entire company or our reverse mortgage business, which should be a tremendous long-term asset for our shareholders," Perry said. **2007 was a terrible year for our industry, for IndyMac and for you, our owners," Perry said in a letter to shareholders today. The housing slowdown may be "the longest and deepest since the Great Depression," he said.**
IndyMac Posts \$509.1 Million Loss as Slump Deepens
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a73EZ4gkqtI4&refer=home>

Macro Economic

- Feb. 13 (Bloomberg) -- Confidence in the global economy fell for a third month in February as the slowdown in the U.S. spread to Europe and Japan, a survey of Bloomberg users on five continents showed. The Bloomberg Professional Global Confidence Index fell to 14.3 from 21.0 in January. Users in Asia were the most pessimistic about the global economy, with the index falling to 12.6 from 15.0. A reading below 50 indicates negative sentiment. Global stocks have lost more than \$6 trillion this year as credit dried up for some borrowers and the U.S. expansion stalled. After insisting Europe would weather the slowdown, European Central Bank President Jean-Claude Trichet said last week uncertainty was "unusually high," while Bank of Japan Governor Toshihiko Fukui may see his interest-rate increases reversed by his successor within months. "First credit markets collapsed and that led to a banking crisis which has affected the real economies of all regions," said Jose Carlos Diez, chief economist at Intermoney SA in Madrid and a participant in the survey. "We have yet to know when the slowdown of the global economy will end and I don't expect a recovery before the summer of 2009." The Bloomberg Professional Confidence Survey collated the responses of 6,878 Bloomberg users from Auckland to New York on the economic health of their region and the world. The survey was conducted from Feb. 4 to Feb. 8. The investors, traders and analysts were also asked about the outlook for their currencies, bonds, stocks and rates in the next 6 months. Participants answered questions in cities including Hong Kong, Zurich and London. **Global Confidence Weakens for Third Month on Slowdown**
http://www.bloomberg.com/apps/news?pid=email_en&refer=home&sid=aBcQb7VS.bw
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- Feb. 12 (Bloomberg) -- **Australian business confidence fell in January to the lowest since terrorist attacks on the U.S. in September 2001, as rising interest rates and turmoil on financial markets buffeted companies' outlook for 2008.** The confidence index dropped 9 points to minus 4 from December, according to a National Australia Bank Ltd. survey of companies released in Melbourne today. A reading below zero shows those expecting business to deteriorate outnumber those predicting an improvement. **Australian January Business Confidence Plunges**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aEP3.FmjTb7I&refer=home>

- Feb. 11 (Bloomberg) -- **U.K. factories raised prices at the fastest annual pace since 1991 in January as gains in raw material costs reached a record, limiting the Bank of England's scope to reduce borrowing costs.** Producer prices for goods including chemicals, textiles and food rose 5.7 percent from a year earlier, the Office for National Statistics said in London today. The cost of raw materials increased an annual 19.1 percent, the most since records began in 1986. **``This is shocking," said Matthew Sharratt, an economist at Bank of America Corp. in London. ``It feeds concerns about inflation, and will make the Bank of England cautious about lowering interest rates too rapidly.**" The pound rose as investors pared bets on further rate cuts after the second one in three months last week to cushion the economy from slowing growth. Policy makers are balancing that risk against the inflation threat as factories charge more to offset record oil prices and higher food costs. Manufacturing output prices rose 1 percent from December, the most since January 1995, the statistics office said. Economists predicted 0.4 percent, the median of 27 forecasts in a Bloomberg News survey showed. They had predicted a 5.1 percent annual increase. **Companies are charging customers more after costs of raw materials rose.** RPC Group Plc, a U.K. maker of plastic bottles for products such as Nivea sun cream, said Feb. 1 that rising polymer, transport and packaging prices wiped out the benefit of increased sales in its third quarter. Inflation Forecasts Economists forecast the January inflation rate to have risen to 2.3 percent, exceeding the Bank of England's 2 percent target for a fourth month, a survey showed. The statistics office will report that data tomorrow. A decline in the U.K. currency is adding to pressure on inflation and raw-material prices by driving up import costs. The pound has fallen about 10 percent in the past year on an index compiled by the central bank showing its performance against a trade-weighted basket of currencies. The weaker pound helped narrow the balance of trade in goods in December. The deficit shrank to 7.6 billion pounds (\$14.8 billion) as exports fell less than imports, the statistics office said in a separate report today. The central bank predicts that the U.K. economy will probably grow around 2 percent this year, close to the lowest rate since 1992, after expansion of 3.1 percent in 2007. Policy makers will update those forecasts on Feb. 13, when Governor Mervyn King holds a press conference. **U.K. Producer Prices Rise at Fastest Pace Since 1991**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aVyRDi73urwQ&refer=home>
- Feb. 11 (Bloomberg) -- **Australia's central bank said it will probably need to increase interest rates further to cool ``uncomfortably high" inflation.** The nation's currency rose. **``Absent a further shift in economic risks to the downside, monetary policy is likely to need to be tighter in the period ahead,"** the Reserve Bank of Australia said in its quarterly policy statement in Sydney today. The bank raised its inflation forecasts for a third time in nine months. **Core inflation will remain beyond the 3 percent upper limit of the central bank's target until the end of 2009** as the economy's 16-year expansion stokes wages, and costs for raw materials increase, the bank said. Today's statement intensified speculation Governor Glenn Stevens will increase rates as soon as next month after raising his benchmark to an 11-year-high 7 percent on Feb. 5. **``The Reserve Bank is on the war path because it has had three disturbing inflation reports in a row,"** said Rory Robertson, an interest-rate strategist at Macquarie Group Ltd. in Sydney. **``It hiked last week and it's apparently trying to convey the impression that it's keen to hike again on**

March 4." The Australian dollar rose to 90.13 U.S. cents at 12:27 p.m. in Sydney from 89.75 cents before the statement. The yield on the five-year bond climbed 6 basis points to 6.56 percent. A basis point is 0.01 percentage point. Separate reports published today show Australia's home-loan approvals unexpectedly rose to a six-month high in December as an employment boom stoked demand for housing, and job-vacancy advertisements climbed to a record in January. Inflation Forecasts There ``remains a risk under the current monetary policy setting that demand does not moderate sufficiently to achieve the forecast reduction in inflation," the central bank said today. ``A further risk is the possibility that inflation expectations could rise, which would make the reduction in inflation more difficult to achieve." Annual underlying inflation will peak at 3.75 percent in June and won't return to the target until 2010, the central bank said. Three months ago, Governor Stevens predicted the inflation rate would decline to 3 percent by the end of this year. ``Australian monetary policy has had to take into account sharply contrasting domestic and international developments," the central bank said. ``The level of interest rates has been lifted to a position that is on the restrictive side of neutral," the bank said. ``The deterioration in global growth can also be expected to dampen demand and activity in Australia." `Uncomfortably High' ``The risk of inflation remaining uncomfortably high for some time is considerable," the central bank said. ``Labor market conditions are tight and there is some evidence of higher growth in aggregate wages in the most recent period." **Australian Central Bank Says Rates May Need to Rise**
http://www.bloomberg.com/apps/news?pid=20601087&sid=aB_esKXNGbwg&refer=home

- February 10 2008 19:26 The International Monetary Fund can play only a limited – largely analytical – role in spotting brewing financial crises, according to Dominique Strauss-Kahn, the fund's managing director. His remarks came as G7 finance ministers, meeting in Tokyo, instructed the IMF to work more closely with the Financial Stability Forum and jointly report on "identifying potential vulnerabilities and enhancing early warning systems". The IMF was in a much better position than the thinly resourced FSF to monitor, and possibly prevent, emerging crises in global finance, officials said. But Mr Strauss-Kahn, speaking to journalists, said: "My opinion is that the specific work to be done by the IMF is mainly in the analysis of linkages between the financial sector and the real sector . . . but obviously the G7 ministers want the IMF to do more than that." Defending the IMF's record, he said a year ago it had identified US subprime lending as a potential flashpoint. But it was "probably correct to say that the IMF was not vocal enough". He was trying to refocus the fund on its "core business of surveillance". But today's financial crises were much harder to read than when trade was the main linkage between countries, and economic vulnerabilities quickly showed up in current-account deficits. **Now imbalances could spread through diverse channels, he said, pointing to worldwide falls in asset prices. "Today the linkages are much more complicated. This has to be clearly identified and early warning is absolutely necessary."** On fiscal stimulus, he defended his call for more co-ordinated action despite the cool response at the G7, where ministers stressed their different economic positions. While it was right that countries "were masters of their own policy", he felt economies representing 20-25 per cent of global GDP – on top of the US's 22 per cent – "had some room to do something" on the fiscal side. "It will need some co-ordinated action," he said, adding

that the process was just beginning. “It will be a long way before we have this idea accepted by everybody: that what is good for one country can be good for the world economy.” He was seeking a “correct policy mix . . . a targeted, timely and temporary fiscal response”. Mr Strauss-Kahn pointed to China, as well as oil and commodity exporters, as economies that could afford to encourage more domestic demand. **IMF chief backs crisis alert calls** http://www.ft.com/cms/s/0/0d002e68-d80a-11dc-98f7-0000779fd2ac.html?nclick_check=1

Retail

Retirement

Risk

Savings Rate

Tech

- February 10 2008 FT Forecasts for global IT spending in 2008 have been cut, as fears of a recession in the US puts the brakes on growth. **Global spending on IT goods and services is expected to grow to just \$1,695bn in 2008, a 6 per cent increase on last year, according to Forrester Research, the market research group. This represents a significant slowdown from 12 per cent growth last year. Only two months ago, Forrester predicted IT spending would grow 9 per cent to \$1,7580bn this year, but the group has pared this forecast back after a series of poor reports on the US economy. “Historically, there has always been a very strong correlation between the economy and technology spending,”** said Andrew Bartels, author of the Forrester report. He added: “Our forecast is premised on a mild recession in the US economy in the first two or three quarters of 2008, caused by a shrinking housing sector and tapped-out consumers reining in their purchases due to higher interest rates, energy costs and consumer debt services. Anecdotally, we are hearing that this is beginning to filter through to chief information officers, and it is clear the level of caution is rising.” Last week **Cisco Systems**, a bellwether for the technology industry, said it had seen a rapid slowdown in orders in January. “The Cisco announcement was coincidental to the revision in our forecasts, but it was confirmation that the slowdown we were expecting is in fact starting to happen,” Mr Bartels said. **IT spending growth in the US, which accounts for about a third of the global total,** is expected to slow to 2.8 per cent, from 6.2 per cent growth last year. Spending in Asia is expected to be about 9 per cent, the strongest region for growth, but still representing a slowdown from 15 per cent growth last year. In Europe, IT spending growth will fall from 15 per cent last year to 5 per cent. The hardest-hit sectors will be computer and communications equipment, with software and services seeing stronger growth. Mr Bartels stressed that the technology slowdown would not be as severe as in 2001, when spending actually declined. “The tech sector will still grow marginally better than the overall economy. This is not a technology bust, it is a slowdown in growth,” he said. Forrester expects growth to accelerate again in 2009, as the economy improves and the release of new software from companies such as **SAP** and

Oracle help kick-start corporate spending. **IT spending forecasts cut on recession fears** <http://www.ft.com/cms/s/0/dc19c972-d7fe-11dc-98f7-0000779fd2ac.html>

Wall Street

- Feb. 13 (Bloomberg) -- Morgan Stanley, the second-biggest U.S. securities firm, will eliminate 1,000 jobs by scaling back its U.S. residential mortgage business and closing the Advantage Home Loans unit in the U.K. The firm will continue its mortgage-servicing business, Saxon Mortgage Service Inc., and offer loans to retail brokerage clients, New York-based Morgan Stanley said today in a statement. Banks and brokers have eliminated at least 19,000 jobs in the past six months as they racked up \$146 billion of writedowns and credit losses tied to mortgage securities. Morgan Stanley, which reported its first quarterly loss in December, cut 900 jobs in 2007 from areas that offered mortgages, packaged and traded debt securities and provided high-yield loans amid the worst U.S. housing market in 26 years. "They should have gotten out of it two to three years ago, but they were making too many fees like everyone else in the business," said Malcolm Polley, chief investment officer at Stewart Capital Advisors in Indiana, Pennsylvania, who manages \$1 billion, including Morgan Stanley shares. "I would not expect them to be the first ones or to be the last ones to do this." Morgan Stanley, the No. 2 securities firm by market value behind Goldman Sachs Group Inc., said last month it would cut 1,000 more jobs in businesses including asset management and retail brokerage and support areas such as technology and administration. 'Continued Dislocation' "Given the continued dislocation in the mortgage markets, we have restructured our residential mortgage business to ensure we are appropriately positioned for the environment going forward," Anthony Meola, chief operating officer of the U.S. residential business, said in the statement. **Morgan Stanley to Cut 1,000 U.S., U.K. Mortgage Jobs**
http://www.bloomberg.com/apps/news?pid=email_en&refer=home&sid=aNXOPT1HstVQ
- Feb. 11 (Bloomberg) -- **The U.S. stock market is "at or very close to an important bottom" and may be led higher by banks and brokerages when a rally occurs, according to Barton Biggs, co-founder of hedge fund Traxis Partners LLC. [there is NO real fear]** Biggs, the former global investment strategist for Morgan Stanley, said in a Bloomberg Television interview he's "gradually increasing" his holdings of U.S. equities partly **because they are "very, very cheap." Financial companies may advance 20 percent to 25 percent, said Biggs, who helps manage \$1.5 billion in Greenwich, Connecticut.** The Standard & Poor's 500 Index fell 6.1 percent in January, its biggest monthly decline since September 2002 and its worst start to a year since 1990. During the month the index fell as much as 16 percent from its Oct. 9 record. Financial companies in the index fell almost 21 percent in 2007, the worst performance among 10 industry groups and their biggest drop since 1990. **U.S. Stocks Near an 'Important Bottom,' Biggs Says**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a0XIgxYPJdnA&refer=home>
- Feb. 11 (Bloomberg) -- **Less than a decade after Wall Street's last major partnership went public, stockholders are paying the price for bankrolling the industry's**

expanding risk appetite. Four of the five biggest U.S. securities firms lost about \$83 billion of market value last year, almost 90 percent of their net income since 1999, data compiled by Bloomberg show. That cut the annual average return for Morgan Stanley, Merrill Lynch & Co., Lehman Brothers Holdings Inc. and Bear Stearns Cos. during those nine years to 9.7 percent from 16.8 percent. The private partnerships that once dominated Wall Street guarded their capital, used less leverage and limited their risk to trading blocks of stock for clients and shares of companies in mergers, said Roy Smith, a finance professor at New York University's Stern School of Business and a former partner at Goldman Sachs Group Inc. Since raising money from the public, many of the biggest firms have abandoned that caution. **“If you're betting with other peoples' money, you're more willing to take risk than if it's your own,” said Anson Beard, 71, who retired from Morgan Stanley in 1994 after 17 years at the New York-based company, where he ran the equities division and helped with the initial public offering in 1986. “You think differently if you're paid in cash and not in ownership. It's heads you win, tails you don't lose.”** Shareholders, stung by the securities industry's losses last year on subprime mortgage-backed bonds and leveraged loans, may be in for more pain. Other People's Money **“Shareholders share in the downside and not necessarily in the upside, that's the whole story,” said John Gutfreund, 78, who ran Salomon Brothers in the 1980s when it was renowned for the size of its trading bets. “It's OPM: Other People's Money** Cash Bonuses James E. “Jimmy” Cayne, who stepped down as Bear Stearns's chief executive officer last month after the firm reported its first quarterly loss, is the company's fourth- biggest shareholder, according to Bloomberg data. The value of his 5.7 million shares has dropped to about \$460 million from \$971 million at their peak in January 2007. Cushioning the blow are the millions in cash bonuses that Cayne and other Wall Street executives took home during the profitable years. While he forfeited a 2007 bonus, Cayne collected almost \$40 million in cash payouts in the prior three years on top of salary, stock options and restricted shares, according to company filings. No Refunds **“We're essentially running all these investment banks and even the large universal banks on the same basis as if they were hedge funds,” said Smith, the NYU finance professor. Executives “make big gains on any gains in the firm's income, whereas they're not exposed, they don't have to pay it back in the loss.”** Going public allowed partners to take home some of the money they'd locked up in their companies. It also provided funds to expand internationally and enter new, riskier businesses like derivatives and leveraged finance. **“The firms had to go public because to do these businesses you need so much balance sheet,” Beard said. “When the firms were private partnerships, you had to worry about how you were going to replace the capital” when a partner retired. “After we went public, we upped the cash compensation dramatically.”** Bigger Borrowers The businesses exploded in size. Goldman had 50 partners in 1973, 75 partners in 1983 and 150 a decade later, according to Lisa Endlich's 1999 book **“Goldman Sachs: The Culture of Success.”** As of Dec. 17, partners and managing directors numbered more than 1,700, according to the bank's Web site. The companies also borrowed more. Goldman's leverage ratio, which measures assets relative to equity, was 26.2 times at the end of November, up from 17.1 times in November 2001, regulatory reports show. At Morgan Stanley, the ratio jumped to 32.6 from 23.6 in 2001. For most of the past decade, the securities industry has been churning out profits, fueled by low interest rates, economic growth, expansion into fast-growing

countries like China, and the explosion of derivatives markets. Goldman's pretax earnings surged to \$14.6 billion in 2007 from \$3 billion in 1997 as its balance sheet grew to more than \$1 trillion. Record Defaults "These firms are vastly bigger than they were, they're not privately owned partnerships any more that are filled with people worried about getting their own money back," said Smith, the former Goldman partner. "They're in everything, everywhere in very large quantities." Last year demonstrated the pitfalls. The business of packaging home loans into securities soured when declining U.S. house prices triggered mortgage defaults and foreclosures rose to the highest level in 28 years, according to data compiled by the Mortgage Bankers Association in Washington. Morgan Stanley, Merrill, Lehman and Bear Stearns wrote down a combined \$38 billion of bad debt in 2007 -- more than the four firms' \$30 billion of revenue from fixed-income trading in 2006. The writedowns ranged from \$24.5 billion at Merrill to \$1.5 billion at Lehman. Only Goldman profited by positioning itself to make money on the decline in subprime mortgages. Pass the Check Merrill's then-CEO, Stan O'Neal, was forced out in October after the company reported a third-quarter loss that was six times what it had forecast less than two months earlier. Rather than fire him, the board allowed him to retire so he could keep \$161.5 million in restricted stock and options he'd been awarded during his tenure. In the prior two years, he'd also received \$32.6 million in cash bonuses. "There are no partners of Merrill Lynch, there are employees," said Peter Solomon, a former Lehman executive who's now chairman of New York-based investment bank Peter J. Solomon Co. "So they don't share in the losses and gains the way they should, they are able to shed those on to shareholders." John Mack, Morgan Stanley's chairman and chief executive officer, reported the first quarterly loss in the firm's history as a public company on Dec. 19. He sold about 10 percent of the bank to state-controlled China Investment Corp. for \$5 billion to help replenish capital. 'Casino Operators' Mack, 63, who had presided over a strategy of taking bigger trading risks since he returned to Morgan Stanley in 2005, said wrong-way bets on mortgage-related securities yielded the "embarrassing" loss. "I'm going to be and this firm is going to be much more cautious in some of these larger bets," Mack said on the Dec. 19 conference call with analysts. "We have been sprinting and I think we are going to be jogging right now for a while." Mack, like Cayne at Bear Stearns, forfeited his annual bonus for 2007 and has seen the value of his stock, including \$40 million of restricted shares awarded in 2006, drop about 40 percent in value since its peak in June. Unlike Cayne and O'Neal, Mack didn't take any cash bonus for 2006. "The partners at Lehman Brothers and the partners at Goldman Sachs and the partners at Morgan Stanley didn't take risk that was disproportionate to their resources, and when they did, they paid the consequences so they tried not to," Solomon said. **These days, "shareholders and the customers are the people who are financing these guys. They're financing casino operators."** **Wall Street Shareholders Suffer Losses Partners Never Imagined**
<http://www.bloomberg.com/apps/news?pid=20601109&sid=a8wXme0GUnco&refer=home>

- FT Faced with a bear market, the gut reaction of many investors is to pile into "defensive" sectors – global tobacco stocks beat general retail by 32 per cent last year. But discriminating among companies matters, too. In a bleak 2002, the best performing stock in each US sector outperformed the worst in its sector by 63 per cent on average using FTSE's index. Avoiding blow-ups is critical also. The demise of Ericsson and

Nortel jointly cut about one percentage point off global equities' performance from their 2000 peak to trough. Selecting defensive stocks means abandoning the bad analytical habits that have prospered over the past two years (fans of buy-out simulations, that means you). Instead, scrutiny of three factors may prove important. First, operating leverage, or the sensitivity of profits to changes in sales. This is often measured by the proportion of costs that are "fixed" and thus hard to cut if sales fall. But low margins are also dangerous. Take two companies, both with half of their costs fixed and both facing a 5 per cent decline in sales. Lame Inc, with 5 per cent margins, will see profits halve. Awesome Co, with 10 per cent margins, will see profits decline by only a quarter. The second factor, financial gearing, amplifies operating leverage for equity holders. Quoted companies overall have lower net debt relative to profits than in 2000-2003, although profits are cyclically higher. But some business will need to cut debt. How quickly this process takes is largely determined by the third factor, liquidity – or the cash and unused borrowing facilities a company has access to. Indebted businesses with heavy refinancing needs are much more likely to resort to damaging fire sales and freezes on capital expenditure. There are plenty of other rules of thumb – profits can fall much, much, farther than once seemed possible; the more troubled a company gets, the more economical its executives tend to be with the truth. And sector selection and valuation are critical. But if 2008 does mark the beginning of a bear market, owning high margin, undergeared companies should also help. <http://www.ft.com/cms/s/1/d3e5d2e6-c417-11dc-a474-0000779fd2ac.html>

Don't Fight The Fed

I Disagree . . . and why

[Article of the week:](#)

UM EMBA

Best of the Dog

Tuesday, February 12, 2008 at 10:52 CDT

It is all good - Feb 12 edition

I have neither the time nor inclination to provide a detailed analysis as to why the huge rally inspired by Warren Buffet stating he has tried to cherry pick the best assets and only viable business from the mortgage insurers.

I will simply state that in the grand scheme of things it is meaningless and that this rally like the September, October, early December, and late December 2007 rallies will lead to new lows and

will cost little guys who buy the “bottom is in” nonsense to lose even more money. Fearing options expiration hijinks, I covered lots of positions on Monday morning.

I am off to Ann Arbor tomorrow so posts will be sporadic.

While I am away I expect the inmates to continue to run the asylum and for unbelievable shorting opportunities to arise in the latest venture into fantasy land.