

## March 10, 2007 Review

### Comments

New Century Financial closed Feb 7 at 30.16. It closed at 3.21 on March 8. IMO NEW will file bankruptcy as soon as Monday morning. The common shareholders will get nothing. I shorted the stock last year at 48, 46 and 44. I shorted a significant number of August NEW calls last week. I have no doubt I will never have to cover the common and the calls will expire worthless.

Wall Street analysts had the following rankings last month on New Century: 3 Buy, 6 Hold, 3 Sell and 1 Strong Sell. Today those same analysts, after a 90% drop, and with a likely drop to zero, rate NEW 1 Buy, 4 Hold, 3 Sell and 3 Strong Sell. From Feb 13 to March 1, there were three analysts' actions on the stock. Stifel Nicolaus, UBS and Bear Stearns all **UPGRADED** NEW. *UBS's February 2007 UPGRADE is particularly interesting in light of its March 2007 revelation "that it had as much as \$1.5 billion in exposure to troubled sub-prime lender New Century Financial"*. The **Current** Wall Street price targets on NEW range from a low of \$4 to a high of \$42. The current P/E is .48 (average PE on the S & P is about 17). The profit margin is 29%, operating margin 36%, diluted EPS \$6.72, cash per share \$7.38 and ROE 18.8%.

The purpose of the foregoing is not to gloat. I get plenty wrong too. The purpose is to illustrate how meaningless historical data and Wall Street analysis can be. You all know that the sub-prime issue has been easily recognized since the middle of last year. You also know that until very recently the media and Wall Street have claimed there was no problem with sub-prime. Those same sources now say sub-prime's problems will not spread. **THEY** say the economy is healthy. **THEY** say buy the dips, it is just a correction. **THEY** say last years earnings were great and we think next years will be too. **THEY** say ignore the man behind the curtain.

Maybe **THEY** will be right for a while longer. Maybe the dip buyers and liquidity will prevail one more time. Maybe NEW is worth \$42 per share. Maybe common sense and basic economics will take longer to assert themselves. Your question should be "is it worth risking my life's savings to wait around and see if **THEY** are right?"

Those who say the sub-prime issue will be contained are as wrong as when **THEY** said the sub-prime issue did not exist. There are already problems with Alt A, the next level up. The problems with sub-prime were more about poor underwriting than interest. The same greedy unethical shysters who shoe horned debtors into sub-prime did the same all the way up the pipeline. It is now merely a matter of time. We are entering into a major bear market that will see horrific losses.

Just as with New Century investors, you need to decide before the losses mount what to do. Once you see it in the paper . . . Once your neighbors begin to talk about it . . . . Once it becomes clear what is happening . . . It will already be too late.

We will see . . . .

P.S. A quote from AI on the benefits of sub-prime financing (courtesy of Ask Fleck):

“Innovation has brought about a multitude of new products, such as sub-prime loans and niche credit programs for immigrants. . . . With these advances in technology, lenders have taken advantage of credit-scoring models and other techniques for efficiently extending credit to a broader spectrum of consumers. . . . Where once more-marginal applicants would simply have been denied credit, lenders are now able to quite efficiently judge the risk posed by individual applicants and to price that risk appropriately. These improvements have led to rapid growth in sub-prime mortgage lending . . . fostering constructive innovation that is both responsive to market demand and beneficial to consumers.”

Alan Greenspan, April 8th, 2005

## Credit

- As reported in the Texas Lawyer (thanks Doug): non-traditional lenders such as hedge funds account for nearly 70% of leveraged loans with banks only 20% this is the exact reverse of ten years ago.
- March 6 (Bloomberg) -- Pacific Investment Management Co.'s Total Return Fund, the world's biggest bond fund, has cost investors as much as \$55 million because of its growing bet against corporate securities in the past year. Now, Pimco and Mark Kiesel, who oversees \$80 billion of company debt at the Newport, Beach, California-based firm, are gaining some redemption as **investors flee all but the safest of assets amid concern rising mortgage delinquencies will slow the economy**. The extra yield over Treasuries that investors demand to compensate for the risk of default rose the most in a year last week, according to data compiled by Merrill Lynch & Co. “It's batten down the hatches time,” said Kiesel, who was so sure the housing market would collapse that he sold his Southern California home last May and moved to an apartment. “**Pimco has obviously been a little bit off on its timing, but we remain pretty convinced we're going to get this right. Profits have been supported by consumer spending thanks to housing going up. As job creation slows, you're going to see credit risk start to be re-priced.**” Bad real estate loans may cause risk premiums to rise from near-record lows, just as they did when hedge fund Long-Term Capital Management blew up in 1998, Enron Corp. and WorldCom Inc. filed for bankruptcy in 2001 and 2002, and General Motors Corp. and Ford Motor Co. were cut to below investment grade in May 2005, said Kiesel. **The extra yield investors demand to own high-yield, high- risk, or junk, bonds rather than risk-free Treasuries shot up 21 basis points on Feb. 27 to 279 basis points [a nearly 10% move in a day]**, its worst day since May 10, 2004, Merrill Lynch data show. A week earlier the spread came within 5 basis points of its all-time low of 244 basis points, or 2.44 percentage points, in 1997. It ended yesterday at 299 basis points. Junk bonds are rated below Baa3 by Moody's Investors Service and BBB- by S&P. **Bank of America Corp., the third-biggest manager of bond sales in the U.S., is telling clients to unload corporate bonds because of concern that “housing-led weakness” may spread. A month ago, the firm, citing what it called a “Goldilocks” economy, recommended buying company debt. [What changed in a month B of A?????????]Subprime `Spillover' “The spillover from the subprime market is only going to continue,” [with that**

attitude he will never get on CNBC] said Kiesel, who predicts the housing market's deterioration will prompt consumers to curb spending, the economy to slow and the Federal Reserve to cut interest rates. Kiesel's prediction may already be coming true. **The share of mortgages on which payments were at least 30 days overdue rose to 2.11 percent last quarter, the highest since 2002, from 1.72 percent the previous three months**, the Fed said Feb. 27. The data aren't adjusted for seasonal patterns. `Hungry Buyers' Pioneer Investment is using the slump as a **buying opportunity**, said Patel. ``You still have a lot of hungry buyers," said Patel. ``We're just seeing that little slush of nervousness. It reflects a change in sentiment, not a change in fundamentals. **As long as defaults are so low it's hard to see where we can have a large correction at this point.**" [as long as we look in the rearview mirror, we won't see ourselves drive off the cliff] The global default rate on speculative-grade bonds ended last year at a 10-year-low of 1.7 percent, defying projections in December 2005 and March 2006 that it would top 3 percent by now, according to Moody's. The default rate has fallen for the past five years, Moody's said. The perceived risk of owning U.S. corporate bonds soared last week. Credit-default swap contracts based on \$10 million in bonds in the Dow Jones CDX North America Crossover Index surged \$32,750 to \$143,000, according to Deutsche Bank AG in New York. It increased again yesterday, rising to \$159,000, the highest in three months. The index on Feb. 22 fell to \$107,500, its lowest since being created in 2004. Credit-default swaps are based on corporate bonds and loans and used to speculate on a company's ability to repay debt. An increase indicates traders see a higher risk of default. ``The market began the year priced for perfection," Braggs said in an interview. ``I would not recommend that any investor get into this market because it seems poised to drop precipitously given any kind of bad news." **Pimco Wins, Procter & Gamble Loses as Turmoil Spreads**  
<http://www.bloomberg.com/apps/news?pid=20601109&sid=aA3.lujabUSM&refer=home>

## Commercial Real Estate

## Commodities

- March 8 (Bloomberg) -- Gasoline futures rose to the highest price in more than six months as refinery production slowdowns led to declines in U.S. inventories. Supplies fell 4.8 percent to 216.4 million barrels in the four weeks ended March 2, leaving inventories 0.6 percent above the five-year average, according to an Energy Department report yesterday. Gasoline production at U.S. refineries declined last week as some plants cut output to perform maintenance and others suffered disruptions. ``The big fear right now is gasoline supplies heading into the spring and the peak driving season," said Jack Hunter, an energy trader with FC Stone Group in Kansas City, Missouri. ``There have been so many refinery problems that it's been difficult for the market to pull back." Gasoline Demand Gasoline consumption has been stronger than normal this winter, averaging more than 9.1 million barrels a day over the four weeks ended March 2, 3.3 percent above the same period last year, according to the Energy Department. Demand, which typically grows by 1.5 to 2 percent a year, peaks in the summer.

<http://www.bloomberg.com/apps/news?pid=20601087&sid=a3fPhTmY74RQ&refer=home>

- March 6 (Bloomberg) -- Crude oil rose on speculation that U.S. gasoline inventories declined for a fourth week and as Royal Dutch Shell Plc said a pipeline spill in Nigeria cut production by 187,000 barrels a day. Nigeria Attacks Previous attacks by militant groups have forced Shell's Nigerian operations to slash output by about 500,000 barrels a day, almost a quarter of the country's production. Nigeria pumped 2.18 million barrels of oil a day last month, according to data compiled by Bloomberg News.  
[http://www.bloomberg.com/apps/news?pid=20601012&sid=aqPIUr1P\\_1sc&refer=commodities](http://www.bloomberg.com/apps/news?pid=20601012&sid=aqPIUr1P_1sc&refer=commodities)

## Currency

## Diversification

## Derivatives

- March 9 (Bloomberg) -- Subprime mortgage bonds are falling in part because Wall Street dealers are lending less money to managers of collateralized debt obligations that buy the securities, according to investors. **“The dealers were caught off guard by the speed of the collapse and were still trying to aggressively”** encourage the creation of new CDOs before pulling back, said Peter Schendel, who helps manage \$100 million in asset- and mortgage-backed bonds at hedge fund Good Hill Partners LP in Westport, Connecticut. **The drop in demand caused yields on subprime mortgage bonds with the lowest investment-grade ratings to double to 8 percentage points over benchmark rates last month**, according to New York-based Lehman Brothers Holdings Inc. The rates consumers with bad credit pay on home loans fluctuate with the yield that bond investors demand to own securities backed by the mortgages. **CDOs repackage loans, bonds and derivatives as new securities.** Strategists at firms including JPMorgan Chase & Co. say spreads on mortgage CDOs will widen further. **That suggests subprime bonds held in “warehouses” waiting to become part of a CDO won't be able to be repackaged at a profit.** Subprime loans are made to homebuyers with poor or limited credit histories. Securities firms often either share or take all of the risk of CDO securities not being sold for enough to create a profit, or of bonds expected to be put into a CDO needing to be sold at loss instead, taking interest payments in the interim in return. ‘Real People’ About \$173 billion of CDOs backed mainly by U.S. subprime mortgage bonds and related derivatives were created last year, according to JPMorgan. “Real people didn't buy” subprime bonds at the spreads being offered, said Scott Simon, head of mortgage- and asset- backed bond investments at Newport Beach, California-based Pacific Investment Management Co., manager of the world's largest bond fund. **“CDOs bought the bonds.” [what is going on here is that the market is drying up - losing liquidity and very quickly]** Merrill Lynch & Co. was the largest underwriter of CDOs last year, according to Thomson Financial. In past four weeks, Merrill Lynch sold more than \$15 billion of CDOs backed by asset-backed securities, Terez Hanhan, a spokeswoman for the securities firm in New York, said this week, declining to discuss its lending for future CDOs. Subprime mortgages made up about a fifth of new mortgages last year, according to the Washington-based Mortgage Bankers Association. **About 10.12 percent of the**

loans in securities were delinquent by at least 90 days, in foreclosure or already turned into seized property on Dec. 31, up from 5.37 percent in May 2005 and the most in at least seven years, according to a March 2 Friedman Billings Ramsey Group Inc. report. **‘Relatively Insulated’ Low-rated subprime mortgage bonds were ‘relatively insulated’ from concerns about rising delinquencies until last month,** [keep that in mind next time you read about how other debt is “insulated” now] Lehman said in March 5 report. Between August and February, spreads widened less rapidly than credit derivatives that provide bondholders protection against default. Lower demand from CDOs is encouraging subprime mortgage bond issuers to hold more of the securities they create, “at least until the market retains its footing,” [this means the investment banks that could not wait to get into the industry at the top last year] Credit Suisse Group analysts led by Rod Dubitsky said in a March 2 report. TABX Contracts Pressure on the spreads has also come from a new type of derivative introduced on Feb. 14, called TABX contracts. The contracts re-slice the risks of credit-default swaps on low-rated securities, just as CDOs do with the actual bonds. TABX contracts that look similar to high-rated bonds from CDOs have carried premiums more than 10 times the spreads on CDOs, leading some investors to want more yield on the CDO securities. **‘Either it’s absurdly cheap’ to buy the contracts or too expensive to buy CDOs,** [There ain’t no such thing as a free lunch, sir – Econ 101] said Howard Hill, a managing director in Springfield, Massachusetts, at Babson Capital Management LLC. The unit of MassMutual Financial Group manages about \$30 billion of mortgage- and asset-backed bonds. Planned sales of U.S. CDOs that focus on both high- and low- rated structured-finance bonds are in line with the average over the past 52 weeks, and issuance so far this year totals \$3 billion, exceeding the 2006 pace, according to JPMorgan. **‘The demise of the CDO business has been greatly exaggerated,’** [we will check back with you in 6 months sir] said Brett Graham, a managing partner at Vertical Capital LLC, a New York-based CDO manager overseeing about \$14 billion. “But it’s clearly not the same business as usual.” The drop in CDO demand may be temporary as rising yields on subprime mortgage bonds make it possible to offer higher yields on CDO securities. “Maybe yesterday’s bonds aren’t going to make it, but going forward it still **might** work if you bought new” [or it might not] bonds at wider spreads, said Jeremy Shor, a portfolio manager at Brown Brothers Harriman & Co. in New York, who oversees about \$3 billion in asset-backed securities.

**Subprime Mortgage Bonds Extend Drop as Dealers Cut CDO Funding**  
[http://www.bloomberg.com/apps/news?pid=20601206&sid=aQOqLN4\\_DTV4&refer=realstate](http://www.bloomberg.com/apps/news?pid=20601206&sid=aQOqLN4_DTV4&refer=realstate)

## Housing

- March 9 (Bloomberg) -- Rising mortgage defaults by subprime borrowers may add more than 500,000 homes to a residential real estate market already beset by slumping prices, according to CreditSights Inc. In January, 4.09 million new and existing homes were offered for sale, down from 4.43 million in July 2006, the National Association of Realtors and the U.S. Commerce Department said. New homes accounted for 536,000 of the January total, down from a record 573,000 in July. A five-year housing boom that ended a year ago was fueled in part by the growth of mortgage products marketed to borrowers with poor credit histories. Now, as defaults on subprime loans surge to a

seven-year high, more than 20 lenders have closed or sought buyers since the start of 2006. The survivors are raising their lending standards. **“We estimate that the effect of looser lending standards could translate into another 533,000 homes coming onto the market as borrowers default -- an unwelcome phenomenon given the existing supply surplus,”** Sarah Rowin and Frank Lee of bond research firm CreditSights wrote in a March 1 report. The glut of homes on the market has led potential buyers to hold off purchases on expectations that prices will fall. **Tighter lending standards may also hurt the housing recovery as people who could previously qualify for a mortgage can't get one now. About 10 percent of subprime loans were more than 60 days delinquent or in foreclosure as of Dec. 31, up from 5.4 percent in May 2005,** according to data compiled by Friedman Billings Ramsey Group Inc. of Arlington, Virginia. **The rate was the highest in seven years, according to the report.** “A Lot of Supply” “Not only do we have a lot of supply in the new home market, the existing homes are sitting much longer on the market,” said Edie Ousley, a spokeswoman for the Tallahassee, Florida-based Florida Home Builders Association. “That increases competition for a new home to sell.” **Once a borrower is in default, the foreclosure process, which varies from state to state, can take from five to 18 months,** according to the Durham, North Carolina-based Center for Responsible Lending. The subprime mortgage market surged to \$600 billion in 2006 from \$120 billion in 2001, John Bancroft, executive editor of Inside Mortgage Finance, a trade publication, based in Bethesda, Maryland. In 2001, subprime accounted for 5.4 percent of the total market to 2006's figure of 20.1 percent, he said. “Looser Lending Standards” **“Probably the gain in home ownership over the last four, five years, is almost entirely due to looser lending standards,”** said James Fielding, a homebuilding credit analyst at Standard & Poor's in New York. Fielding said the number of new homes on the market also is understated because when a customer cancels a home contract that house does not go back into the inventory of unsold houses. **“There's a lot more shadow inventory out there,”** Fielding said. “It's just a quirk of the statistics. They never get recaptured.” Cancellation rates for new homes have surged to nearly 40 percent and that has boosted the inventory of unsold houses, Margaret Whelan, an analyst at UBS AG, said in a report on March 2. U.S. homebuilders such as Lennar Corp., Centex Corp. and D.R. Horton Inc. are offering free granite countertops, offering to pay a mortgage for a certain time and other sales incentives to clear out inventory. The heavy level of incentives has cut profit at the builders, whose results are suffering from high cancellation rates and weak demand. **Home Sales Plunge New home sales plunged 17 percent in 2006** compared with 2005, the biggest decline since 1990, according to the National Association of Home Builders. **Existing home sales fell 8.4 percent in 2006** from a record in 2005, according to the National Association of Realtors. Fielding said the two biggest unknowns for the housing market are how much foreclosure property will come on the market and how stringent lenders get with mortgage lending standards. **Properties in some stage of foreclosure rose 35 percent** in December 2006 to 109,652 compared with December 2005, according to RealtyTrac Inc., an Irvine, California-based online marketplace for foreclosure properties. The lower-priced end of the housing market may feel the effect of the subprime lending problem more than the luxury end, Robert Toll, chief executive officer of luxury builder Toll Brothers Inc., said at a Citigroup conference in New York on March 7. “We've already seen some impact,” Toll said. “It's been minor. I think it

will continue to be minor for us but I don't know how great the impact will be at the beginning of the daisy chain." [his prediction accuracy is probably worse than Abbey Joseph Cohen] Donald Tomnitz, the chief executive officer of D.R. Horton, said in a separate presentation at the same conference that his company would miss its projections for closing this year, and that **"2007 is going to suck, all 12 months of the calendar year."** D.R. Horton's business is mainly focused on first-time homebuyers and second time homebuyers. **Rising Subprime Mortgage Defaults Add to Unsold Homes Inventory**

<http://www.bloomberg.com/apps/news?pid=20601206&sid=aC9LdDcv4.Wc&refer=realestate>

- March 9 (Bloomberg) -- The nation's banks are just beginning to feel the pain of defaults on risky mortgages they made at low introductory rates when housing prices were soaring, U.S. Federal Reserve Governor Susan Bies said. Bies, who has been the Fed's top banking policy official in her tenure at the U.S. central bank, said today banks are likely to see more missed payments and foreclosures as consumers with weak credit histories begin to face higher monthly mortgage payments. "What's happening is the front end of this wave of teaser-rate loans that are coming into full pricing," Bies said at a risk-management forum in Charlotte, North Carolina. "So what we're seeing in this narrow segment is the beginning of the wave. **This is not the end, this is the beginning.**" Bies's comments reflect growing attention among bank regulators to the turmoil in the so-called subprime mortgage market and its impact on consumers and U.S. lenders. Many subprime borrowers face large prepayment penalties they can't afford, and they can't refinance or sell their homes, she said. **U.S. bank regulators have been watching rising numbers of cases of missed payments and defaults in the subprime market since last spring,** Bies said. Tougher Guidelines The Fed and four other bank regulators released proposed guidelines last week instructing banks to strengthen their underwriting standards and offer clear disclosures on loan terms to subprime borrowers. **The central bank also said last week that the delinquency rate on banks' residential real-estate loans reached a four-year high last quarter.** Bies said the problems in the mortgage market are well-contained. "We're seeing this in a very narrow segment," Bies said. "We're watching for contagion, we haven't seen it." [they did not see the Subprime problem until it was WAY too late] More than two dozen mortgage companies have gone bankrupt, closed operations or sought buyers since the start of 2006, according to data compiled by Bloomberg. **Irvine, California-based New Century Financial Corp., the second-largest U.S. home lender to subprime borrowers, stopped making new loans. Analysts speculate the company may soon file for bankruptcy protection.** Fremont General Corp., a Santa Monica, California-based mortgage lender, said on March 2 that it would sell its subprime mortgage lending operations three days after the Federal Deposit Insurance Corp. notified the company of objections to its subprime lending practices. "In the housing markets and bubbles that occurred in some areas, to afford housing, people pushed their limit to afford a house," Bies said. "And in doing so, lenders tried to create products to meet those demands." Fed Meeting **Bies and other Fed governors yesterday attended a meeting of the Fed's Consumer Advisory Council in Washington where they were warned that rising mortgage foreclosures are likely to get worse.** The Fed officials heard stories about Cleveland, Philadelphia, Denver and New York, where neighborhoods are falling apart as homeowners struggle to pay loans or abandon their

homes in foreclosure. Consumer advocates said loose underwriting standards in the subprime market caused the growing foreclosure rates. Higher interest rates should have compensated investors for risk if markets were functioning correctly, said Massachusetts Institute of Technology professor Robert Solow, winner of the 1987 Nobel Prize in economics. Standards may have fallen below appropriate levels in the "euphoria" of borrowing and lending, Solow said in an interview with Bloomberg Radio today.

### **Subprime Defaults Are 'Beginning of Wave,' Bies Says (Update5)**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=ae6vaLjTNitA&refer=home>

- March 7 Hovnanian Enterprises (HOV \$31) reported a 1Q net loss of \$0.91 per share, below the Reuters estimate of a loss of \$0.72. Excluding items, the home builder posted earnings of \$0.20 per share. Hovnanian said its contract pace in 1Q held steady in most markets from 4Q, adjusting for seasonal factors, and most markets are showing signs of stabilization. But the company said it increased incentives in some communities and it is "not yet confident that we have found the bottom of this housing slowdown." Hovnanian reduced full-year EPS guidance from \$1.50-\$2.00 to \$1.10-\$1.50 and cut the top end of its estimate for deliveries from 18,000 homes to 17,200.
- New York-07 March 2007: Fitch Ratings downgrades New Century Mortgage Corporation's (NCMC), a subsidiary of New Century Financial Corp. (NEW), residential primary servicer rating for subprime product to 'RPS4' from 'RPS3+', and places the rating on Watch Negative. The rating action reflects uncertainties over NEW's ability to maintain adequate funding and remain viable over the near term. The company has stated that if it is unable to obtain satisfactory amendments to and/or waivers of the covenants in its financing arrangements from a sufficient number of its lenders, or obtain alternative funding sources, NEW's independent auditors will include an explanatory paragraph indicating that substantial doubt exists as to the company's ability to continue as a going concern. Doubts over NEW's access to funding arose due to the company's inability to timely file its financial statements. The delay was caused by the company's need to restate its 2006 interim financing statements to correct errors the company discovered in its accounting and financial reporting of loan repurchases as well as issues pertaining to the Company's valuation of residual interests in securitizations. Additionally, a criminal inquiry of NEW was launched under federal securities laws in connection with trading in the Company's securities. Fitch does not rate the credit and financial strength of NEW. However, a company's financial condition is an important component of Fitch's servicer rating analysis. The servicer rating action reflects Fitch's concern that NCMC will face difficulty, funding its servicing operation, and maintaining servicing quality, as a result of the accounting issues facing NEW. **An 'RPS4' rated servicer may not be acceptable for new residential mortgage-backed security (RMBS) transactions unless additional support or structural features are incorporated.** The Rating Watch Negative indicates that further downgrades are possible, depending upon the stability of the servicer's portfolio and financial condition and the company's ability to obtain satisfactory amendments to and/or waivers of the covenants in its financing arrangements from a sufficient number of its lenders, or obtain alternative funding. Fitch will continue to monitor NEW's financial condition and its impact on loan servicing and operational capabilities. Fitch has 33 RMBS transactions that are either serviced or master serviced by NCMC. The servicer rating downgrade will not have a direct immediate impact on the ratings of the NCMC serviced transactions. All transactions at least one year old have had

rating actions within the last twelve months, with no downgrades assigned during that time. Fitch will continue to closely monitor the performance of the NCMC serviced transactions. Fitch Ratings rates residential mortgage primary, master, and special servicers on a scale of 1 to 5, with 1 being the highest rating. Within some of these rating levels, Fitch further differentiates ratings by plus (+) and minus (-) as well as the flat rating. For more information on Fitch's residential servicer rating program, please see Fitch's report 'Rating U.S. Residential Mortgage Servicers,' dated Nov. 29, 2006, which is available on Fitch's web site at 'www.fitchratings.com' **Fitch Downgrades New Century's Subprime Servicer Rating to 'RPS4'; Placed on Rating Watch Negative**

- March 7 (Bloomberg) -- Toll Brothers Inc., the biggest U.S. luxury-home builder, said customer cancellations are falling and it's offering fewer sales incentives. D.R. Horton Inc., the second-largest builder by revenue, said it will miss its projections for closings this year. D.R. Horton said closings will likely drop below last year's 53,000 and it will probably continue writing down land through 2008. **“I don't want to be too sophisticated here, but 2007 is going to suck, all 12 months of the calendar year,”** D.R. Horton Chief Executive Officer Donald Tomnitz said at a Citigroup Inc. conference in New York. **“Our future is not as bright as what we would like it to be.”** A yearlong U.S. housing slump has left homebuilders with a glut of unsold homes as customers have abandoned deals or held off making purchases. Sales in 2006 fell 17 percent, the most since 1990, cutting profit at home construction companies and spurring them to write off lost deposits and land purchases. At Toll, the cancellation level has dropped to 16 percent in the last five weeks from a high of 36 percent, CEO Robert Toll said today at the conference. **Burning Off Inventory** **“We're now running at half the pace of inventory that we had three or four months ago,”** Toll said. **“So I would guess, and that's all it is, it'll be another four or five months before you finally burn off inventory in most of the markets. After predicting that the home market was nearing a “bottom” in December, Toll last month reversed course as deposits failed to live up to expectations. Today, he tempered his comments by saying the market “is still beset by speculation” and that it may take longer in some areas to pare the number of unsold properties. “We believe that as soon as the market turns, and I'll speak about it, we think it'll turn with a vengeance,”** Toll said. **“The incentives are coming down.”** **[Toll is the poster child for understating problems in housing, yet he is quoted as if he is the Oracle of Delphi]** The Federal Reserve today said **“almost all districts reported that housing markets remained weak,”** according to the regional survey known as the Beige Book for the color of its cover. The only exceptions were New York and New Jersey, which reported **“some stabilization in the market for new homes,”** and New York City's apartment market, which saw **“strong demand,”** said the report, based on information collected through Feb. 26. **Toll Cancellations Drop; Horton to Miss Projections (Update6)**

<http://www.bloomberg.com/apps/news?pid=conewsstory&refer=conews&tkr=DHI:US&sid=aazsuo5Jz0nQ>

## Housing Finance

- “What drove the housing-led cycle was not as much the cost of credit,” notes Merrill Lynch’s David Rosenberg, “but rather the widespread availability of credit - irrespective of your FICO score [a measure of your ability to repay]...only a third of the parabolic run-up in the home price-to-rent ratio was due to low interest rates. **The other two-thirds**

**reflected other non-price influences, such as lax credit guidelines by the banks and mortgage brokers.”** As quoted in the DR 3/9/07

## **Macro Economic**

- March 8 The Non-Farm Payroll report was released at 7:30 CST this morning, along with the US Unemployment Rate. **Non-Farm Payroll posted a lower-than-expected print with 97K reported for the month of February, its weakest growth in over two years.** At the moment, traders appear to be ignoring the report and focusing on the positive Unemployment rate. Unemployment numbers came in better than estimates, posting a 4.5% versus the expected 4.7%. It is important to note what these reports show traders. Non-Farm payrolls measure the number of people employed by all non-agricultural businesses. The monthly changes in payrolls can be quite volatile, occasionally varying by over 200,000 from one month to the next. Even with this volatility, the payrolls figure offers the most timely and comprehensive snapshot of the economy. The employment report is really two reports – a household survey and an establishment survey. Together, these surveys contain a stockpile of information, which justifies this report's status as one of the most important economic releases of the month. A brief picture of past reports saw that the unemployment rate reached a relative low of 4.4% in October, and rose to 4.6% in January. The low labor participation rate continues to leave lean worker availability and a tight labor market. Employment trends lag the economy as final demand in excess of labor productivity this also feeds into labor demand. Hourly earnings for production workers stand at 4% year-to-date, after reaching a six-year high in late 2006. The stable workweek hasn't shown much direction, with signs of a strong labor market despite the historically moderate growth in payrolls. **Construction jobs were the biggest disappointment, falling by 62,000 for their sharpest drop in nearly 16 years**
- March 8 (Bloomberg) -- Federal Reserve Chairman Ben S. Bernanke and other policy makers were warned that rising mortgage foreclosures are likely to get worse, as the central bank reported the slowest pace of loan growth in four years. The Federal Reserve Board's Consumer Advisory Council, including consumer advocates and banks, met today in Washington, with Bernanke and Fed Governors Susan Bies, Randall Kroszner and Frederic Mishkin in attendance. **Home-mortgage foreclosures were the first agenda item and the officials heard anecdotes of default and families at risk.** “We have found neighborhoods with abandoned homes, 200 at a shot,” said Louise Gissendaner, senior vice president and director of community development in Cleveland at Fifth Third Bancorp, the 10th-biggest U.S. bank by assets. “It has technically devastated our city to a great degree.” Neighborhood Impact Fed officials heard stories from Cleveland, Philadelphia, Denver and New York, where neighborhoods are deteriorating because of abandoned housing resulting from foreclosures, or filings by lenders to seize borrower's properties. “We feel like a canary in a coal mine,” said Stella Adams, executive director of the North Carolina Fair Housing Center in Durham. “It is sad for us to know that there 1.2 million families at risk from foreclosure.” “We are facing a foreclosure crisis in this country,” said Adams. “There is a distinct problem in the subprime market that is contributing to the foreclosures.” The \$1.4 trillion increase in

household net worth last quarter followed an \$839 billion gain in the previous three months and reflected a pickup in stock and mutual-fund values. Total borrowing rose at a 7.9 percent annual pace, reflecting an increase in business and state and local government debt. Federal government borrowing rose 3.3 percent for a second straight quarter. Borrowing by state and local governments jumped 14 percent, after an 8.2 percent third-quarter gain, the Fed said. Business borrowing rose 11 percent last quarter, almost double the 6.5 percent rise in the previous three months. **Fed Warned on Foreclosures as Mortgage Growth Cools**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=a3HX1IQJFjY&refer=home>

- March 6 (Bloomberg) -- U.S. worker productivity last quarter grew less than the government initially estimated, and labor costs accelerated more than forecast, suggesting inflation pressures persist. Productivity, a measure of how much an employee produces for each hour of work, rose at an annual rate of 1.6 percent, less than the 3 percent pace reported last month, the Labor Department said today in Washington. A measure of labor costs jumped at a 6.6 percent rate, reflecting a one-time increase in bonuses. Economists had forecast a 1.5 percent rate of increase in fourth-quarter productivity, according to the median of 64 forecasts in a Bloomberg News survey. Unit labor costs, which are adjusted for efficiency gains, were projected to rise at a 3.2 percent pace after a previously reported 1.7 percent gain. **For all of last year, productivity increased 1.6 percent, the slowest since 1997. Labor costs in 2006 rose 3.2 percent, the most in six years.** Fed Chairman Ben S. Bernanke said last month that higher labor costs, which account for about two-thirds of the cost of goods and services, remain an inflation risk because companies could pass higher compensation costs through to prices. Non-Financial Corporations Productivity at non-financial corporations, a measure watched by the Fed, rose at a 4.1 percent rate in third quarter, slower than the initial 5.7 percent estimate. It fell 4.4 percent in the previous three months. The figures are released with a one-quarter lag. A Feb. 28 report from the Commerce Dept. showed the U.S. economy grew at an annual rate of 2.2 percent in the fourth quarter, slower than the 3.5 percent rate the government first estimated. **U.S. Productivity Rose 1.6%, Labor Costs Jumped 6.6%** <http://www.bloomberg.com/apps/news?pid=20601087&sid=aKLG0.frUC0o&refer=home>
- March 6 - The Commerce Department reported today that demand for U.S. made manufactured goods declined 5.6% in January, the most since 2000. MarketWatch reports, "A weakened manufacturing sector has raised concerns about the durability of the expansion. With housing investment still falling sharply, many economists had counted on higher business investment spending to boost economic growth. But business capital spending has been weak, leaving it up to the consumer to hold up the economy."

## Retail

- March 8 (Bloomberg) -- The coldest February since 1979 caused U.S. retailers' sales to grow at the slowest pace in three months as consumers delayed purchases of spring merchandise. Wal-Mart Stores Inc., the world's biggest retailer, said sales at stores open at least 12 months rose 0.9 percent, less than the company's forecast of 1 percent to 2 percent. Luxury stores and retailers with designer clothes, including Target Corp., the

second-largest U.S. discount chain, fared better, with sales surpassing analysts' estimates. Luxury-department stores exceeded estimates. Seattle-based Nordstrom Inc. said comparable sales surged 9.1 percent, beating analysts' forecast for a 5.7 percent increase. Saks Inc. based in Birmingham, Alabama, yesterday said its sales soared 25 percent, more than triple what analysts estimated. Neiman Marcus Group Inc., based in Dallas, said sales gained 6.7 percent. Nordstrom shares rose 4.5 percent and Saks added 0.6 percent. ``The high end continues to serve as a relative source of strength," said Michelle Clark, a Morgan Stanley analyst, in a report. Sales at Costco Wholesale Corp., the largest U.S. wholesale club, rose 4 percent, compared with an estimate for a 5.1 percent gain. Federated Department Stores Inc. sales advanced 1.2 percent, compared with an expected increase of 2.6 percent. Costco shares fell 3.3 percent and Federated gained 2.6 percent. **U.S. February Retail Sales Trail Estimates on Weather [cold in February, what a shocker]**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=ayRC7UDnTeug&refer=home>

## Retirement

## Risk

## Savings Rate

## Tech

## Wall Street

- **New Century Leads Rebound of Mortgage Company Shares [this was so comical I had to put it somewhere. A day after dropping from 15 to 4.50 Bloomberg touts the "rebound" of New Century to 5.00 a "10% gain. The next day a similar headline conveyed the 18 cent rise. NEW dropped out of the headlines as it dropped another 2 to 3 bucks at the end of last week]** March 6 (Bloomberg) -- Shares of New Century Financial Corp. and rival mortgage lenders regained some of their lost value as investors assessed how much subprime mortgage companies might be worth dead or alive. New Century rose 46 cents, or 10 percent, to \$5.02 in New York Stock Exchange composite trading, after plummeting by more than two thirds the day before. Fremont General Corp. rebounded 15 percent today, Accredited Home Lenders Holding Co. gained 9.5 percent and NovaStar Financial Inc. added 5.8 percent. Countrywide Financial Corp., the largest U.S. mortgage lender, rose 4.7 percent. ``There are bottom-feeders, your classic value vultures, **who figure at these depressed valuations there may be more upside than downside,**" [i.e. stocks are cheap] Eckert said. ``You maybe buy a basketful of these stocks and hopefully one or two of them pan out." The rally accelerated [keep in mind the "rally accelerated to a 10% rise following a 65% drop the prior day] as some investors who had ``shorted" the stocks -- a bet on falling prices that uses borrowed shares -- closed out their trades, he said. Even with today's gain, New Century's stock remains 84 percent below where it began the year. **New Century Leads Rebound of Mortgage Company Shares**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=a6f3B98Wbzig8&refer=home>

- March 5 - Financial advisers expect a positive outcome from the Standard & Poor's 500 over the next six months, according to a report from Schwab Institutional, the San Francisco-based custodian for assets of registered investment advisers. Yet only 8% anticipate that the S & P 500 will increase by more than 10%. Advisers see the remaining economic indicators taking a downturn. Seventy-one percent of advisers think the housing market will continue to soften, while 45% think inflation will increase. Nearly 47% of advisers took a neutral stance on achieving client investing goals in the next six months, with 47% saying that it will neither be easy nor difficult to achieve client goals. Advisers said that 15% of their clients needed reassurance about achieving their investment goals during the past six months and 57% of clients have realistic expectations about their returns. According to the advisers, their clients' top three concerns are retirement (79%), financial security for their family (63%), and paying too much in taxes (47%). Nearly 1,400 independent investment advisors with some \$347 billion in assets under management participated in this study, which was conducted by Koski Research in January. The outlook was put out before the Dow Jones Industrial Average tumbled 416 points on Feb. 27.  
<http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070305/REG/70305076/-1/INDaily01&template=printart>
- March 4 - Eleven big banks along with an activist hedge fund manager could be left holding an empty bag after New Century Financial disclosed a criminal probe into the trading of its securities in the days before an earnings restatement last month. The probe, by the U.S. Attorney for the Central District of California, is also looking at the subprime lender's accounting. The company said six of its 11 lenders have granted it waivers for certain terms of their loan agreements, but it's not clear whether the remaining five would provide waivers. In its filing, New Century Financial said it had \$13 billion of committed financing and another \$4.4 billion of uncommitted borrowing lines. In addition to the lenders, which aren't disclosed in Friday's filing, New Century has attracted the investments of several big Wall Street firms. One, hedge fund activist David Einhorn, has taken a 6.3% stake in the last year through his Greenlight Capital investment firm. Einhorn himself won a seat on New Century's board last May after threatening a proxy fight. Banks with substantial stakes in New Century include: Morgan Stanley, with 5.45% reported as of Dec. 31, 2006; Goldman Sachs, with 4.76%; State Street, with 3.8%; and Citigroup, with 3.5%. **The New York State Teachers Retirement System held a 3.6% stake as of the end of last year. [This is sad. A 3.6% stake was worth \$60MM in December. It will be worth 0 soon. This is a good example of very unnecessary risk taking and its repercussions. All of you know that there has been a significant risk for more than a year that subprime would blow up. How was it that the managers of the teachers' retirement system did not? Too busy picking out the Ferraris bought with excessive fees charged to the teachers?????? This unfortunately is just the beginning of such sad stories.] Subprime Virus on Wall Street** [http://www.forbes.com/2007/03/04/new-century-subprime-biz-cx\\_lm\\_0304subprime\\_print.html](http://www.forbes.com/2007/03/04/new-century-subprime-biz-cx_lm_0304subprime_print.html)
- March 1 - At least one voice is blaming the huge market sell-off yesterday on hedge funds. "I suspect this is characteristic of our hedge-fund-dominated marketplace,"

**Kenneth Tower**, chief market strategist at **CyberTrade** told *MarketWatch*. "They use program trades and options and futures. And when they all run for the door at the same time, you get lots of selling pressure" – the kind of pressure that produced the worst one-day drop since Sept. 17, 2001, when the stock markets reopened after being closed four days following the World Trade Center destruction. Others are more sanguine, as equally bad losses occurred half way across the globe. Commenting on the plunge in the China stock market, **John Hansen**, president and chief investment officer of Newport Beach, Calif.-based **Censura Futures Management**, says: "The speculation in the Chinese stock market which caused its recent rise, until today, has been driven by consumers borrowing against real estate and investing in stocks. Unfortunately, this phenomenon is eerily similar to the current state of the U.S. economy with millions of investors tapping equity and investing it in the U.S. stock and housing markets. It's a major wake-up call that keeps investors honest and prevents the irrational exuberance that can so easily beset the financial markets. Today's market decline is only the beginning of a correction that has been long over-due, but will ultimately be a healthy pullback. Today's decline is a bitter pill to swallow, but one that is much needed if we are going to sustain long term appreciation on equities through the balance of 2007

<http://www.dailyii.com/article.asp?ArticleID=1242257&LS=EMS121767>

## I Disagree . . . and why

- [The following article is one of hundreds I could have chosen. While I don't have time to go through these point by point, look generally at the arguments to buy: (1) stocks are cheap by "historical standards" – the "historical" standards are conveniently based on the last ten years, which by "historical" standards based on the past hundred years were ridiculously high; (2) liquidity – things are liquid until they are not, if you are buying because there is lots of cheap money you better hope that both money remains cheap and there is a sucker who thinks like you to buy your dogs (3) housing/Subprime really isn't that bad – no need for me to comment (4) WE are optimistic – of course you are, you just got a 30% bonus and have no idea what Middle America is doing, you get to throw around OPM and get paid obscene compensation BECAUSE there is excess liquidity and valuation has not mattered the last four years.] March 5 (Bloomberg) -- The biggest money managers and strategists on Wall Street are standing their ground. They say the four-year bull market in U.S. stocks will persist even after the Standard & Poor's 500 Index plunged the most since January 2003 last week on concern a slowing economy will hurt corporate profits. Putnam Investments, which oversees one of the best-performing U.S. equity funds, and BlackRock Inc., the second- largest publicly traded U.S. money manager, say stocks are cheap. **Citigroup Inc. and UBS AG are telling investors to add to their U.S. holdings. [you might recall UBS recommended buying NEW at about 18 bucks three weeks ago]** All 15 strategists tracked by Bloomberg were sticking with their forecasts as of March 2. The S&P 500 lost 1.1 percent that day, bringing its weekly decline to 4.4 percent. "We're more favorably disposed to the U.S. market than we were at the end of last year," said Kevin Cronin, who oversees \$192 billion as head of investments at Boston-based Putnam. The selloff has been a "bit overblown." The strategists surveyed by Bloomberg predict, on average, a 12 percent increase for the S&P 500 within a year. Following last week's decline, members in the index trade at an average 15 times forecast earnings, 45 percent less than the monthly

average of 27.3 times over the past 10 years. U.S. technology stocks, consumer-related companies and homebuilders have become "more attractive," [Only if he means shorting these downside leaders when the going gets tough only] Cronin said, and he is looking to add to his firm's positions. The \$4.11 billion Putnam Investors Fund has outperformed 92 percent of its rivals during the past five years, according to data from Bloomberg. Private Equity [excess liquidity chasing last year's winning ideas] Private-equity investors, who have an estimated \$1.6 trillion to spend this year, may also help stocks to rebound from losses, BlackRock's Robert Doll and David Bianco at UBS said. Robert Doll, who manages \$1.1 trillion as chief investment officer of global equities at BlackRock in New York, said he expects global economic growth to remain strong enough this year to support a 12 percent rally in the S&P 500 to a record 1549. [we will check in with you at year end] "This isn't going to lead to a major bear market," said Doll. "Out of this will come some better buying opportunities." Investors should shift out of riskier areas such as emerging markets and "slowly add" to holdings of the biggest energy and technology companies, he said. The \$3.81 billion BlackRock Large Cap Core Fund has outperformed 95 percent of its peers during the past five years. "Every once in a while, people get cold feet and decide to sell and it's like a stampede of buffalo: You fire the rifle and they all go running," said John Carey, who manages about \$12 billion at Pioneer Investment Management in Boston. For investors who thought "stocks were a good buy at the beginning of the year, they have another shot," he said. U.S. shares were the first to rebound from the global slump after Citigroup Investment Research's Tobias Levkovich and UBS's Bianco said investors should use the pullback as an opportunity to add to their U.S. shareholdings. [UBS again, Rally on brothers] `We're Buyers' [Think Belushi in Animal House "Who's with me?!"] A group of 15 strategists surveyed by Bloomberg all expect U.S. stocks to advance this year, [who could possibly disagree with 15 strategists??????] with an average year-end or 12-month prediction of 1549 for the S&P 500. The index ended last week at 1387.17. The last time all the firms tracked agreed that U.S. stocks would post a full-year rally was for 2001. The S&P 500 dropped 13 percent that year. [oops, but this time we're right] "We're buyers," Levkovich, Citigroup's chief U.S. equity strategist, said in an interview from New York. "Nothing's changed. We'd be taking advantage of this." Since 1962, the S&P 500 had a median gain of 7.5 percent in the 60 trading days that followed a one-day drop of 3 percent or more, according to New York-based Citigroup, the biggest U.S. financial-services company. Investors should be "aggressive buyers" of retailers, telecommunications companies and semiconductor makers, Levkovich wrote. He expects the S&P 500 to surge 15 percent from last week's close by the end of this year. [we will check in with you too sir, particularly on an accounting disaster waiting to happen known as INTC] Takeover Demand Share declines may help spur takeovers by private-equity investors, according to UBS's Bianco. Buyout firms have \$1.6 trillion to spend, Morgan Stanley estimates, and have announced almost \$50 billion so far in takeovers this year, data compiled by Bloomberg showed. In 2006, there was a record of more than \$700 billion in private-equity deals. "There's a lot of value here for anyone that's willing to exploit this," Bianco said. "It's not just theoretical, we see plenty of that activity going on with private equity." [you see plenty of money piling into private equity because it was what worked

best last. **Once the herd arrives the game is over**] Buyouts are a "good sign of a backstop on this market," according to the New York-based strategist. **[liquidity works until it doesn't]** Bianco, who estimates the S&P 500 will climb 8.1 percent by year-end, also said the slide in developing markets may spur money back into U.S. equities. The percentage of mutual-fund assets invested in U.S. stocks fell to 78 percent last year, the lowest since at least 1984, based on calculations by Bloomberg of data compiled by the Investment Company Institute, a trade group in Washington. Fund Flows U.S. investors have piled into international funds and shunned those investing in local stocks, as the MSCI Emerging Markets Index outperformed the S&P 500 for the past six years. **[see comments re the herd arriving just in time to be handed the bag]** Emerging-market stock funds garnered a record \$22.4 billion of inflows last year, eclipsing the prior year's high, according to Emerging Portfolio Fund Research in Boston. China stock funds accounted for half the net inflows into emerging markets. **[now for some more guys who will never make it on CNBC]** 'Too Soon' "To think of buying today is too soon," James Swanson, chief investment strategist at MFS Investment Management, which oversees \$180 billion in assets, said from Telluride, Colorado. "The risk has not been eliminated from this market. We have the subprime risk, the aging business cycle risk." Swanson said the global selloff could last as long as two months. Dresdner Kleinwort last week shifted its asset allocation to "more aggressively underweight" equities, and predicted "an imminent shakeout of at least 10 percent." Dresdner has had a "structural underweight" in stocks since October 1996 relative to bonds and said last July that the S&P 500 may tumble as much as 40 percent in the event of a recession. **Analysts tracked by Bloomberg have already slashed their average earnings growth estimates for S&P 500 companies to 3.5 percent this quarter from 7 percent at the start of 2007. Last quarter, 26 percent of all S&P 500 companies failed to meet analysts' profit estimates, according to data compiled by Bloomberg. That's the highest since the third quarter of 1998, when 28 percent didn't measure up to expectations.** Current Fed Chairman Ben S. Bernanke still sides with the bulls on the economy, telling Congress last week that the central bank expects the economy to pick up later this year. "We still have good corporate and economic growth," said Brendan Connaughton, who helps oversee \$46 billion at Deutsche Bank Private Wealth Management in San Francisco. Because of the selloff, "everything I wanted to buy is now on sale." **[apparently confused the President's Day JP Penney ad with the financial pages]** **Putnam, Citigroup, UBS Unshaken by Global Rout, Say Buy Stocks**  
<http://www.bloomberg.com/apps/news?pid=20601109&sid=aVeikRh0nLsc&refer=home>

- **[and now some cheerleading by the federal government]** March 6 (Bloomberg) -- Treasury Secretary Henry Paulson said bad debts arising from the U.S. housing slump will be limited, moving to cool concern that defaults among subprime mortgage companies will spread to less risky lenders. "Credit issues are there, but they are contained," Paulson said to reporters in Tokyo during a four-day tour of Asia. **The U.S. financial sector is healthy and most institutions won't feel "a big impact."** **[ignore the man behind the curtain]** Shares of New Century Financial Corp., the second-biggest U.S. lender of home loans to risky borrowers, had a record drop yesterday after the company disclosed it faces a criminal probe and JPMorgan Chase & Co. said the company may declare bankruptcy. Lehman Brothers Holdings Inc. reduced its investment rating on

mortgage companies because a surge in loan defaults may spread beyond the riskiest credits. "Paulson is trying to reassure the market because that's been a focus and one of the factors driving down the stocks in terms of how it might fray out for the wider economy," said Amy Auster, head of international economics at Australia & New Zealand Banking Group Ltd. in Melbourne. "We think there will be limited impact both on the housing market and the economy." A surge in defaults on mortgages to the riskiest borrowers has forced more than 20 lenders to close or seek buyers since the start of 2006. Fed policy makers this year have repeatedly said that mortgage losses were concentrated in subprime loans, which are designed for lower-income borrowers. Paulson, the former chief executive of Goldman Sachs Group Inc., played down the recent stock-market slump, saying that global economic fundamentals are "good" and that "markets seldom move forever in a straight line." **Paulson Says Bad Debts in the U.S. to Be Contained**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aqxuCy64AsOw&refer=home>

- [more hand holding] March 6 (Bloomberg) -- U.S. stock-index futures gained and markets rebounded in Asia and Europe as investors said shares **were cheap** after a one-week selloff that erased \$2.4 trillion in global market value. "You've got the full force of Wall Street saying 'buy the dip,'" said James Thorne, who oversees \$13 billion as chief capital market strategist at MTB Investment Advisors in Baltimore. "If you quell your emotions and know that everything's going to be okay in the longer-term view, you can use these corrections to your benefit." 'Correction' The S&P 500, which tumbled 4.4 percent last week, has gone four years without falling 10 percent from a recent high. Its last percentage drop of more than 10 percent, a common definition of a market "correction," took place from Nov. 27, 2002, to March 11, 2003. Following that bottom, the S&P 500 climbed as much as 82 percent. On Feb. 20, the benchmark set a six-year high, while the Dow closed at a record. **U.S. Stock Futures Rise Amid Global Rebound; Citigroup, GM Gain**

<http://www.bloomberg.com/apps/news?pid=20601084&sid=aUIQGtcJhJUQ&refer=stocks>

Article of the week:

**UM EMBA**