March 24, 2007 Review

Comments

The insanity continues. No matter how bad the news, the "buy the dip crowd" continues to show up. While the party continues on A deck, the water continues to surge into the hold.

The party goers all seem to think that before the water gets to them they will find a lifeboat.

We will see . . .

Credit

- March 19 (Bloomberg) -- Risk premiums on investment-grade corporate bonds are at their highest level in more than three months on concern rising delinquencies by subprime borrowers will slow the U.S. economy. ``This period of volatility is likely to continue as long as there is divided opinion about the magnitude and resulting financial impact of the subprime problem,'' said Edward Marrinan, head of North American credit strategy at JPMorgan Chase & Co. in New York. ``Subprime risks and accompanying fears of a spillover into the broader consumer sector are the catalysts for the heightened volatility currently exhibited by all risky asset classes,'' he said in an interview. Not `Encouraging' ``In looking ahead to first-quarter earnings season, we may not be able to count on very good news,'' said Marrinan. ``For the first time in 14 quarters, we could see year-over-year percentage profit growth rate for the S&P 500 universe in the range of 5 to 7 percent. ``In an absolute sense,'' he said, ``such an earnings performance is hardly a disaster. But relative to the 15 percent earnings-growth rate the market has grown accustomed to over the past three years, such a sharp decline won't look particularly encouraging.'' Junk Bonds `Overpriced' Yield premiums on junk bonds may surge as corporate profit growth slows, Lonski predicts. **Company Bond Risk Premiums Surge on Subprime Fallout**
  http://www.bloomberg.com/apps/news?pid=20601087&sid=aZzy1t6nbKks&refer=home

Commercial Real Estate

Commodities

- March 21 (Bloomberg) -- Crude oil rose on concern refinery shutdowns and rising U.S. gasoline demand may make it harder to build supplies ahead of the peak summer driving season. U.S. motor-fuel stockpiles likely fell for a sixth week as breakdowns and fires delayed preparations for summer production, according to a Bloomberg News survey before an Energy Department report today. Gasoline prices in New York have climbed about 23 percent in the year to date. ``Worries about gasoline'' are pushing up oil prices, said Peter Luxton, a London-based energy analyst at Informa Global Markets. ``The market is looking at the stocks ahead of the U.S. summer driving season and basically gasoline stocks have been falling since mid-February.'' **Crude Oil Rises on Speculation**

Gasoline Demand Will Increase
http://www.bloomberg.com/apps/news?pid=20601087&sid=au0i1XfxoPOo&refer=home

Currency
Dollar at Two-Year Low Versus Euro; Fed Signals Rates May Fall

By Chris Young and Kosuke Goto

March 22 (Bloomberg) -- The dollar traded at the weakest in two years against the euro on bets the Federal Reserve will cut benchmark interest rates this year, while the European Central Bank keeps increasing them.

Investors have flocked to currencies such as Australia's dollar, where central banks are more likely to raise rates, after the Fed yesterday unexpectedly abandoned its bias toward raising borrowing costs. The U.S. dollar is at a decade-low versus Australia's currency.

``The dollar looks vulnerable,'' said Chris Loong, head of currency and asset allocation at State Street global Advisors in Sydney. ``The Fed is very close to cutting. This will weigh against the dollar and underpin high-yielding currencies such as the Australian and New Zealand dollars.''

The U.S. dollar dropped to $1.3407 per euro at 8:51 a.m. in Tokyo from $1.3385 yesterday in New York, the lowest since March 2005. It was little changed at 80.83 cents per Australian dollar after dropping to 80.88 cents, the least since December 1996.

http://www.bloomberg.com/apps/news?pid=20601087&sid=aBzK3pC2b27Y&refer=home

Diversification

Derivatives

Earnings

- March 21 (Bloomberg) -- FedEx Corp., the world's largest air-cargo carrier, said **quarterly profit fell for the first time in three years and cut its earnings forecast for the current quarter because of a slowing U.S. economy**. Net income for the third quarter fell to $420 million, or $1.35 a share, from $428 million, or $1.38, a year earlier as winter storms damped shipping demand, the Memphis, Tennessee- based company said today in a statement. Revenue rose 7 percent to $8.59 billion. The shares fell as the company reduced its forecast for the quarter ending May 31 by 5 cents a share. FedEx said earnings may fall short of a targeted 10 percent to 15 percent increase over the next year unless U.S. economic growth picks up. The U.S. economy grew at a 2.2 percent annual rate in the final three months of 2006, less than half the pace at the start of the year. ``There is always a bit of skepticism when companies blame the macro

environment, but in this case it seems like a legitimate excuse," said James Gallop, portfolio manager at Scotsman Capital Management in New York. FedEx said it expects to earn $1.93 a share to $2.08 a share in the fourth quarter, down from a previous range of $1.98 to $2.13. Shares of FedEx declined $2.28, or 2 percent, to $110.01 at 11:44 a.m. in New York Stock Exchange composite trading. They gained 3.4 percent this year through yesterday. ``The U.S. economy grew at a lower rate than we expected in the third quarter, and we saw continued adjustments in the automotive and housing markets," FedEx Chief Executive Officer Fred Smith said. He said the economy ``may be navigating through a soft landing here if this inventory correction plays out through the summer and early fall." Storms, Taxes FedEx said winter storms reduced earnings by 6 cents a share while a lower tax rate boosted earnings by 8 cents a share. Analysts expected earnings to be $1.33 a share, the average of 14 estimates compiled by Bloomberg. Not counting the adjustments for storms and taxes, FedEx's profits matched those estimates, said Gallop. [it is fine analytical work that fails to incorporate the chance of winter storms FQE-Feb, or that a company might pay taxes. Of greater import however: if Fed Ex is in trouble, you can assume things might just not be as rosy as the CNBC shills are telling you.] **FedEx Profit Declines to $420 Million as Demand Drops**
http://www.bloomberg.com/apps/news?pid=20601087&sid=aGuVvSzEQ8VA&refer=home

Housing

- March 27 (Bloomberg) -- U.S. home prices fell in January for the first time in at least six years, a private report showed today. A measure of home values in 20 metropolitan areas dropped 0.2 percent from the same month last year, according to the S&P/Case-Shiller home-price index. The decrease was the first since the group started keeping year-over-year records in January 2001. The numbers follow a report yesterday that showed new-home sales at the lowest level in almost seven years as builders struggled with a glut of unsold dwellings. Falling prices make it harder for owners to borrow against home equity and may make lenders even more wary as delinquencies climb. Today's data ``are a good indicator of the dire state of the U.S. residential real estate market," said Robert Shiller, chief economist at MacroMarkets LLC and a professor at Yale University. Lennar Corp., the largest U.S. homebuilder by revenue, said today that earnings plunged 73 percent in the fiscal first quarter. The Miami-based company also said that it will likely miss its 2007 profit forecast. ``The housing market continues to demonstrate overall weakness," Chief Executive Stuart Miller said in a statement. ``While some markets are performing better than others, **the typically stronger spring selling season has not yet materialized.** These soft market conditions have been exacerbated by the well-publicized problems in the subprime lending market." **S&P/Case-Shiller Home Price Index Declined 0.2%**
  http://www.bloomberg.com/apps/news?pid=20601170&sid=afigYp8JfQWM&refer=home

- March 26 - The markets were rattled at the open by the Commerce Department's report on new home sales, which fell by -3.9% to a seasonally adjusted annual rate of 848,000. Wall Street expected sales to increase 6.7%. The drop followed a -15.8% plunge in January. The median home price dipped to $250,000 and inventories grew. The disappointing results were in contrast to a report last week that showed sales of existing homes rose last month by the sharpest rate in three years. Actual release: Sales of new one-family houses in February 2007 were at a seasonally adjusted annual rate of 848,000, according to estimates released jointly today by the U.S. Census Bureau and the Department of Housing and Urban Development. This is 3.9 percent (±17.4%)* below the revised January rate of 882,000 and is 18.3 percent (±12.2%) below the February 2006 estimate of 1,038,000. The median sales price of new houses sold in February 2007 was $250,000; the average sales price was $331,000. The seasonally adjusted estimate of new houses for sale at the end of February was 546,000. This represents a supply of 8.1 months at the current sales rate. http://www.economicindicators.gov/
- The U.S. Census Bureau and the Department of Housing and Urban Development jointly announced the following new residential construction statistics for February 2007: **BUILDING PERMITS** Privately-owned housing units authorized by building permits in February were at a seasonally adjusted annual rate of 1,532,000. This is 2.5 percent (±1.0%) below the revised January rate of 1,571,000 and is 28.6 percent (±1.1%) below the February 2006 estimate of 2,147,000. Single-family authorizations in February were at a rate of 1,089,000; this is 3.1 percent (±0.9%) below the January figure of 1,124,000. Authorizations of units in buildings with five units or more were at a rate of 372,000 in February. **HOUSING STARTS** Privately-owned housing starts in February were at a seasonally adjusted annual rate of 1,525,000. This is 9.0 percent (±10.2%)* above the revised January estimate of 1,399,000, [the January estimate was 1,408,000] but is 28.5 percent (±6.2%) below the February 2006 rate of 2,132,000. Single-family housing starts in February were at a rate of 1,220,000; this is 10.3 percent (±8.8%) above the January figure of 1,106,000. The February rate for units in buildings with five units or more was 266,000. http://www.economicindicators.gov

Housing Finance

- March 27 (Bloomberg) -- The Federal Reserve has ``great concern'' about the surge in mortgage delinquencies and foreclosures, said Sandra Braunstein, director of the Fed's Division of Consumer and Community Affairs. ``The impact of mortgage delinquency and foreclosure on consumers and communities is one of great concern,'' Braunstein said in testimony to a House Financial Services subcommittee hearing on subprime mortgages in Washington. ``We have much work ahead of us, as there is no one sure and easy fix.'' **Fed's Braunstein Says Delinquencies `Great Concern'** **http://www.bloomberg.com/apps/news?pid=20601170&sid=an7eKFapMBA4&refer=home**
- March 23 "The slowdown in national house price appreciation, involving absolute declines in some markets, is helping to expose lax mortgage underwriting standards that developed during the earlier housing boom. The "subprime" mortgage sector has been in turmoil during the past month, and the "Alt-A" market -that financed a lot of

investors/speculators during the boom- also is under substantial stress.” Sieder’s report – this is an internal high level homebuilders monthly report to which I have a subscription

- Mortgage credit quality deteriorated badly as 2006 drew to a close, particularly in the subprime ARM market, and further increases in delinquency and default rates are inevitable. Lending standards already have tightened up quite a bit in subprime and Alt-A markets, and Federal Reserve surveys suggest that a broad-based firming of mortgage lending standards is underway at commercial banks. Seiders
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- The Securities and Exchange Commission's enforcement division is investigating **whether any** [how about “how many”] securities regulations were broken in connection with recent problems in the subprime mortgage industry, The Wall Street Journal reported. The subprime-mortgage market has also garnered attention on Capitol Hill. Senate Banking Committee Chairman Christopher Dodd, D.-Conn., said he has invited the chief executives of New Century and four other subprime lending companies to testify before his committee this week. **SEC eyes subprime mortgage mess** [Headline writer’s alternate choice: “Government to Lock Empty Barn”] http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070320/REG/70320016/-1/INDaily01&template=printart

Macro Economic

Fed Keeps Rate at 5.25%, Drops Reference to `Firming' (Update5)

By Craig Torres

March 21 (Bloomberg) -- The Federal Reserve kept the benchmark U.S. interest rate at 5.25 percent and unexpectedly abandoned its tilt toward higher borrowing costs.

``Future policy adjustments will depend on the evolution of the outlook for both inflation and economic growth,'' the Federal Open Market Committee said today in Washington. While inflation is the ``predominant'' concern, the statement dropped a reference to ``additional firming,'' giving central bankers more flexibility on the direction of interest rates.

Policy makers said recent economic indicators have been ``mixed'' and acknowledged the persistent downturn in housing. Nevertheless, they repeated that ``the economy seems likely to continue to expand at a moderate pace over coming quarters.''

Bonds jumped and stocks staged their biggest rally in eight months as some traders read the change as a signal that the Fed will consider cutting rates by June. Other Fed watchers said the new wording doesn't necessarily mean a reduction is imminent.

``It does not appear the committee is prepared to consider easing; rather, they are ruling out tightening,'' said Chris Low, chief economist at FTN Financial in New York. ``The FOMC concedes a decidedly gloomier economic picture in March than in January, but continues to worry'' about inflation.

Some economists chastised the Fed for creating confusion by upgrading their concern about inflation to ``elevated'' and in the following paragraph removing language on policy ``firming.''

Jim Caron, head of U.S. interest-rate strategy at Morgan Stanley in New York, entitled his report to clients: ``I'd Hate to Go Shopping With the Fed; They Can't Make Up Their Mind.''
http://www.bloomberg.com/apps/news?pid=20601087&sid=araJ1isyef8I&refer=home

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- Straight talk from **Carlyle Group** founder **William Conway** is sure to prick up ears in the financial world when he speaks of the big letdown coming. In a memo that appears to have been leaked to many a media source, Conway warned that the cheap debt private equity firms have been thriving on is likely to be history in the not-too-distant future, saying, "The longer it lasts, the worse it will be when it ends." Conway, directing his memo to his p.e. peers at Carlyle, stated, "Frankly, there is so much liquidity in the world financial system, that lenders are making very risky credit decisions. This debt has enabled us to do transactions that were previously unimaginable, and has resulted in generally higher exist multiples than entry multiples." When Conway says "us," he literally means deals involving his own firm, including the $15 billion buyout of **Hertz** and the $18 billion **Freescale** deal. In preparation for the eventual fall, Conway offered three recommendations: --"If the excess liquidity ended tomorrow, I would want as much flexibility as possible – are our covenants loose enough? Have we hedged against a share upward move in rates? Can we draw down on our revolving credit loan facilities?" he asked. --"Second, liquidity has led to a significant reduction in risk premiums – most investors in most asset classes are not being paid for the risk being taken. Our strategy should evolve to take lower risk deals and earn lower returns. "Third, we should redouble our focus on deals with downside protection – asset coverage, multiple and early exit paths, strategic partners, government protection, consumer needs, controllable capital expenditures and defensible market positions," he said. **Carlyle Founder Warns Of Impending Downturn**
  http://www.dailyii.com/article.asp?ArticleID=1258830&LS=EMS123062

Retail

Retirement

- CHICAGO — An ideal day in retirement is no longer putting in a game of golf, leaning back in the lounge chair to watch "Wheel of Fortune" and calling it a night. Baby boomers have great expectations of retirement, planning to be more active than were previous generations. According to research based on interviews of affluent investors 55 to 65, an exclusive analysis shows that they want to travel to Europe, go on cruises, play sports, pursue hobbies, take college courses and learn new languages when they retire. But the price tag for this expensive retirement is usually higher than investors planned, leaving financial advisers to cope with figuring out how to stretch distribution dollars. The InvestmentNews analysis shows that even affluent investors are worried about running out of money while attempting to achieve an ideal retirement, particularly as health costs continue to rise. **Unrealistic expectations** Advisers say that their affluent clients aren't realistic about how much money they need to fund their ideal retirement. Even clients who have saved $1 million or more can't afford to do everything they want in retirement, said P.J. DiNuzzo, a registered investment adviser, and founder and president of DiNuzzo Investment Advisors Inc. in Beaver, Pa. **Not surprisingly, clients aren't happy to hear the news**. http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070326/FREE/70323002/1018/INIssueAlert01&template=printart

- The retirement landscape is "a mess," said Francois Gadenne, president and chief executive of Boston-based Retirement Engineering Inc., speaking today at the InvestmentNews' 2007 Retirement Income Summit in New York. Advisers and product manufacturers are scrambling to help their baby boomer clients turn their assets into retirement income, but so far they're forced to use existing products, said Mr. Gadenne, speaking in front of nearly 400 attendees at a panel entitled "A Guide to Securing Your Clients' Future." "The scene's a mess," said Mr. Gadenne, who is also founding chairman of Boston-based Retirement Income Industry Association. "The reason it's a mess is because we've lived in accumulation. Now, we're moving in a space that feels differently." Mr. Gadenne also said some of the products that may ultimately assist retirees haven't even been developed yet. **Retirement scene 'a mess,' says expert** http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070326/REG/70326043/-1/INDaily01&template=printart
- SAN FRANCISCO — A wealthy retired couple in their late 70s enjoyed an annual income of $80,000 but wanted to increase their standard of living. After speaking to their financial adviser, they did something most rich people wouldn't dream of doing: They used a reverse mortgage to tap into the value of their $4 million home in Los Angeles. BNY Mortgage Co. LLC of West Paterson, N.J., for example, is introducing a fixed-rate reverse mortgage to capture the business of affluent retirees, according to co-president Craig Corn. By offering a fixed-rate product, the company hopes to alleviate what traditionally has been a big concern to advisers: unpredictable interest costs. Meanwhile, Financial Freedom Senior Funding Corp., which claims that it completed 54% of all reverse mortgages last year, is also banking on rich customers. "[A reverse mortgage] was only perceived as the product of desperation, and now it's being viewed proactively as a retirement tool" by rich people with other alternatives for raising cash, he said. Even so, financial planners should exercise caution before embracing these products, industry experts said. "This is a very, very expensive product," said Ken Scholen, Burnsville, Minn.-based director of the Reverse Mortgage Education Project of Washington-based AARP. "It's not going to be mainstream until the costs come down." Timothy Spiess, partner in charge of the personal-wealth-advisers group for Eisner LLP, a New York accounting firm, said that tax experts — himself included — look "askance" at reverse mortgages. "I don't like them per se," because the same results can often be achieved by better, cheaper means for wealthier clients, he said. "But I'm open-minded." Mr. Spiess, a former partner at KPMG LLP of New York, said he recently freed up cash flow for a retired California client with a $2 million home and limited income by getting the son to begin buying the house. But a reverse mortgage was worth considering as a solution in the absence of the son's willingness to invest, Mr. Spiess admitted. Linda Tatman, a financial adviser with Financial Management Network Inc. of Mission Viejo, Calif., used a reverse mortgage for a client with $1-million-plus home to raise cash. The client had sufficient income for living, but she needed the cash to help finance her son's legal fees in a custody battle for his child. "We're not just using [reverse mortgages] as a last

resort," she said. The push upstream comes as reverse mortgages are gaining acceptance. Last year, 80,000 reverse mortgages were closed, up from 40,000 in 2005, according to the National Reverse Mortgage Lenders Association in Washington. In previous years, there were generally about 20,000 each year, the NRMLA said. But even those statistics understate the growth, because the size of the average reverse mortgage is growing rapidly, said Mr. Mahoney. Though he did not disclose the average size of a reverse mortgage completed by his company in 2006, the largest one was on a $20 million home, he said. NRMLA does not yet collect data on the size of reverse mortgages, Mr. Mahoney said. Historically, the typical reverse-mortgage customer has been 74 years of age, with a home worth $300,000. The rich generally are defined by the industry as having homes worth $800,000 or more, said NRMLA president Peter Bell. Fee-only wealth managers agree that it would be unwise to rule out reverse mortgages. "It's on our radar, and it's not infrequent to investigate it," said Jeff Lancaster, a principal with Bingham Osborn & Scarborough LLC, which manages $1.9 billion from San Francisco. "But it rarely works when you tease out the math." [this might be something to consider for those of you who have parents/grandparents that might need to free up capital] **Reverse-mortgage firms aim at wealthy**
http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070319/FREE/70319011/1009/INIssueAlert01

Risk

- Two private equity groups have taken a striking new step to protect themselves from future downturns in the credit cycle by raising loans that remove most lenders' rights for the first time in Europe. **The "covenant-lite" loan – or "cov-lite" – looks like a traditional syndicated loan but does not carry the legal clauses that allow investors to track the performance of a risky borrower or declare a default if financial measures are breached.** Some bankers and lawyers regard the emergence of "cov-lite" structures as a sign of dangerous overheating in the European loan market. But others say the trend is a natural development given that liquidity levels remain very high in leveraged finance – irrespective of recent jitters in the US subprime mortgage sector. The cov-lite loans have appeared in a financing package that JPMorgan is raising for VNU World Directories, a European directories company owned by Cinven and Apax Partners, two large private equity groups http://ftalphaville.ft.com/blog/2007/03/20/3274/private-equity-raises-covenant-lite-loans/
- March 19 (Bloomberg) -- The amount of money borrowed from brokerages that do business on the New York Stock Exchange to buy shares rose to a record last month, when the market suffered its biggest rout since 2003. Margin debt, as the borrowing is called, rose 3.6 percent in February to a second straight monthly record, reaching $295.9 billion. In January, it broke the prior high set at the peak of the so-called Internet bubble in 2000. Through margin accounts, investors are able to purchase shares on credit. Margin debt swelled as the Standard & Poor's 500 **Index rose every month from June to January, the longest winning streak since 1996.** The stock gauge then tumbled 3.5

percent on Feb. 27 for the biggest one-day loss since March 2003. Changes in the level of margin debt have mirrored the ups and downs of U.S. stock indexes. **After setting an all-time high of $278.5 billion in March 2000, margin debt dropped to less than half that amount by September 2002.** The S&P 500 and Dow Jones Industrial Average set records in January and March of 2000, respectively. They reached their nadirs on Oct. 9, 2002, by declining 49 percent and 38 percent. The subsequent bull market put the S&P 500 4.6 percent away from a record last month and sent the Dow to an all-time high. Based on the Dow Jones Wilshire 5000 Index, the broadest measure of U.S. shares, the value of stocks was $17.9 trillion at the end of March 2000 and $17.8 trillion at the end of last month. Margin debt represented 1.56 percent and 1.66 percent of those figures, respectively, at the end of those months. NYSE Group Inc.'s New York Stock Exchange, the world's largest stock exchange, released the margin-debt data for February today. **NYSE Margin Debt Rose to Record Before February Rout**
http://www.bloomberg.com/apps/news?pid=20601084&sid=aanIan199yPw&refer=stocks

Savings Rate

Tech

- SAN DIEGO (MarketWatch) -- Not that long ago, as their business was getting worse, housing companies would use the word "bottom" in presentations to investors and their stocks would rally until they allegedly bottomed one too many times without the bottom ever really having been in sight. Semiconductor-related stocks are starting to act in a similar fashion. No matter how bad the news gets, notes money manager Bill Fleckenstein of Fleckenstein Capital, a longtime chip bear, the stocks tend to move higher on sizzle rather than substance. Fleckenstein isn't alone in wondering if chip stocks are heading down the housing road, as investors eager for a return to the glory days hear what they want to hear, regardless of what's really happening. It's what Cowen & Co.'s chief technology strategist, Arnie Berman, in his refreshingly candid (and funny) report, "The March of the Penguins," calls "taking the Nestea plunge." "Are chip analysts and investors acting like a bunch of penguins, marching in step in response to data points and tone, while paying too little attention to context?" he asks. "Hint: Yes ..." **The march of the chipper penguins Commentary: Semiconductor stocks are acting a lot like housing once did**
http://www.marketwatch.com/news/story/story.aspx?guid=30CEBE49468F44F280BF730D9F2625A2&siteid=mktw&dist=nbc&print=true&dist=printTop

Wall Street

- Credit Suisse Securities, et al. v. Glen Billing, et al. is essentially a showdown between a class-action group of investors and 16 powerful companies that underwrite securities, including **JPMorgan Chase** (nyse: JPM - news - people), **Lehman Brothers** (nyse: LEH - news - people) and **Goldman Sachs** (nyse: GS - news - people). The investment banks argue that heavy regulations from the U.S. Securities and Exchange Commission provide them with immunity from antitrust laws when they cooperate in setting prices for a stock's initial public offering.But after a host of allegations that the banks and their preferred customers conspired to drive up post-IPO prices for some 900 tech stocks, the investor group sued, arguing that the companies should not be immune from antitrust liability. In 2005, a federal appeals court agreed with the investors. The banks are now seeking to overturn that decision. http://www.forbes.com/2007/03/26/scotus-ipo-laddering-biz-wash-cx_bw_0327scotus.html?partner=daily_newsletter

March 21, 2007 Party on.

Ex-Jefferies Group salesman Kevin Quinn, who helped organize a lavish bachelor party for a Fidelity trader that included private jets, strippers and a dwarf-tossing contest, is reportedly opening a new Boston hedge fund.

Quinn, who late last year was barred for life from any brokerage or mutual-fund dealings, is starting the fund with $50 million that he intends to use to secure loans to smaller corporations, according to Hedge Fund Alert.

The hedge fund, to be called Cottage Capital, could begin investing as early as next month, the publication said. Quinn will run the business side of the firm.

Quinn and his lawyer could not be reached for comment. A spokesman for the SEC, which brokered last December's settlement with Jefferies Group and Quinn, declined comment.

It's believed Quinn is within his rights to start a hedge fund, which are known for being unregulated, as long as he doesn't drift into any brokerage or mutual-fund transactions.

Five years ago, Quinn, with the encouragement of Jefferies, set out to court Fidelity business - largely by showering traders with expensive gifts, such as vacation trips, Superbowl and Broadway show tickets, golf outings and golf merchandise, according to SEC filings.

But the most notorious incident occured in March 2003, when Quinn plunked down $75,000 for a Miami bachelor party for Fidelity trader Tom Bruderman, who, along with jetted-in guests, was entertained with strippers and a drunken contest featuring throwing around "party dwarf" Danny Black.

Jefferies later agreed to pay about $10 million to settle regulatory charges, while Quinn agreed to pay $468,000. Neither admitted wrongdoing [banned from brokerages and mutual funds but hedge funds are ok - I couldn't make up things so convoluted]
http://business.bostonherald.com/businessNews/view.bg?articleid=189763&format=text

- **March 21, 2007** Beacon Rock Capital has been charged with defrauding mutual funds of $2.4 million, the first hedge fund to be criminally accused of deceptive market timing, the United States attorney in Philadelphia said. Thomas J. Gerbasio, 36, the former vice president of mutual funds at Fiserv Securities in Philadelphia, was also charged in the case, the United States attorney, Patrick L. Meehan, said yesterday. Market timing

involves short-term trading that tries to take advantage of perceived inaccuracies in mutual fund share prices, Mr. Meehan said.Mr. Gerbasio and Beacon Rock, which is based in Portland, Ore., executed trades using that strategy, knowing that it was potentially harmful to investors in the funds, Mr. Meehan said. Beacon Rock made more than 26,000 market-timed trades and Mr. Gerbasio earned about $215,000, **Mr. Meehan said.“Gerbasio and Beacon Rock were aware of and received numerous potential warnings from mutual fund companies that market timing was unwanted and potentially harmful to their shareholders,”** Mr. Meehan said. “The defendants simply found a way around the obstacles by cheating.” **Hedge Fund Is Charged Over Trades** [each week I come up with these things. Keep in mind these are the best of times when making money has been failry easy. Think of what the cheating will be like when things get tough]
http://www.nytimes.com/2007/03/21/business/21hedge.html?_r=1&oref=slogin

- In an interview for a financial website, Jim Cramer, the extroverted host of CNBC’s “Mad Money,” boasted about manipulating stock prices when he was a Wall Street trader. In a webcast on TheStreet.com that has been widely viewed on YouTube, Mr. Cramer spoke about bringing down the prices of a high-flying stock and admitted that his actions might have been illegal. "A lot of times when I was short, I would create a level of activity beforehand that would drive the futures. . . . It's a fun game," he said in the interview with TheStreet.com’s executive editor Aaron Task. In the segment, Mr. Cramer gave advice on how to keep a profit on a short-position by driving a stock price down. Although that is illegal, he said it was passable because, "the Securities and Exchange Commission never understands this." He also commented: “What's important when you are in that hedge fund mode is to not do anything remotely truthful because the truth is so against your view, that it’s important to create a new truth, to develop a fiction.”   [Goldman must love this like the magician’s love Fox for airing shows about how their tricks are done]
http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070320/REG/70320014/-1/INDaily01
- If Merrill Lynch & Co. Inc. chief executive Stanley O'Neal were to resign or be fired from the world's largest brokerage firm, he would take home a $251.4 million pay package. The bulk of the payout -- $221.8 million -- would come from an acceleration of stock-based compensation, due to termination without "cause" or resignation for "good reason" following a change in control, according to a filing today with the Securities and Exchange Commission. The remaining amount would come from a $29.5 million change in severance control payments and $116,609 in payments from retirement and insurance benefits. Mr. O'Neal's 2006 package totaled $48 million, including an $700,000 salary, an $18.5 million cash bonus and $26.8 million in stock grants [Your investment dollars at work] Merrill chief's endgame deal revealed
http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070319/REG/70319033/-1/INDaily01
- NYSE Group Inc., the parent of the New York Stock Exchange, has reported that its member firms that conduct business with the public posted a 41% increase in revenues and a 230% increase in profits compared to the year-earlier period. Profits increased to $4.92 billion during the fourth quarter of 2006, compared with $1.49 billion in after-tax profits during the year-ago period. Revenues came in at $93.38 billion during the fourth

quarter of 2006, compared with $66.15 billion during the fourth quarter of 2005. For all of 2006, firms reported after-tax profits of $13.58 billion on revenues of $331.34 billion, compared with 2005 after-tax profits of $6.14 billion on revenues of $229.82 billion. [Your investment dollars at work II] **NYSE Group firms' profits skyrocket** http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070320/REG/70320003/-1/INDaily01

- Blackstone Group Chief Executive Stephen Schwarzman has traveled the globe expounding on the virtues of being a privately held company--not least because it means big business for his firm.But now the buyout king himself is considering an about-face. Blackstone is said to be mulling an initial public offering for 10% of its management company. The rumor of the IPO offering, said to be led by Lehman Brothers, Citigroup and Goldman Sachs, spread through the markets Friday after being reported on CNBC. A Blackstone spokesman declined to comment. An IPO would come just weeks after the offering by Fortress Investment Group, now up 41%. Fortress, which does private equity and hedge fund investing, raised $11 billion in that offering, which was also led by Goldman and Lehman. It could put pressure on rival firms, such as Carlyle Group and Texas Pacific, to consider their own public offerings. A spokesman for Carlyle couldn't be reached. A Texas Pacific spokesman said the firm would not comment.Publicly traded private equity firms may sound like a contradiction in terms, but they are a sign at least that the take-private frenzy seems likely to stick around. Blackstone has been raking in investment money from institutions starved for yield. Last year, it had to raise the ceiling on its new fund to $20 billion from what would have been a record $15 billion.Private equity funds wield so much financial power, increasingly acting in groups, that almost no public company is out of their reach, analysts have said. [it would be a fitting end to this insanity for the private equity firms to go public.] http://www.forbes.com/2007/03/16/blackstone-group-ipo-biz-cx_lm_0316blackstone.html?partner=investing_newsletter
- [Apparently someone agrees with the point I just made – I do this on a daily basis when I can and wrote the foregoing a few days ago and just found this on Bloomberg] **If Blackstone Is Selling, Why Are You Buying?: Matthew Lynn** By Matthew Lynn March 21 (Bloomberg) -- One by one, the big companies of the alternative investment industry are selling. Blackstone Group LP, the leveraged buyout firm that has spent $160 billion taking companies private in the past two decades, has just announced its initial public offering. Fortress Investment Group LLC, which manages hedge and private-equity funds, listed its shares in February and the stock almost doubled on the first day it was traded. In Europe, booming hedge funds are queuing up to go public. Polar Capital Holdings Plc did so last month, and Marshall Wace LLP raised 1.5 billion euros ($2 billion) through an IPO for one of its hedge funds late last year. **Yet if Blackstone, Fortress and other alternative- investment managers are selling their shares, should you be buying? Probably not**. The managers of those firms are better at calling the top of the market than most of us. The rush of share sales suggests the boom in alternative investments may be ending. It would be better to sit out the IPOs, wait for the share prices to drop, and then buy them. ``There is a fin-de-siecle feel to many of the IPOs,'' Tim Price, investment strategist at Union Bancaire Privee in London, said in a telephone interview. ``These worlds are mashing into each other at extreme speed. Alternative investments are not really alternative anymore.'' Out of Steam Nobody would argue that

alternative investments have been the favorite sector of the financial markets for almost 10 years. Money has poured into private-equity and hedge funds as investors sought to diversify away from traditional stocks and bonds, and to boost returns with sophisticated financial engineering. Now, there are good reasons for thinking the boom is running out of steam. First, investors are starting to rebel against the high fees and profits generated for the managers of alternative investments -- at the expense of investors. In hedge funds, Russell Read, chief investment officer of the $225 billion California Public Employees Retirement System, recently attacked the excessive fees charged by many managers, often for quite ordinary performance. No doubt, he struck a chord with many investors. Nobody minds paying big charges for big gains. They aren't so keen when they just get something that looks like an index-tracking fund. http://www.bloomberg.com/apps/news?pid=20601039&sid=aT1ExI7OWRTc&refer=columnist_lynn

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- Exchange-traded funds are a simple way for small investors to take a stake in broad market segments like China or precious metals. Brokers often tout them as an affordable alternative to traditional mutual funds. But buyer beware: The funds also are heavily used by the fast-money crowd such as hedge funds and big Wall Street traders. Combined with the effects of a 24-hour market and the unusual inner workings of ETFs, that trading can distort prices on days such as Feb. 27 and March 13 when the market swooned. Some investors who sold amid the turmoil got significantly less for **Fast-Money Crowd Embraces ETFs, Adding Risk for Individual Investors** **http://online.wsj.com/google_login.html?url=http%3A%2F%2Fonline.wsj.com%2Farticle%2FSB117408721598140075.html%3Fmod%3Dgooglenews_wsj**
- March 19, 2007 NEW YORK — Some insurers are taking away their advisers' group health insurance and other employment benefits **if proprietary-product quotas aren't met**, advisers say. The life insurance industry uses quotas — euphemistically called "validating your contract," said Chris Cooper, president of Chris Cooper & Co. Inc. in Toledo, Ohio, which manages $200 million. "What this means is that you will produce X amount of first-year commissions or you will not have health insurance," he said. Coverage is dropped not only for the adviser — who is considered a "statutory employee" of the company — but for the adviser's spouse and children, Mr. Cooper added. "NASD rules ban quotas, as well as steering clients to certain products," said Jason Doss, a securities attorney with the Atlanta law firm Page Perry LLC. The rules apply to investment products — including variable annuities and variable life insurance — but not to those insurance products that have no investment component, he added. **Some advisers are forced to "do whatever it takes" to meet the quotas — including "improper placements of insurance and annuity contracts,"** Mr. Cooper said. "Lincoln Financial Advisors Corp. has a quota of $50,000 gross direct commissions per year **on its proprietary products in order** [for an adviser] to remain eligible for group health," said an adviser in California, who asked not to be identified. **Lincoln would also not count adviser income from non-proprietary sales when calculating income on which 401(k) matching contributions were based,** the adviser added. AXA Financial Inc.'s contract sets a "hurdle" of 40,000 production credits, said a former AXA adviser in Oklahoma, who asked not to be identified. Non-proprietary-product sales garner only about half the credits, the adviser said. **If the hurdle isn't met, "you get kicked off the**

group insurance and thrown into [Consolidated Omnibus Budget Reconciliation Act] coverage — and you lose your group life and disability," the adviser said. Also lost are 401(k) matches and the right to contribute to employee savings plans, he said. Although AXA has an "open" platform, the New York company makes sure that outside products don't compete heavily with its variable annuities, the adviser added. "Only one-half of the outside [mutual] funds compensation is counted towards our contract continuation — a necessity to keeping our benefits," John Forney, a principal of Forney Financial Solutions LLC in Altoona, Pa., said about an insurance firm for which he once worked. He described the company as "a top 10 insurance company." The benefits subject to forfeiture included a pension plan, and health, disability and life insurance, Mr. Forney said. "I was at MetLife [Inc.] for a year, and they did not want their people selling outside products," said Keith Singer, president of Keith Singer Wealth Management in Plantation, Fla., which has $35 million in assets under management. **The New York-based company would pay lower commissions, end benefit plan participation and fire people for failing to meet proprietary-product quotas,** he added. This year, MetLife was sued in a federal court in Oklahoma for causing financial loss to a client class by coercing advisers to favor proprietary mutual funds and life insurance by providing better compensation and benefits for making such sales InvestmentNews, Feb. 19). "We don't comment on our compensation and benefit programs for our financial services representatives," said MetLife spokeswoman Holly Sheffer. Advisers also mentioned John Hancock Life Insurance Co. in Boston, MassMutual Financial Group in Springfield, Mass., and Prudential Financial Inc. in Newark, N.J., as insurers that use benefits as leverage to encourage proprietary sales. "For some advisers, health insurance is a bigger incentive than trips to Rio [de Janeiro, Brazil], extra commission income or plaques and trophies," Mr. Cooper said. **Quotas tied to benefits irk advisers** [the incentives vary but this is something the brokerages and banks also do. They try to sell the investors in house products without regard to whether that product is in the best interest of the investor.]
http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070319/FREE/70319001/1009/INIssueAlert01

I Disagree . . . and why

Article of the week:

A blantantly self serving article ☺

Wealthy households show independent advisers the money

By Kathie O'Donnell
March 26, 2007

BOSTON — Independent advisers are used by 22% of millionaire households, and those advisers on average hold 56% of the millionaires' investible assets — the largest share among financial service providers, according to a survey released last Monday by Fidelity Investments.

The No. 1 reason cited for using independent advisers was that they put clients' interests before those of a firm, according to the Fidelity Millionaire Outlook, a new analytical indicator developed by Fidelity, the biggest U.S. mutual fund company.

Those respondents also said they chose independent advisers for the objectivity and because they did not push any particular firm's products, the survey showed.

"This confirms and validates what we know from our clients," said Emily Chien, a senior vice president at Fidelity Registered Investment Advisor Group. "Millionaires have developed trusted relationships with their independent financial advisers, and independent financial advisers have put their clients' interests first."

Millionaire Outlook, a national measure of millionaires' confidence in the state of the U.S. economy, is based on a survey of more than 2,500 financial decision makers at households with at least $1 million in investible assets, excluding real estate and workplace retirement accounts. Fidelity expects to report its Millionaire Outlook findings annually.

Respondents' average age was 59, and 48% were retired. The households had average pretax annual income of $366,000 and average investible assets of $4.01 million. Average real estate investments — including the primary residence — were $1.9 million.

Average household workplace retirement assets totaled $1.3 million, and average household debt, including mortgages, was $284,000. The online survey was conducted at the end of last year for Boston-based Fidelity by Burke Inc., an independent-research firm in Cincinnati.

Seventy percent of millionaire households used some sort of financial adviser, and the average length of that relationship spanned 10 years, the survey found. The average age at which a wealthy investor first established a relationship with a financial adviser was 43.

Decamillionaires — those with investible assets of $10 million or more — established their first relationship with a financial adviser at age 39, on average, the survey showed.

Decamillionaires also were the most likely to worry about whether they would have enough money to leave an inheritance to their children. Compared with millionaires with less than $10 million, decamillionaires tended to be younger and accustomed to having more assets.

As a result, they tended to worry more about being able to stretch a more expensive lifestyle over a longer time period.

When asked what the main reason was for hiring their first adviser, 22% of millionaires cited receiving a trusted recommendation, 17% answered reaching a certain wealth level, and 17% said beginning to plan for retirement.

In general, asset size wasn't a predictor of adviser use, though a higher proportion of decamillionaires — 82% — reported having a relationship with an adviser, versus 70% for those with assets under $10 million.

Use of multiple advisers was common. Among those with an adviser, 34% reported having two or more.

Of the 22% that had a relationship with an independent adviser, **71% said they used advisers who offered comprehensive wealth management. The remaining 29% used advisers who focused on money management.**

Still, nearly a third of millionaires had no paid financial adviser, although 13% of that group said they were likely to start using one in the next 12 months. Of those, more than a quarter said they were likely to use an independent adviser.

Using a financial adviser is a prudent idea, according to Bruce R. Bent, chairman of The Reserve, a New York-based money management firm with $54 billion under management, and the inventor of the world's first money market fund.

"You get to the point where, do you do your own brain surgery? And the answer is no, you don't," he said.
http://www.investmentnews.com/apps/pbcs.dll/article?AID=/20070326/FREE/70322008/1009/INIssueAlert01&template=printart

I know some of you are cd fans. This might be worth looking at (I have not reviewed it on its merits and am just passing this along).

Advisers cashing in on low-profile brokered deposits

By Brooke Southall
March 19, 2007

SAN FRANCISCO — In need of an alternative to lackluster Treasury bond performance, financial advisers are helping a high-yield and low-profile cash product go mainstream.

Assets in brokered deposits — certificates of deposit sold by banks to deposit brokers who in turn distribute them nationally — soared to more than $520 billion last year, from $482 billion a year earlier and $58 billion of total assets at the end of 1996, according to the Federal Deposit Insurance Corp.

Unlike with conventional CDs, banks don't charge an early-withdrawal fee, and they tend to pay a significantly higher yield. There is a risk, however, that brokered deposits could command less value upon sale if they aren't held to term.

Like CDs, the FDIC insures brokered deposits up to $250,000 for individual retirement accounts and $100,000 for non-retirement assets.

Advisers pay attention

Their growth largely is thanks to financial advisers, who recognize their value as a means of stowing cash or as a substitute for Treasuries in a bond portfolio, according to advisers and deposit brokers.

The high yield for relatively low risk has advisers snapping them up in place of CDs.

"After 9/11, people said: 'I don't want to be at the whim of the market,'" said Gary Sullivan, trader for Bergen Capital Inc. The Hasbrouck Heights, N.J.-based firm is a division of Scott & Stringfellow Inc., a Richmond, Va.-based broker-dealer subsidiary of BB&T Corp., a Winston- Salem, N.C., regional bank.

"With the investment yield on brokered deposits, people get more in six months [for yield] than with a 10-year bond," Mr. Sullivan added.

A 10-year Treasury note pays about 4.55%, versus a brokered deposit for six months at 5.15%, he said.

But brokered deposits also compare favorably with bank CDs, said Bradley Van Vechten, a Tiburon, Calif.-based registered representative affiliated with Linsco/Private Ledger Corp. of Boston and San Diego. "They are really way higher — [one-half to 1 percentage point] higher" in yield than what banks pay locally for CDs but without any greater risk, he said. "We shop them against local banks, and they win every time," said Mr. Van Vechten, who declined to disclose his level of assets under management.

"[Brokered deposits] haven't lost yet [to CDs]."

For instance, Mr. Van Vechten just made a big purchase of brokered deposits this month through Linsco for a client who is retiring in November. The amount he allocated to the brokered deposits is equivalent to the amount on which his client needs to live for the first year of retirement.

But Bergen Capital's advisers use brokered deposits primarily with new accounts, Mr. Sullivan said.

"We use them as an assetgathering tool," he said. "We like handling new accounts with safe secure money. The CD is the best way to develop trust."

Despite raves from many financial advisers, getting the word out on brokered deposits remains a challenge, according to Chris Dobson, head of fixed income for Finance 500 Inc., a deposit brokerage firm in Irvine, Calif. "A lot of people don't know you can buy a CD through a brokerage account," said Mr. Dobson, whose firm has underwritten $13 billion in brokered deposits.

But more banks are catching on, because they need to maintain a certain ratio of deposits to loans to satisfy regulators.

The key is that they avoid having to gather deposits by traditional means: by opening checking accounts with more branches, raising the rates they pay on CDs locally or spending more on advertising, according to Chris Lewis, vice president and director of trading for Primary Financial LLC in Columbus, Ind., which brokers deposits between credit unions and banks.

Because they cut out these overhead and marketing costs, and get faster results in the bargain, banks find it economical to pay the higher rates that make them popular with investors.

Banks also are willing to pay better yields through national markets, because in many cases, they already have placed the loan, so they know they are getting the spread they need, Mr. Sullivan said.

"They're used with a purpose in mind," he said.

Yet the market never took off until greater use of them by more banks lent them an air of legitimacy, Mr. Lewis said.

"It's been around a long time," he said. "Before, there was a big stigma" dating back to the savings-and-loan scandals of the late 1980s. "Banks thought regulators wouldn't accept [brokered deposits as a legitimate loan reserve]," Mr. Lewis said.

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