

The Other Side of the Street November 11, 2007

Comments

Happy Veterans Day and thanks to all of you who have served.

Not so happy stock market week.

The fable 4 horseman of James Cramer GOOG, RIMM, AAPL, and AMZN all broke trend lines hard. This “tech analysis” is meaningless to most of you, but it is the tech analysts and quant funds that have run this garbage up to their present heights.

As I was preparing this, I read in Fred Hickey’s newsletter that Cramer told his viewers “at this point you have a duty to your wealth – never take advice from anyone who doesn’t recommend GOOG.” I recommend shorting GOOG, does that count????

In more global matters, the long awaited retracement from the initial fed cut has occurred. Both the SP500 and Dow are now below where they were immediately before the Sept 18 cut. Now 75 bps lower the only thing the Fed accomplished is to further tarnish what little credibility they had. As noted at the time, I am very disappointed in Bernacke. I had hoped he might be responsible; instead he is no better than Greenspan. Speaking of Greenspan I guess his book tour must have concluded as he is no longer quoted on a daily basis on Bloomberg.

Now that we have crested the mountain and begin our slide down the other side, I will remind you of some important points:

- The crowd is ALWAYS wrong. DO not get suckered into believing any of this is a dip buying opportunity. It is a falling knife and it will be many years from now before getting back into market indices will make any sense. This does not mean there will not be good stocks to buy in the next several months, there will be.
- The dollar is dead. Get your money out of US denominated assets. The smart money left long ago. Staying in dollar investments will kill you currency wise.
- China is a bubble, it pops in 2008
- Long equities anywhere is one trade. The whole shooting match will go. Move to the sidelines in everything and then wait for value to come up. It will, but in the upcoming debacle nothing equity wise will be safe.
- This is the most important point – KNOW WHAT YOU ARE DOING AND WHY. Last year I said if you are a “long term investor” get out of US equities and sit in cash the return will be much higher in the next several years. As you know the markets promptly went up about 30% over the next 15 months or so. I however never wavered as the advice was LONG TERM. Short term moves are very difficult to capture. The long term trend at this point simple. There will come a point, probably in the next 6 months, were those who exited and sat in

interest bearing accounts will be well ahead of those who went to the top of the mountain only to briefly enjoy the view.

- The best time to get out of a long term bear is RIGHT NOW. Sure there will be ups and downs. Fierce rallies are common in bear markets. If you suddenly have become a trader, go ahead and try to catch them. If you are a long term investor, don't worry about trying to get in and out.

Finally, with the week past, we are beyond seeing, we are here. I will retire the "we will see" and "we ARE seeing" and end for now with . . .

My best, Mike K.

PS There has been a fundamental change in the last month or so. Dip Buyers are getting killed. The momentum names are blowing up as promised. The Fed completely wasted their chance to do something smart and the "don't fight the Fed" crowd is now following their 2001 brethren into the abyss. Things have not even begun to get grim. I think the indices are still up for the year. There appears to be a real cluelessness on Wall Street as to the depth and range of the structured finance/debt/USD issues. Trillions of asset based wealth will disappear in the next few years. The solutions will be difficult and lengthy. The piper has arrived and is demanding payment.

Credit

- **Nov 7 – MJK - Asset back commercial paper update – the much heralded October recovery, which as we have discussed many times was a bold faced fabrication, is now in the books. The net – a drop of 43 billion, with each week showing a week over week drop. The October month end outstanding 881B is just 50Billion above the 2005 YE number and is almost 300 billion below the July 2007 level. However, about every five minutes, Bloomberg runs a trailer stating that "Poole says more interest rate cuts might be needed to fix the subprime problem." Sorry Mr. Poole, interest rate cuts still will not solve a credit problem. [further update, the Nov 8 data is even worse, Nov 7 outstanding is 1,866; lower than Sept Month end and for the week, asset backed dropped another 30 billion to 845, just 14 billion above 2005 YE.]**
- Nov. 7 (Bloomberg) -- Morgan Stanley, the second-biggest U.S. securities firm, said its subprime mortgages and related securities lost \$3.7 billion in the past two months, after prices sank further than the firm's traders expected. The decline may cut fourth-quarter earnings by \$2.5 billion, the New York-based company said in a statement today. The figure is subject to change until the end of this month, Morgan Stanley said. The average estimate of analysts surveyed by Bloomberg is for a \$1.93 billion profit in the quarter. Competitors including Merrill Lynch & Co., the third-largest securities firm, and Citigroup Inc., the biggest U.S. bank, have also reduced the value of their mortgages and bonds backed by the loans. The companies are getting stuck with losses after a surge in U.S. mortgage defaults this year prompted investors to shun the securities as well as other high-risk, high-yield debt. **"The dislocation in the market has been quite severe, liquidity has dried up,"** said Colm Kelleher, Morgan Stanley's chief financial officer, in

an interview. **“You need to see some of these long positions reduced, you need to see buyers coming in, you need to see an easing of liquidity in the market.”** Kelleher said he now estimates the credit markets will take three or four quarters to recover, instead of the one or two he estimated when the firm reported third-quarter results on Sept. 19. **[Keliher said years in Sept 2005, 2006, 2007, 2008, etc. and does not have to make up “it is about to get better” nonsense]** `Proprietary Position' Part of the losses stemmed from derivative contracts the firm's proprietary trading unit wrote earlier in the year, Kelleher said. The traders anticipated a decline in the value of subprime securities, and the contracts made money for the firm in the second quarter, he said. They started losing money when prices fell below the level the traders had anticipated, Kelleher said. `These exposures did not come out of our client-facing activities, these were a proprietary position we put on," Kelleher said in a conference call with analysts today. **“As markets continued to decline our risk exposure swung from short, to flat to long.”** **[i.e. our risk reward analysis was completely wrong]** **Morgan Stanley's Subprime Assets Fell by \$3.7 Billion**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=ap9KeET5HUOs&refer=home>

- Nov. 7 (Bloomberg) -- American International Group Inc., the world's largest insurer, said profit fell 27 percent on losses linked to the worst U.S. housing recession in 16 years. The company dropped in extended trading. Third-quarter net income declined to \$3.09 billion, the New York-based company said today in a statement. Excluding losses taken on investments and changes in the value of derivatives, profit was \$1.35 a share, missing by 27 cents the average estimate of 15 analysts compiled by Bloomberg. **AIG Profit Falls 27 Percent on Mortgage-Linked Losses**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aGJzSaTJSt2k&refer=home>
- Nov 6 London Times **Nearly half of all shoppers seeking new credit cards are being refused, as a money squeeze begins to hit ordinary borrowers.** The number of applications refused by card providers has risen by 17 per cent to an estimated 3.27 million in the past six months, figures released yesterday showed, while those who are granted a card are being forced to pay higher interest rates and charges. There have been 125 separate fee and rate increases over the past two months. Young people aged between 25 and 34 are most likely to be refused a card, according to [Moneyexpert.com](http://www.moneyexpert.com), the price comparison website. But financial experts said that people already struggling with debt would be hardest hit by the clampdown. Esther James, credit card analyst at [Moneyfacts.co.uk](http://www.moneyfacts.co.uk), another financial website, said: “It seems as if the credit crunch is beginning to cause credit card chaos. The 125 fee and rate increases over the last two months is quite staggering . . . with Christmas coming up, incomes will be stretched to the max with more people perhaps turning to their plastic for access to additional cash, only to get stung by higher rates and fees.” **Credit card users hurt by squeeze**
<http://business.timesonline.co.uk/tol/business/money/borrowing/article2814097.ece?EMC-Bln=SZ66E4>
- Nov. 7 (Bloomberg) -- Credit-default swaps on bonds of Citigroup Inc., Wachovia Corp. and Morgan Stanley are trading at the highest in at least five years on speculation the biggest U.S. banks may be forced to write down more subprime assets. Contracts tied to Citigroup's debt have climbed 17 basis points to 70 basis points since Oct. 31, according

to broker Phoenix Partners Group in New York. The swaps are trading at the widest levels since at least September 2002, Credit Suisse Group data show. A basis point on a contract protecting \$10 million of debt from default for five years is equivalent to \$1,000 a year. Credit-default swaps tied to New York-based Citigroup more than tripled in the past three weeks, indicating the risk of default is rising. Citigroup this week said losses from the assets may rise to \$11 billion, and analysts said the writedowns may increase. Contracts on Morgan Stanley and Wachovia Corp. and Merrill Lynch & Co. are at or near six-year highs on concerns that their losses will grow. "Until there is much greater disclosure of what people have on their books, and off balance sheets as well, it just feeds into uncertainty," said Scott MacDonald, head of research at Aladdin Capital Management LLC in Stamford, Connecticut, which oversees \$21.7 billion. Citigroup credit default swaps trade as if the company were rated Baa3, the lowest investment-grade rating, according to the credit strategy group at Moody's Investors Service. Moody's this week lowered Citigroup's ratings to Aa2, its third-highest rating, from Aa1.

Citigroup Credit Swaps Near Highest in Five Years
<http://www.bloomberg.com/apps/news?pid=20601087&sid=arn0bby30TP0&refer=home>

- Nov. 7 (Bloomberg) -- The risk of European companies defaulting on their debt rose to the highest since August on concern banks face more writedowns on bonds linked to subprime mortgages, according to traders of credit-default swaps. **{another example of the "improving credit markets – NOT] Bond Risk Climbs to Highest Since August on Writedown Concerns**
http://www.bloomberg.com/apps/news?pid=20601087&sid=aLQ_u6MpAtvU&refer=home
- **[This really frosts me – this is EXACTLY what I have been noting since Sept 18 – you CAN'T solve a credit crunch with interest rate cuts – however you apparently can lie to the public about "improvements" in the credit markets with impunity. Has NOT been happening – will NOT happen]** Nov 6 Barron's online - Indeed, the Federal Reserve's quarterly survey of loan officers found that mortgage lending standards have tightened substantially. No surprise, that subprime loan standards have become more stringent (you might actually have to show both a pulse and some income and assets in addition to Lotto tickets) but also for non-traditional loans (so-called Alt-A. Don't ask me why they are so called when they're really a notch below prime, which would make them subprime. But then subprime would have to be called what it really is, which is what the mortgage industry sought to avoid by resorting to these euphemisms.) **What's new in the latest Fed survey is that prime loans are getting much tougher and more expensive to get.** Some 40% of respondents said they had raised standards on prime loans, up sharply from 15% in the previous survey in July, just as the credit crunch started biting. Moreover, "significant fractions" of banks making jumbo loans -- those over \$417,000, the limit on loans purchased by Fannie Mae and Freddie Mac -- said they boosted their fees and required tighter income and asset documentation as well as higher down payments. And in many of the high-priced (and overbuilt) areas on the East and West Coasts, you'll need a jumbo loan just to get into a starter house. This bank-imposed credit stringency is precisely what the Fed was trying to offset with its easing of monetary policy. (In that regard, I have to correct a mistaken impression I gave about the Fed's \$41 billion injection of reserves into the banking system last Thursday. John

Hussman, the eponymous head of the Hussman Funds, points out those repurchase agreements replaced \$42.5 billion of expiring repos, so the net effect was to drain \$1.5 billion.) But amid the cascade of bad news about mortgage- and derivative-related losses, with Citigroup's new writedowns of up to \$11 billion being only the latest and far from the last, the money market is showing signs of tightening up again -- less than a week after the Fed's last easing action. The financial futures and options market Monday was beginning to price in higher Libor rates, report Laurence Norman and Howard Packowitz of Dow Jones Newswires. The futures market Monday was discounting a three-month London interbank offered rate of 4.85% in December, up from 4.77% Friday. Meanwhile, there was heavy buying of put options on December Eurodollar futures, betting that Libor would be 5.13% or higher by mid-December, they write. <http://online.barrons.com/article/SB119430123320283095.html?mod=djemBF>

- Nov. 6 (Bloomberg) -- Citigroup Inc., the largest U.S. bank by assets, provided \$7.6 billion of emergency financing to the seven structured investment vehicles it runs after the SIVs struggled to repay maturing debt. The SIVs drew on the \$10 billion of so-called committed liquidity provided by Citigroup, the New York-based bank said yesterday in a Securities and Exchange Commission filing. The liquidity line is provided at "arm's length commercial terms," Citigroup said. Citigroup said Nov. 4 that it will write down as much as \$11 billion of debt related to U.S. subprime mortgages and Chief Executive Officer Charles O. "Chuck" Prince III resigned. Citigroup's SIVs have no direct investments in subprime assets and \$70 million of "indirect exposure" through collateralized debt obligations, bonds packaging debt, according to the filing. SIVs sell commercial paper to buy longer-dated assets including mortgage-backed bonds and CDOs. "The current lack of liquidity in the asset-backed commercial paper market and the resulting slowdown of the CP market for SIV-issued CP have put significant pressure on the ability of all SIVs, including the Citi-advised SIVs, to refinance maturing commercial paper," Citigroup said. Citigroup won't take action that will require it to consolidate the assets of the SIVs, the bank said. Citigroup, which created the first SIV in 1988, is the largest manager of the investment companies. The bank's SIVs sold \$19 billion of assets between July and the end of September, reducing their assets to \$83 billion from just over \$100 billion, according to the filing. About 98 percent of the companies' assets are fully funded through the end of 2007, the filing said. Citigroup said it doesn't own any of the SIVs' capital notes, which rank below the senior commercial paper and first in line for losses. **Citigroup SIVs Have Drawn on \$7.6 Billion of Liquidity** **Lines** <http://www.bloomberg.com/apps/news?pid=20601087&sid=apn97G.ItiNI&refer=home>
- Nov. 5 (Bloomberg) -- Fitch Ratings may lower the AAA credit ratings on one or more bond insurers after a new review of the companies' capital takes into account downgrades of collateralized debt obligations that they guarantee. Fitch said it will spend the next six weeks reviewing the capital of insurers including MBIA Inc., Ambac Financial Group Inc., CIFG Guaranty and Financial Guaranty Insurance Co. to ensure they have enough capital to warrant a AAA rating. Any guarantor that fails the new test may be downgraded within a month unless the company is able to raise more capital, New York-based Fitch said today in a statement. CIFG and FGIC, the bond insurer whose owners include Blackstone Group LP, have the highest probability of suffering an erosion in the capital because of the falling value of CDOs, Fitch said. Ambac has a "moderate

probability" and MBIA is at "low" risk, Fitch said. Fitch said it decided to review the bond insurers after "broader and deeper" downgrades of CDOs, which package debt such as subprime mortgage securities and loans. The bond insurance industry has guaranteed more than \$1 trillion of bonds issued by U.S. cities and states as well as bonds backed by mortgages, credit cards and other assets, and the guarantee allows borrowers to use the insurers' AAA rating. Shares and debt of the insurers has tumbled on concern the sliding value of subprime mortgages may erode their credit ratings. Credit-default swaps linked to MBIA, the world's biggest bond insurer, rose 41 basis points to 521 basis points, according to CMA Datavision in New York. Contracts linked to Ambac, the second-largest, climbed 29 basis points to 718 basis points, CMA prices show. "Fitch recognizes that financial guarantors view maintenance of their 'AAA' ratings as a core part of their business strategies, and management teams will take any reasonable actions to avoid a downgrade," the statement said. **However, Fitch also recognizes that recent capital markets volatility, including sharp declines in the share prices of the publicly traded financial guarantors, may make capital raising efforts difficult unless market conditions improve."** **Fitch May Downgrade Bond Insurers After New Test**
http://www.bloomberg.com/apps/news?pid=20601087&sid=aqXce_Ust9Xk&refer=home

- Nov. 5 (Bloomberg) -- U.S. credit markets are enduring their worst bubble ever and it may take six years to wring out the excess, investor Jim Rogers said. "Never in American history have people been able to buy a house with no money down," Rogers said in an interview in New York. "We have the worst credit bubble, and it's going to take a long time to work its way out. You don't cure a bubble in five or six months. It takes five or six years." Rogers, the 65-year-old chairman of Beeland Interests Inc., also said he's pessimistic on the U.S. dollar and stocks of investment banks. Investors should buy agricultural commodities, Rogers said. "The dollar is in serious, serious trouble," he said. Rogers co-founded the Quantum Hedge Fund with George Soros in the 1970s.
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aGCtO0cv4EAY&refer=home>

Commercial Real Estate

Commodities

Currency

- Nov. 7 (Bloomberg) -- The dollar fell the most since September against the currencies of its six biggest trading partners after Chinese officials signaled plans to diversify the nation's \$1.43 trillion of foreign exchange reserves. The dollar fell against all 16 of the most-active currencies, declining to the weakest versus the Canadian dollar since the end of a fixed exchange rate in 1950, a 26-year low against the pound and a 23-year low versus the Australian dollar. The New York Board of Trade's dollar index dropped to 75.21 today, the lowest since the gauge started in March 1973. "Further weakening of the dollar is very likely," said Teis Knuthsen, the Copenhagen-based head of foreign-exchange, fixed-income and derivative research at Danske Bank A/S, the Nordic region's second-biggest lender. **China may "diversify out of dollar holdings."** The U.S. currency

slumped to \$1.4704 per euro, the lowest since the 13-nation currency debuted in January 1999, before trading at \$1.4671 as of 7:15 a.m. in New York, from \$1.4557 late yesterday. The dollar dropped the most in two months against the yen, trading as low as 112.87 yen. The euro fell against the yen to 165.84, from 166.99 yesterday. Chinese Comments **``We will favor stronger currencies over weaker ones, and will readjust accordingly,"** Cheng Siwei, vice chairman of China's National People's Congress, told a conference in Beijing. **The dollar is ``losing its status as the world currency,"** Xu Jian, a central bank vice director, said at the same meeting. **Dollar Slumps to Record on China's Plans to Diversify Reserves**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=ai.WadiYZqBk&refer=home>

- Nov. 5 (Bloomberg) -- **Gisele Bundchen wants to remain the world's richest model and is insisting that she be paid in almost any currency but the U.S. dollar.** Like billionaire investors Warren Buffett and Bill Gross, the Brazilian supermodel, who Forbes magazine says earns more than anyone in her industry, is at the top of a growing list of rich people who have concluded that the currency can only depreciate because Americans led by President George W. Bush are living beyond their means. Even after the dollar lost 34 percent since 2001, the biggest investors and most accurate forecasters say it will weaken further as home sales fall and the Federal Reserve cuts interest rates. The dollar plummeted to its lowest ever last week against the euro, Canadian dollar, Chinese yuan and the cheapest in 26 years against the British pound. **``We've told all of our clients that if you only had one idea, one investment, it would be to buy an investment in a non- dollar currency,"** said Gross, the chief investment officer of Pacific Investment Management Co. in Newport Beach, California, and manager of the world's biggest bond fund. **``That should be on top of the list,"** said Gross, whose firm is a unit of Munich- based insurer Allianz SE. When Bundchen, 27, signed a contract in August to represent Pantene hair products for Cincinnati-based Procter & Gamble Co., she demanded payment in euros, according to Veja, Brazil's biggest weekly magazine. She'll also get euros for the deal she reached last October with Dolce & Gabbana SpA in Milan to promote the Italian designer's new fragrance, The One, Veja reported. Bundchen earned \$33 million in the year through June, Forbes reported in July. Analysts in a Bloomberg survey expect the dollar to strengthen in coming months as stronger-than-forecast reports suggest U.S. consumers will keep the economy out of recession. Payrolls grew by 166,000 in October, double the median forecast of economists in a Bloomberg survey. Jim Rogers, a former partner of investor George Soros, said last month he's selling his house and all his possessions in the U.S. currency to buy China's yuan. **``The dollar is collapsing,"** Rogers said last week in an interview. **``I'm moving to Asia because moving to Asia now is like moving to New York in 1907 or London in 1807. It's the wave of the future." Economic Cushion** The five-year, 67 percent drop against the Canadian dollar has made it cheaper for fans from Toronto to drive the 110 miles (177 kilometers) to Orchard Park, New York, to watch the Buffalo Bills play football. Canadians account for 11 percent of the team's season tickets this year, up from 6.5 percent in 2005, according to Scott Berchtold, the Bills' vice president of communications. At yesterday's annual Canada Day game, where the Bills beat the Cincinnati Bengals, a record 23 percent of the 70,745 fans were from Canada, he estimated. **``When the Canadian dollar was down around 65 cents, we didn't get**

anybody," Ralph Wilson Jr., the team's owner, said in an interview. ``When the dollar fell, we starting getting some people." **The Canadian dollar bought 61.76 U.S. cents in 2002.**

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

Diversification

Derivatives

Housing

Housing Finance

Macro Economic

- Nov. 8 (Bloomberg) -- Japan's September machinery orders fell more than economists expected, a sign that companies may pare spending in the coming months as demand wanes. Orders declined a seasonally adjusted 7.6 percent to 958.7 billion yen (\$8.5 billion) from August, the Cabinet Office said in Tokyo today. The median estimate of 41 economists surveyed by Bloomberg News was for a 1.5 percent drop. Slowing overseas demand and a consumer spending slowdown at home may prompt businesses to reduce investment in factories and equipment, cooling growth in the world's second-largest economy. Advantest Corp., the biggest maker of memory-chip testers, said last month profit fell as companies scaled back orders. ``We're going to see capital spending keep slowing," Yasukazu Shimizu, senior market economist at Mizuho Securities Co. in Tokyo, said before the figures were released. ``Companies won't be inspired to spend with signs that exports are slowing at a time when domestic demand is also weak." **Japan's Machinery Orders Fall More-Than-Expected 7.6%**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=ai89JADF20rc&refer=home>
- Consumers have been warned that there could be further shocks to the British financial system as the full extent of the US sub-prime mortgage crisis unfolds. This will come as bad news for the 1.4 million homeowners due to come off fixed-rate mortgage deals next year. These people have so far been protected from the interest rate rises that were seen between August 2006 and July this year. However, they will face a steep jump in their monthly repayments and this problem could be exacerbated as a result of the credit crunch and funding crisis many lenders are currently facing. Bank rate has increased by 1.25 percentage points since August last year, adding £156 a month to the average £150,000 interest only mortgage. Those on variable rate deals have seen their payments rise gradually but anyone who has been on a fixed rate will have to find that extra all at once – and this assumes they remortgage onto another leading deal. However, the

Council of Mortgage Lenders has warned that an increasing number of borrowers may find they are unable to switch onto another product. Many lenders have tightened their criteria and are becoming more cautious about who they will lend to as a result of the American mortgage crisis. Most changes have been seen with sub-prime mortgages, which are loans offered to people with poor credit histories. **Lenders have withdrawn 40 per cent of the products offered in this market over the last six weeks**, according to Moneyfacts, a comparison site and the terms offered on the deals that remain are often less favourable. Many lenders have reduced the maximum they will advance from up to 90 per cent of a property's value to 75 per cent. The changes mean that some borrowers will not qualify for a new loan and therefore find themselves stuck on their lender's standard variable rate – some sub-prime lenders are now charging more than 10 per cent. **Millions of homeowners face mortgage shock**
http://business.timesonline.co.uk/tol/business/money/property_and_mortgages/article2818669.ece?EMC-B1tn=SZ66E4

- Nov 5 WSJ - Asian markets ended lower as Hong Kong plunged on disappointment over a possible delay in a plan to let mainland Chinese invest in the city's stock market. Hong Kong's benchmark Hang Seng Index fell 1526.02 points, or 5.01%, to close at 28942.32. Losses were further fueled by news that China's Premier Wen Jiabao holds a number of reservations about a plan to allow mainland investors to buy Hong Kong-listed stocks. That plan has been expected to draw billions of dollars worth of capital into Hong Kong's stock market from mainland investors and has contributed to a surge in Hong Kong stocks in recent months. **[As expected – see last week. What is of note here is that stocks were high not as a result of fundamentals, but instead on anticipation that the bubble prices in China would pump up this market. This is how bubbles end – very badly]** **Hong Kong Shares Plummet**
<http://online.wsj.com/article/SB119422669021582050.html?mod=djemalert>

Retail

- Nov. 7 (Bloomberg) -- Ford Motor Co., the second-biggest U.S. automaker, may have returned to a loss in the third quarter as plunging sales in its home market wiped out the benefits of job cuts and plant closings. **Ford May Have Returned to Loss During Third Quarter**
<http://www.bloomberg.com/apps/news?pid=20601109&sid=aHsC10Mqyg9Y&refer=home>
- Nov. 7 (Bloomberg) -- General Motors Corp., the world's largest automaker, reported a record \$39 billion quarterly loss after three money-losing years forced the company to write down the value of future tax benefits. GM fell as much as 8.8 percent in early trading after the size of the loss surprised analysts. **Excluding the tax writedown, the deficit was \$2.80 a share, more than 10 times the 22 cents estimated** by 15 analysts surveyed by Bloomberg. "This has been a challenging year, for sure," GM Chief Financial Officer Fritz Henderson told reporters this morning in Detroit. GM is writing down the tax assets **because it may not be able to generate enough earnings to use the benefits. The move reflects a darkening outlook for the U.S. economy, as GM cited mortgage-related losses at its partly owned GMAC LLC finance unit and "more**

challenging" auto-market conditions in the U.S. and Germany. GM's loss of \$68.85 per share widened from a deficit of \$147 million, or 26 cents, a year earlier. The non-cash charge is related to deferred tax assets in the U.S., Canada and Germany, the Detroit-based company said in a statement today. GM said the results also reflected an after-tax gain of \$3.9 billion from the sale of its Allison Transmission unit, \$1.6 billion in pension-service costs related to prior labor agreements, and \$400 million in charges connected to its former Delphi Corp. subsidiary. GM fell \$2, or 5.5 percent, to \$34.16 at 8:36 a.m. in early trading. Before GM announced the charge late yesterday, the shares rose 16 cents to \$36.16 in New York Stock Exchange composite trading, **putting their gain at 18 percent this year. [there is nothing shocking about any of this news, yet Wall Street failed to "price in" ANY of it]** Currency Henderson said the losses at GMAC's mortgage unit and a strengthening Canadian dollar against the U.S. dollar were significant factors in the wider-than-expected loss. The Canadian currency has risen 28.3 percent against the U.S. dollar this year. The automaker attributed the charge to a "three-year historical cumulative loss" in the U.S., Canada and Germany, without elaborating. GM had a net loss of \$757 million related to its 49 percent stake in GMAC, which posted a \$1.6 billion third-quarter loss on Nov. 1. GM sold 51 percent of GMAC last year to a group led by Cerberus Capital Management LP. Accounting Matter **Under U.S. accounting rules, GM assesses the need each quarter for a so-called valuation allowance against the deferred tax assets. [this is an accounting matter – in fact the accounting matter is the misstatement in prior quarters that led to this one time catch up. Certainly nothing in this quarter suddenly caused GM to believe that 69 billion it properly booked was suddenly unusable. Instead it shows that in prior quarters GM failed to write down the number as business declined. It was this accounting malfeasance that allowed the stock to rise 18% as investors were misled.]** In 2005, GM took a valuation against tax assets in South Korea that it reversed last year when the outlook for profits improved. The automaker also took a similar charge in Brazil in 2005 that it reversed in 2006. Henderson said he couldn't estimate when GM might be able to use the deferred tax assets again and declined to forecast when the automaker might return to profit. "Certainly having ResCap turn into the red, then bringing GMAC into the red, has an impact on us," he said. GM said it previously had determined it wouldn't need the allowance for the U.S., Canada and Germany because losses over the three-year period were caused by one-time expenses **and because of the continued expectation of strong profits at GMAC and improved earnings in North America. [NONSENSE!]** Credit-default swaps tied to General Motors Corp. climbed 4 basis points to 598 basis points, the highest in seven weeks according to CMA Datavision in London. An increase signals declining investor confidence in the company's ability to pay back its debt. **GM Reports \$39 Billion Loss on Deferred Tax Charge** <http://www.bloomberg.com/apps/news?pid=20601087&sid=avbbyBADqFKg&refer=home>

Retirement

Risk

Savings Rate

Tech

Wall Street

- Nov. 7 (Bloomberg) -- When Goldman Sachs Group Inc. employees cash their year-end checks, they'll have enough money to buy Bear Stearns Cos. Goldman, the biggest and most profitable U.S. securities firm, set aside \$16.9 billion to pay salaries, benefits and bonuses in the first nine months of 2007, according to the company's third-quarter earnings report. The stock market values Bear Stearns Cos., the fifth-biggest firm, at \$14.7 billion. Bonuses, the majority of Wall Street compensation, are typically paid after the fiscal year ends this month. **Goldman Pay Tops Bear Stearns's Slumping Market Value** [this is the only thing they care about. GS clients in their quant fund lost something like 20% in august, but bonuses are great!!!!!!] <http://www.bloomberg.com/apps/news?pid=20601109&sid=aNSK6SSBn5Zc&refer=home>
- Nov 6 - U.S. futures are pointed higher heading into the open this morning, indicative of a positive start to the regular session of trading. **Tech appears to be the talk of the town again, as investors are shunning financials in favor of the much lauded "safe haven."** Solid earnings reports from the likes of Sun Microsystems and Activision are helping to set the tone. **Schaeffer's morning report – the second largest purchaser of tech products after the vaunted consumer is the financial industry. Thus the "safe haven" from a collapsing financial industry is the industry that derives substantial profits from selling to the collapsing industry. Wall Street thinking nine months ahead and "pricing in the future" – what a joke.**
- Nov. 5 (Bloomberg) -- Treasury Secretary Henry Paulson says the U.S. is examining the subprime mortgage crisis to ensure that "yesterday's excesses" aren't repeated. He could be talking about himself and his former firm, Goldman Sachs Group Inc. Paulson, 61, doesn't mention **that Goldman still has on the market some \$13 billion of almost \$37 billion in bonds backed by subprime loans or second mortgages that it created while he was chief executive officer.** Those bonds have an average delinquency rate of almost 22 percent, higher than the average of other subprime bonds from the period, according to data compiled by Bloomberg. Goldman, the most profitable investment bank, was one of 14 primary dealers of U.S. Treasuries who contributed to a three-year binge as \$1 trillion of subprime mortgages were packaged and sold to investors. The value of Goldman's outstanding subprime bonds trails Lehman Brothers Holdings Inc.'s \$33 billion, out of \$106.8 billion created during Paulson's years at Goldman, and Morgan Stanley's \$28.8 billion, out of \$82.5 billion. "He should admit to having been involved in creating the problem that we have now," said Representative Brad Miller, a North Carolina Democrat, who introduced a bill Oct. 22 to make firms packaging subprime mortgages liable for bad loans in some circumstances. The subprime crisis developed earlier this year when falling home prices triggered defaults by homeowners who wouldn't have normally

qualified for a mortgage. Many were unable or unwilling to make adjustable-rate payments that were due to rise. Home foreclosures doubled in the third quarter from a year earlier to 635,159, RealtyTrac reported Nov. 1. 'Largely Contained' Starting in March, Paulson said the damage was "largely contained" and was no risk to the larger economy. When other credit markets began to be affected, he and others began pushing for solutions. **"I can't help but notice that when middle-class homeowners were losing their homes to foreclosure, he was pretty nonchalant about it," Miller said of Paulson. "But when Wall Street CEOs start seeing trouble in their absurdly complicated financial instruments built on the mortgages of middle-class homeowners, he feels their pain."** **Paulson's Focus on 'Excesses' Shows Goldman Gorged**

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Don't Fight The Fed

I Disagree . . . and why

Article of the week:

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