

The Other Side of The Street October 7, 2007

Comments

A couple of observations:

October 5 morning:

Bloomberg TV had a “trader” on just before the jobs number. He said “if the number is huge” it will be great and there will be a big rally. “if the number is really low” it will mean the fed will cut and that will cause a “big rally”. The only thing the traders do not want is a number near estimates. Guess what? Number came in just above estimates. So what happened? A BIG RALLY in the futures.

Kind of shows how silly all this is.

OCT 4:

Fool me once shame on you

Fool me twice shame on me

I will admit, I was one of the many who believed when 4 Fed heads said in the week before the Sept cut that a cut WAS NOT NEEDED, I incorporated that in my analysis that a 50 bps was unlikely. Imagine my surprise when I read this Bloomberg headline on October 4 “**Fed Rate Cut Skepticism Spreads From Bank Presidents to Traders**”. You can find excerpts of the story under Macro Economics below. Suffice it to say the same people who said NO CUT NEEDED, have reiterated their views and this time it is viewed as an important indicator.

Final comments:

Today’s action simply indicates we have entered some alternate universe in which rationality is no longer welcome. It has now been nearly 18 months of torturously slow destruction of the housing market and structured finance and NO sustained reaction by the equity markets that supposedly look months ahead. That the economy will suffer a massive recession is apparent from the information below and as posted in the last year. That the current “bull run” can continue a while longer has become apparent this week. The sole take away from Friday is that the powers that be have an almost infinite ability to run up stocks on any given day. They simply did so again.

To those of you who heeded my warnings and have exited this market many points ago, I will simply state that those who left the NASDAQ at 2800 in July 1999 missed the run to 5100 in the next 10 months. They missed the rebound to 2800 in January 2001. They could get back in right now at 2800. It might be fashionable and good marketing to say I was wrong, let’s buy ‘em up , but you will not hear that from me. The risk reward has simply gone from a very bad exchange to one incalculably bad. The price will be paid.

I have been very wrong about some things. I have been wrong in estimating that the charlatans would not be able to pull the wool over the masses eyes again so quickly after the dot bomb bubble. I have been wrong about the chicanery the government would engage in for illusory bumps in the markets. I have been wrong about the ability of corporations to hide underlying rot. I have been wrong about . . .

And for those who think that this week was a sign of strength and the market looking nine months down the road, the following quote from a trader on Real Money might give you pause:

The fact that the economy may actually not be weak enough to justify further cuts was irrelevant today, **as market players worried more about being left behind** than they did about any possible change in the macroeconomic situation. So for now all news is good news, and **the most important thing is to not be left behind as the momentum train chugs along**. At some point things are going to reverse in a most ugly manner, but right now the big fear in the market is that we might miss out on the gains. **[Both highlighted references are to the money “managers” need to keep up with the other guys, not perceived fiduciary oversight of YOUR money. To them this is about saving their year end bonus, might work one more time too. But then again it might not too.]**

As for when reality bites, we will see . . .

Credit

- Oct 6 - THERE are signs of life in credit markets that appeared to be dying only a few weeks ago. **But those signs are limited. Few investors have returned**, but in some cases banks have stepped in to replace them. The most impressive rebound has come in the leveraged loan market — a market often used to finance leveraged buyouts. In August, that market issued just \$8.4 billion of new loans, according to calculations by Standard & Poor’s Leveraged Commentary & Data. **In September, that figure leaped to \$41.9 billion, well below the monthly volumes of more than \$70 billion this spring** but high enough to allow deals to get done. Those loans were much more expensive than they had been, but the paper was sold, partly to banks and partly to institutional investors. **In the related high-yield bond market — known as junk bonds to some — the recovery was less impressive.** There, Thomson Financial reports, volume came to \$4.7 billion, more than in July and August put together but still less than a quarter of the monthly volumes in May and June before the credit squeeze hit. Why the difference? Many junk bonds were financed through securitizations, in which some investors accepted lower interest rates in return for other investors being first to take any losses from defaults. **That market dried up as worries about the safety of such securities spread from subprime mortgages to other areas.** In all, Thomson says \$37.9 billion in asset-backed securities were issued in September, a little below the depressed August level and the lowest for any month in more than four years. The picture in commercial

paper is similar. The outstanding volume of asset-backed commercial paper — often issued by companies whose own credit is less than sterling — continued to rise during the early part of the credit crisis. Then investors discovered that some asset-backed commercial paper was secured by mortgage-backed securities whose own value was now highly questionable, and it became difficult for companies to roll over such paper. **In the last eight weeks, almost a quarter of the asset-backed paper has been redeemed.** But the outstanding volume of other commercial paper, which is more likely to be issued by companies with solid credit, has begun to rise again after falling for several weeks, another sign that the credit freeze is thawing. **For banks, meanwhile, the loan books have swelled, in some cases against their will. Many banks had issued promises to finance loans if securities could not be sold. For years, those promises produced a steady stream of fee income, without any need to actually commit capital.** As other markets dried up, however, their customers needed the loans, and banks had to make them. The volume of commercial and industrial loans by domestically chartered banks has soared at the fastest rate since early 1974, when a recession sent corporate customers scrambling to borrow money. **Part of the rise reflects leveraged loans that could not be syndicated to foreign banks or investors, but most of it probably represents new loans that in previous months would have been done through the credit market. [There is not anywhere near enough capacity in the banks to step in for investors. While there is a snappy headline, there is no substantive reason to believe the underlying premise]** **Sickly Credit Markets Heal a Little as Leveraged Loans Rebound**

http://www.nytimes.com/2007/10/06/business/06charts.html?_r=1&oref=slogin&pagewanted=print

- Oct 5 Washington Mutual (WM \$35) warned that weakness in the housing market and disruptions in the secondary market will result in a drop in net income from a year ago of about 75%. Washington Mutual will take a 3Q loan loss provision of about \$975 million, which will exceed net charge-offs of about \$550 million. The company's CEO said he is disappointed with 3Q but looks forward to an improved 4Q amid a good operating performance from its retail, card services and commercial business groups. Schwab email
- Oct. 4 (Bloomberg) -- The U.S. commercial paper market expanded for the first time in eight weeks **in a sign that the worst of the short-term credit rout may be over.** **[please send the cheerleader sweaters to Bloomberg, they do try so hard to watch out for their friends on Wall Street. A 4.5B gain is a rounding error. It would be just as easy to say the freefall had slowed. One weeks flat reading is nothing more than one weeks data. The trend is abysmal]** Short-term debt maturing in 270 days or less rose \$4.5 billion in the period ended yesterday to a seasonally adjusted \$1.86 trillion, ending the biggest slump in at least seven years, according to the Federal Reserve in Washington. Asset-backed commercial paper fell \$6.1 billion. The Fed's half-percentage-point cut in its benchmark interest rate on Sept. 18 helped allay concerns that losses sparked by defaults on subprime mortgages may spread further into credit markets. Commercial paper **had fallen by \$368.1 billion, or 17 percent, [i.e this fine 1% rally has some room to grow]** since early August as investors retreated to the safety of government debt. ``People are

easing back into the market and they're willing to lend money," said Mary Beth Fisher, an interest-rate strategist at UBS AG in Stamford, Connecticut, in a telephone interview before the release. ``They've found some asset-backed commercial paper that they feel comfortable with." [from earlier in this article "**Asset-backed commercial paper fell \$6.1 billion**" yes, not all ABS has been shunned but it is STILL going DOWN. **Congratulations sport**] **The amount of commercial paper for all categories remains at its lowest since August 2006. Asset-backed commercial paper, at \$906.2 billion, is at its lowest since May 10, 2006. U.S. Commercial Paper Grows; First Gain Since August**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=acqM67ufavL8&refer=home>

- Oct. 4 (Bloomberg) -- European Central Bank President Jean- Claude Trichet signaled the bank is in no rush to raise interest rates as higher credit costs threaten to slow economic growth. ``It remains necessary to gather additional information and examine new data before drawing further conclusions for monetary policy," Trichet said at a press conference in Vienna today. The ECB and the Bank of England left their key rates unchanged today as a U.S. housing slump and a rising euro threaten to curb economic growth in the euro area. Trichet today dropped a phrase used in previous months that the ECB's monetary policy is ``on the accommodative side" after the subprime- mortgage collapse pushed three-month lending rates close to a six-year high. ``**In view of the limited range of new economic data that has become available, particular caution needs to be exercised when assessing the potential impact on the economy,**" said Trichet. [apparently in Europe they are not bound by the US government shills who claim all is clear, how refreshing that a government agent can say more information is needed] **Trichet Signals Interest-Rate Pause on Credit Rout**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=agcRv.bq679U&refer=home>

- October 2, 2007 - **The credit crunch in money markets is now triggering markedly dearer loan costs for new borrowers among both businesses and households, Bank of England figures have revealed.** In news that will add to fears that the squeeze from tightening credit conditions will sharply brake the economy, **the figures show that average interest rates for the most common forms of commercial loans taken out by British companies have jumped by two full percentage points compared with last year.** Average interest rates charged on corporate loans fixed for up to a year, which account for more than three quarters of business borrowing, leapt by 0.4 points last month alone, and by a full percentage point in the past two months, according to analysis by Michael Saunders, of Citigroup. Along with rates fixed for five years, the other most common form of corporate borrowing, these rates now average two points more than they did last year. Average rates on new five-year loans taken out by companies soared by 0.86 percentage points last month. **Citigroup's study also found signs of tightening lending conditions for homebuyers.** The extra interest rate charged to borrowers wanting mortgages for a high proportion of a property's value rose sharply during August, it found. The gap between the average rate on a two-year fixed-rate mortgage for 95 per cent of a house's value and a similar loan for only 75 per cent jumped to 0.45 percentage points in August, from only 0.29 points in the previous month. Mr Saunders said that the data showed the "early signs of the pass-through from the financial market crisis to the real economy". "All this will exacerbate the slow-down in the economy, especially housing," he said. **Crunch triggers higher loan costs for businesses and**

homebuyers

http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article2570241.ece?EMC=Bltn

- Oct. 2 (Bloomberg) -- **As far as the world's biggest bond investors are concerned, the Federal Reserve is failing to restore confidence in the U.S. credit markets.** Pacific Investment Management Co., TIAA-CREF and Insight Investment Management say the central bank's decision to lower the overnight lending rate between banks by half a percentage point last month won't prevent the economy from slowing or corporate defaults from increasing. Lehman Brothers Holdings Inc. strategists say last month's rally in high-yield corporate bonds, the biggest since 2003, may fizzle by year-end. While indexes of derivatives that measure the risk of default show increasing investor confidence, the difference between the interest that banks and the U.S. government pay for three-month loans is wider now than a month ago. **That's a sign the Fed's Sept. 18 rate decision has yet to persuade bondholders that lower borrowing costs will stop "disruptions in financial markets" from hurting the economy.** "The reality is the fundamentals haven't gotten any better, and, if anything, they've gotten worse," said Mark Kiesel, an executive vice president at Newport Beach, California-based Pimco who oversees \$85 billion in corporate bonds. **About three-quarters of 30 fund managers who oversee \$1.25 trillion expect a hedge fund or credit market blowup in the "near future," according to a survey by Jersey City, New Jersey-based research firm Ried, Thunberg & Co. dated Oct. 1. [but they all expect the news to lead to yet another rally because it means the Fed will cut again ☺]** Goldman's Outlook Former Treasury Secretary Lawrence Summers said Sept. 27 that there is an almost even chance the economy will fall into its first recession in six years. New York-based Goldman Sachs Group Inc., the world's most profitable securities firm, reduced its estimate of economic growth in 2008 last week by about a third, to 1.8 percent from 2.6 percent, because of fallout from the worst housing slump in at least 16 years. "I'm still bearish," said Alex Moss, a senior credit analyst at Insight, a London-based money manager with \$94 billion of fixed-income assets. "I can't see any real excuse to get involved in this market." More than 3 percent of company bonds were distressed in September, triple the amount in July, Standard & Poor's said in a report last week. Bonds are considered distressed when they yield at least 10 percentage points more than comparable- maturity Treasuries. Moody's Investors Service forecasts the U.S. default rate will more than double to 4 percent in the next year. New York-based S&P and Moody's are the largest credit- rating companies. "The big picture is you're going to have a consumer that is going to be pulling back significantly," Pimco's Kiesel said. **The rate cuts by the Fed are unlikely to save housing. [how about "can't possibly save"]** "We've increased markedly our exposure to risky assets and we think a lot of the sell-off is over," said Joseph Di Censo, a fixed-income strategist at Lehman in New York. "We will see a rally in the spread sectors that were the most beat up." Earnings Fall The difference between the dollar London interbank offered rate, which banks use to lend to each other, and the three-month Treasury bill yield shows a different view. **The so-called TED- spread has climbed to 1.33 percentage points from 1 percentage point on Aug. 27.** The North American CDX investment-grade index rose 5.75 basis points last week to 55.5 basis points, the biggest increase in more than a month, according to Deutsche Bank AG prices. **Sales of collateralized debt obligations, the biggest buyers of corporate loans in the first half,**

fell 54 percent in August to \$17 billion from July, the lowest in more than a year, according to Morgan Stanley. CDOs are created by packaging bonds, loans or credit-default swaps and using their income to pay investors interest. Shrinking Market The reduction in collateralized loan obligations may make it more difficult to sell the debt, according to Dan Fuss, vice chairman of Boston-based Loomis Sayles & Co. CLOs bought as much as 60 percent of loans for LBOs this year, according to New York-based JPMorgan Chase & Co. analysts. **“The impact of the CLO freeze up is certainly not out yet,”** said Fuss, who oversees \$22 billion of bonds. More than 65 percent of investors in mortgage-backed securities are struggling to find bids for their holdings, according to a survey of 251 institutions last month by Greenwich Associates, a Greenwich, Connecticut-based consulting firm. Among holders of CDOs, the figure is 80 percent. The U.S. commercial paper market is shrinking. The amount of debt outstanding that matures in 270 days or less fell \$13.6 billion the week ended Sept. 26 to a seasonally adjusted \$1.86 trillion, according to the Fed. It's down 17 percent in the past seven weeks. “People said this subprime liquidity issue was going to go away after Labor Day,” said Tom Quindlen, CEO of corporate lending at GE Commercial Finance in Norwalk, Connecticut, a unit of General Electric Co. that has \$14 billion of assets. “The bankers were going to return from vacation and just jump right back in,” said Quindlen. “That's what I heard in August. Well, they get back from vacation and they're saying it's the first half of 2008. I think it's going to be longer rather than shorter.” **Fed Fails to Restore Creditor Confidence, Pimco Says**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=ad4W7q15.lds&refer=home>

- Oct. 1 (Bloomberg) -- For the first time since 1995, the U.S. bond market will rally on the assumption that the Federal Reserve has relegated inflation to a secondary concern because the central bank views a recession as a much greater threat to the economy. The bellwether 10-year Treasury note, which depreciated as its yield climbed at least a quarter-percentage point when the Fed began lowering interest rates in 1998 and 2001, won't be recoiling anytime soon after the Fed lowered its benchmark by half a point to 4.75 percent on Sept. 18, the first cut in four years. Instead, the 10-year yield will fall to 4.51 percent by year-end from 4.55 percent, according to the median forecast of the 21 securities firms that trade with the central bank. “The Fed will be easing” again, said Neal Soss, chief economist at Credit Suisse in New York, who expects “some further rally in Treasuries.” The bond market's unusual buoyancy is a consequence of the worst U.S. housing slump in 16 years, a slowing rate of inflation and the seventh weekly decline in short-term corporate lending to companies. The sudden convergence of these disinflationary forces helped make the third quarter the best for government debt in five years. **Recession Concern Spurs U.S. Bond Rally on Fed Ease**
<http://www.bloomberg.com/apps/news?pid=20601109&sid=asz1S32A45u0&refer=home>
- Oct. 1 (Bloomberg) -- **Citigroup Inc. and UBS AG, the largest banks in the U.S. and Europe, said losses sparked by the collapse of the U.S. subprime mortgage market ravaged third-quarter results.** Citigroup, based in New York, said earnings fell about 60 percent from a year earlier. Zurich-based UBS reported its first quarterly loss in almost five years, ousted its investment-banking chief and announced plans to cut 1,500 jobs. The contagion from the worst U.S. real-estate market in 16 years **forced Citigroup to write down loans for financing leveraged buyouts by \$1.4 billion and report \$1.9 billion of losses on securities and fixed-income trading.** UBS had 4 billion Swiss

francs (\$3.4 billion) of writedowns on debt holdings. Shares of both banks rose as investors had anticipated bigger losses. "This comes as a surprise, but it's positive that we know how big the fallout is," said Dieter Buchholz, who helps oversee \$107 billion at AIG Private Bank in Zurich, including UBS and Credit Suisse Group shares. UBS shares rose 1.9 francs, or 3.4 percent, to 64.5 francs in Zurich, leaving the stock down 13 percent this year. Citigroup rose \$1.19, or 2.6 percent, to \$47.86 by 12:13 p.m. on the New York Stock Exchange. Credit Suisse, Switzerland's second-largest bank, advanced 1.8 percent after the company said it expects to post a profit of about 1.3 billion francs in the third quarter. "Our expected third-quarter results are a clear disappointment," Citigroup Chief Executive Officer Charles Prince said in the statement. "We expect to return to a normal earnings environment in the fourth quarter." Citigroup Writedowns A 60 percent drop in Citigroup's net income from last year's third quarter would bring earnings to about \$2.2 billion, the lowest in more than three years. The bank, which moved up its earnings report to Oct. 15 from Oct. 19, was expected to earn \$5.6 billion, or \$1.08 a share for the quarter, based on the average estimate of analysts surveyed by Bloomberg. **The bank will write down \$1.4 billion before taxes on loans to finance leveraged buyouts, Citigroup said today in a statement. [note – LBOs NOT MBS]** It lost \$1.3 billion on subprime assets and about \$600 million in fixed-income trading. Higher loan-loss reserves contributed to \$2.6 billion in credit costs in the consumer-banking business. At UBS, the pretax loss, the first reported by any of the world's largest banks in the quarter, totaled 600 million francs to 800 million francs, the company said today. Analysts had estimated Europe's largest bank by assets would earn as much as 4.1 billion francs before tax. A portion of UBS's writedowns are related to securities owned by Dillon Read Capital Management, the hedge fund unit that cost the company \$300 million and former CEO Peter Wuffli his job. "Funds and financial firms relaxed too much and invested aggressively as there was excessive liquidity," said Masanao Yoshitake, chief investment officer at Privee Investment Holdings Co. in Tokyo. Jenkins, Standish Huw Jenkins, the head of UBS's investment bank, will step down and become an adviser to CEO Marcel Rohner. Chief Financial Officer Clive Standish will retire. The planned job cuts at UBS account for about 7 percent of the staff at the investment bank. **UBS will report "substantial losses"** in the fixed-income, rates and currencies division of its investment bank, mostly on securities backed by U.S. subprime residential mortgages, the bank said. The deterioration in that market in August "was more sudden and more severe than in recent history," UBS said. **Citigroup, UBS Say Subprime Losses Damage Results**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=ayxRAeLa.TfU&refer=home>

Commercial Real Estate

Commodities

- Oct. 2 (Bloomberg) -- OAO Gazprom, supplier of a quarter of Europe's gas, threatened to curtail exports to Ukraine over a \$1.3 billion debt, almost two years after a similar pricing dispute disrupted Russian fuel shipments to the continent. Gazprom warned the European Commission and consumers that it will take action unless Ukraine settles the

debt by the end of the month, Ilya Kochevrin, vice-president of the state-run company's export arm, said today during a conference call in Moscow. Gazprom ``hopes" shipments across Ukraine, Russia's main transit route, won't be disrupted, he said. Gas supplies in Germany, Italy and other European countries dropped in January 2006 when Gazprom shut off supplies to Ukraine while negotiating a higher price. **Gazprom Warns Europe of Possible Ukraine Supply Cut**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aegmG45fB4pY&refer=home>

Currency

- Oct. 5 (Bloomberg) -- The dollar posted the biggest weekly gain against the euro in more than a month on signs the economy is weathering the housing slump. **[How absurd. The signs are that the housing market is off the cliff, that credit markets are shot and that unless you want to flip burgers jobs are scarce]** Traders reduced bets that the Federal Reserve will cut borrowing costs this month after the U.S. government revised employment data for August to an unexpected increase. European Central President Jean-Claude Trichet signaled yesterday that policy makers won't raise borrowing costs anytime soon. **``People overstated the downside risk to the U.S. economy, and we're seeing the adjustment to the dollar,"** said Robert Since, head of global currency strategy in New York at Bank of America Corp. **The dollar traded at \$1.4134 per euro at 4:22 p.m. in New York, compared with \$1.4138 yesterday. [it traded at 1.24 last year]** The U.S. currency rose 0.9 percent this week for the biggest gain since mid-August. The yen fell 0.4 percent to 116.92 per dollar and 0.3 percent to 165.26 per euro. Japan's currency decreased 1.8 percent against the dollar this week, the most since June 2006. Services Employment The employment portion of the Institute for Supply Management's index of non-manufacturing businesses rose to 52.7 in September from 47.9 the prior month, the Tempe, Arizona-based group said Oct. 3. Services industries make up almost 90 percent of the U.S. economy. **``The biggest takeaway from the job data is that there's no recession near,"** said Boris Schlossberg, senior currency strategist in New York at DailyFX.com. **Dollar Posts Weekly Gain Against Euro on Economy, Fed Rates**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=ag6hPGTabsio&refer=home>

Diversification

Derivatives

- Oct. 3 (Bloomberg) -- **Fitch Ratings cut the credit ratings of \$18.4 billion of bonds backed by subprime mortgages issued last year, citing an increased risk of default after an ``unprecedented" slump in home prices.** The downgrades of the 1,003 bond classes represent 11 percent of the entire \$173 billion of securities from 2006 that were rated by Fitch, the company said today in a statement. Fitch reduced ratings on \$6.6 billion of bonds backed by second- lien subprime mortgages. Fitch, a unit of Paris-based Fimalac SA, began a review in July of every transaction containing mortgages to borrowers with poor credit after investors criticized ratings companies for failing to act quickly enough as home-loan delinquencies rose. Defaults reached record highs and some

securities dropped by more than 50 cents on the dollar. Fitch is the first of the three largest credit-rating services to review all securities with debt arranged last year. **Fitch Downgrades \$18.4 Billion of 2006 Subprime Bonds**
http://www.bloomberg.com/apps/news?pid=20601087&sid=aB_QtpsORVZU&refer=home

- Oct. 2 (Bloomberg) -- Former Federal Reserve Chairman Alan Greenspan [and current shameless shill for his book] said there will be "some rethinking" of collateralized debt obligations after demand for them helped fuel a bubble in the U.S. subprime mortgage market. "People always say it's the subprime market that created this crisis," Greenspan told investors at an event hosted by Bloomberg LP in London. "It's the subprime asset-backed market" which did, he said. "As a consequence of that there's going to be some rethinking about collateralized debt obligations." [MJK NEED QUOTE FROM 2005] [The comments suggest Greenspan is moderating his enthusiasm for derivatives, which he has often praised for diversifying risk.](#) Central banks have raised concern about the way markets value CDOs, securities based on underlying debt and other assets. Losses on them helped curb third-quarter profit at Citigroup Inc., the biggest U.S. bank. "The Wall Street firms were under real pressure to supply asset-backed securities, and the Wall Street firms were pressing the lenders to give them more raw material," Greenspan said today. "Credit standards just went straight down, and applications for subprime mortgages soared. The consequences of that are evident." [and have been for years including the years you were touting them as the greatest thing since sliced bread mister bookseller.] Citigroup's earnings showed that it lost \$1.3 billion on subprime assets, contributing to bigger losses than any others disclosed by the world's top banks and securities firms. UBS AG, Europe's largest bank, said yesterday that it had a loss after writing down about \$3.4 billion of securities. The market for CDOs is already shrinking. Sales fell 54 percent in August to \$17 billion from July, the lowest in more than a year, according to Morgan Stanley. CDOs are created by packaging bonds, loans or credit-default swaps and using their income to pay investors interest. "The pricing which in too many cases has been, by some model derivation, four times removed from actual market prices, just doesn't work," Greenspan said. Still, CDOs "serve a useful purpose." While financial innovation has been "a net plus to the community" for the new products that have been created, there must "be a limit as to how many you can create, and we're way past that limit as far as I am concerned," he said. "A lot of structured products are going to have short life expectancies," Greenspan said.

Housing

- Out on Phoenix's suburban fringes, where cement mixers are fast colonizing what's left of the hay and cotton fields, the day is winding to a close. The home hour has arrived. But sundown gives away a troubling secret: Behind dark windows and many unanswered doors, it's clear nobody is coming home. The ranch home on Via del Palo where the newspaper in the driveway has been sitting unclaimed since April. The house at the corner of 223rd Court with faded fliers stuck in the door. The two-story on Via del Rancho with the phone book on the step. They're all empty, left behind by a rising tide of foreclosures. [Not long ago, builders were raising home prices here thousands of dollars week after week. Families pitched tents in front of sales offices and waited](#)

for Saturday morning lotteries to win the right to buy. Buyers including more than a few speculators gambled with loans whose risks were obscured by euphoria. This is the tale of how America's real estate boom came to a seemingly ordinary subdivision called the Villages at Queen Creek, where the whipsaw of easy credit has led to some extraordinary times. They were the best of times, for a while. The empty homes, though, raise serious doubts about what comes next. As the nation confronts skyrocketing foreclosures, and policymakers try to contain a symptomatic credit crunch, what is happening here and in scores of similar neighborhoods is worth considering. Because while the pressures at work in Queen Creek were extreme, the choices people made and the consequences of those decisions are not so different from those faced by thousands of other homeowners and their neighbors. "The sales person was saying that they (homes) were going up \$1,000 a week," Dave Gustafson recalls. "So when we came to look, we signed right away." Builders made it easy. A downpayment of \$2,000 to \$5,000 was all it took to get started. Buyers could borrow at low teaser rates, requiring payments of nothing more than interest. As promised, home prices were going up faster than the houses themselves. By the time the family's new home a two-story model called The Starling with a cathedral ceiling in the living room was completed the next spring, the \$179,000 base price had climbed to \$220,000. "We were making money while we were waiting," Dave says. The Gustafsons picked out Corian counters and maple licorice-finished cabinets at the builder's design center, and opted for a pool and a whirlpool bath, adding more than \$50,000 to their loan. **The interest rate was fixed for only two years, but they didn't worry. With prices rising so fast, they could always refinance. And in five or six years, the Gustafsons figured, they'd sell for \$500,000 and downsize.** Kris Rowberry was ecstatic when the value of his home in nearby Gilbert started to take off. So he bought a second one in the Villages as an investment. "I was thinking, man, if I could have 10 properties, I could just kind of retire ... and kick back and live off the income," says Rowberry, a nuclear safety inspector. But the speculative mind-set confounded buyers like retiree David Pickering. When Pickering and his wife left Pennsylvania in August of 2004 for a new home in the Villages, they'd never heard of interest-only loans and the idea of buying a home as an investment hadn't occurred to them. **"There's been a huge shift in the way people view their houses," says John Karevoll, who tracks real estate for DataQuick Information Systems. "Your house now can basically be used as an ATM."** Now a home is more or less than a place to live. It is an investment a way to make money and finance a lifestyle, says Robert Manning, an expert in consumer credit and debt at the Rochester Institute of Technology. The housing and lending industries encouraged that transformation, promoting not just subprime loans but mortgages requiring little or no documentation of income, no money down, and interest-only payments. **When easy borrowing combined with a run-up in prices, speculators joined the fray.** In Arizona and other Sun Belt states where foreclosures are rising fast, homes not occupied by their owners account for an outsized portion of foreclosures, according to the Mortgage Bankers Association. But the rise in interest rates and drop in home prices has put the most pressure on people who live in the homes they own, and who hadn't counted on the market shift. **It used to be that when things got tough, Americans did everything possible to protect their homes. But now, faced with foreclosure, many have reordered priorities making payments on things like credit cards while neglecting mortgages, according to the credit**

scorekeeper Experian. That is at least partly a matter of psychology. When people who bought almost entirely with borrowed money see that worth disappear, there's little incentive to hold on, says Stuart A. Feldstein of SMR Research Corp., a Hackettstown, N.J., research firm. Few players, though, seemed to appreciate the chance they might get caught. **"Lenders never said no," says Jay Butler, director of realty studies at Arizona State University. "Nobody expected this to continue, but they hoped it would just long enough to get out of it and they were caught up in the whirlpool." [This is currently the mind set of the equity markets. Few believe that stocks should be at all time highs, they simply think they can get out faster than the others. A few will, most won't]** By late 2004, the Phoenix real estate market was roaring. The euphoria reached Queen Creek, so far out the freeway hadn't arrived yet. If you couldn't afford something closer in, real estate agents told buyers, "drive until you qualify." Buyers lined up for the chance to make a downpayment in the new subdivisions. Rowberry joined 200 people one Saturday morning for a chance at 15 lots. He snapped up builders' price lists. Every week, the homes cost \$1,000 to \$5,000 more. Meanwhile, skyrocketing prices in California and Nevada sent investors to greater Phoenix in search of the next great deal. **"I'm just one guy and it wasn't unusual to get three (calls) a day" from speculators, says John Wake, a real estate agent. "A lot of them weren't sophisticated. They'd never invested before."** Homeowners who bought earlier were feeling good. The market spike turned the Gustafsons' \$235,000 home into one worth \$380,000. Across the Valley, homeowners watching their home values shoot up, **borrowed against those gains.** "Talking to a lot of co-workers, everyone was doing the same thing taking out lines of credit, milking it for all it's worth," says Matthew Berends, a homeowner in Surprise, another Phoenix suburb where prices soared. His home is now in foreclosure. "In one year for a house to go up \$80,000, it's like too easy." But some relatively modest purchases would prove to be risky gambles. Greg Giniel and his wife moved into a home on East Sanoque Drive bought by a friend, with Giniel as a silent partner. What Giniel hadn't counted on was that the friend had also bought three other homes around the Valley, all financed with adjustable rate loans that were bound to rise. One street over, the Kesslers paid \$279,000 for a house in the fall of 2005. With \$25,000 down and an interest-only loan, it seemed like a wiser deal than their old rental. **There was a problem, though, obvious only in hindsight. A market that had skyrocketed was about to take a plunge.** It takes time for a homeowner to get into trouble, but sometimes not all that long. In the summer of 2006, the Gustafsons fell behind on their mortgage payments. Their interest rate was set to jump. In August, their lender started foreclosure. **In 2005 a record-best year for Phoenix real estate just five homes in the ZIP code containing the Villages were lost to foreclosure, according to Information Market, a Phoenix real estate research firm. Last year, lenders claimed 15, nearly all in the final two months of the year. So far this year, 75 homes have been claimed by banks. But with the market so soft and more adjustable rate mortgages about to reset, that could be just the beginning.** In the Villages, many of the homes where foreclosure is pending are already empty, a sign owners have given up. In a big subdivision about 1,400 homes the problems aren't always obvious. The golf course remains carefully watered, the playgrounds neatly swept. Many streets, particularly in areas built before prices spiked, are filled with families who take walks with strollers in the evening or grill burgers in backyards overlooking the greens. In May, the house to

the left of the Pickerings' on Calle de Flores went to foreclosure. Two weeks later, the house on the right followed. Both had been empty for months. It made David Pickering vaguely uneasy. He couldn't help wondering whether empty houses might attract vandals. "I just figured after a while, the heck with it," he says. A real estate agent scheduled an auction of the home, but found no takers. **The problems become self-perpetuating. Researchers say that each foreclosure chips away at neighbors' property values. But foreclosures here compound a larger problem. Builders continue adding homes to the market at reduced prices. Investors are trying to sell. Lenders are seeking buyers for foreclosures. Homeowners whose financial troubles might be solved by selling can't compete, real estate agents say.** In many ways, the Villages is lucky because so much was built before the market soared, says Amanda Shaw, president of Associated Asset Management, which administers it and 300 other Arizona subdivisions. The company, which once saw two foreclosure notices a month in its communities, now fields three to five each day, and some of its subdivisions have been hit much worse. They could fight to save their house. But what was the point? It's worth at least \$40,000 less than they paid. They can rent in this depressed market for a fraction of their monthly payment. "It's sad to say but honestly, we don't feel like there's anything worth saving in this house," Joy says. "Financially, we've got nothing to show for it." So the couple decided to let the place go. Everyone said it was the right thing to do. Still, it doesn't sit right with her husband, a painter and construction worker. When times were good they made a commitment, Paul tells Joy. Somehow, it doesn't feel right to just walk away.

Boom, Bust in Area Beset by Foreclosure

<http://abcnews.go.com/US/wireStory?id=3697957>

- Oct. 5 (Bloomberg) -- When D.R. Horton Inc., the second- biggest U.S. homebuilder, couldn't sell the one-bedroom condominium in San Diego it listed for \$349,800, the property was auctioned as a last resort for 37 percent less. **D.R. Horton, with annual revenue of about \$11 billion, and Hovnanian Enterprises Inc. now face the worst choice in the worst residential real estate slump since the 1930s. They're selling homes at any price they can get.** "It's desperation time and some companies may not make it," said Alex Barron, an industry analyst at Agency Trading Group Inc. in Wayzata, Minnesota. "At this point in the housing cycle, if you have too much debt, it's hard to get out from under it." "Really Stinks" The average cost to build a 3,340-square-foot home in the U.S. is \$403,925, according to the National Association of Home Builders in Washington. That includes \$219,015 for construction costs, \$45,507 for the price of undeveloped land, \$65,969 to prepare the land for building, marketing expenses of \$11,258 and a sales commission of \$19,499. During Hovnanian's "Deal of the Century" promotion last month, the company sold a 2,900-square foot five-bedroom, three- bathroom house at the Greenwood Manor development in Royal Palm Beach, Florida, for \$525,000, said Kathy Bell, who bought a house with the same floor plan down the street for \$575,000 in March 2006. "It really stinks," said Bell, 50, a medical billing specialist. "We were here in the beginning and we didn't get any deals. It's very upsetting." The 15 largest homebuilders are saddled with \$7.75 billion in debt due to be repaid through 2009 and the companies' bonds trade as if they were junk, according to credit-default swap data. **Most homebuilders have generated cash from sources they won't be able to sustain, Moody's Investors Service said in a report issued today.** They have sold mortgages that their home-loan units have originated and reduced the

amount of land they have purchased, giving their cash flow a bump this year, said Tom Marshella, head of homebuilder research for the New York-based bond-rating company. Smaller Businesses ``For the near term many of them will have to operate as smaller businesses," Marshella said in an interview. **At least five of the top 15 homebuilders by revenue are burdened with too much debt**, Agency Trading's Barron said. They are Hovnanian in Red Bank, New Jersey; Irvine, California-based Standard Pacific; WCI Communities Inc. of Bonita Springs, Florida; Atlanta-based Beazer Homes USA Inc.; and TOUSA Inc. in Hollywood, Florida. **To achieve a balance between the number of buyers and sellers, homebuilders need to cut current inventories in half**, said Michelle Meyer, an economist at New York-based Lehman Brothers Holdings Inc., the fourth-biggest U.S. securities firm by market value. **Meyer's outlook calls for sales to drop until the third quarter of 2008 and for housing starts to decline until 2009.** The ``devastating impact" of those losses **could make banks less inclined to grant builders more lenient lending terms [i.e it is a credit problem not an interest rate problem]** in the future, Frank Lee and Sarah Rowin of CreditSights said in a Sept. 26 report. ``The banks are in the drivers' seat and will determine the future of the homebuilders," Lee said in an interview. **Homebuilders Liquidate Assets in Desperation Sales**
http://www.bloomberg.com/apps/news?pid=20601109&sid=awORpx_eLI60&refer=home

- Oct. 2 (Bloomberg) -- The U.S. housing market is unlikely to recover soon from the worst slump in 16 years, according to Michael Milken, the junk bond billionaire turned philanthropist. It will be ``quite a while before we have a robust housing market again," Milken, chairman of the Santa Monica, California-based Milken Institute, said in an interview today. **``The idea that any loan against real estate is a good loan has never been a rational thought." Milken said the ``basic assumption" that home prices will continually increase is wrong.** Sales of new homes tumbled 8.3 percent in August to the lowest in more than seven years and prices dropped the most since 1970, the Commerce Department in Washington said last week. **Milken Says Housing Won't Recover for `Quite a While' [I would rather hear his opinions on what the latest scams are]**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a7otmLQ3LrdY&refer=home>
- WASHINGTON, October 02, 2007 - Pending sales of existing-homes activity will be dampened near-term as mortgage disruptions continue to impact the housing market, according to the National Association of Realtors®. The Pending Home Sales Index*, a forward-looking indicator, fell 6.5 percent to a reading of 85.5 from an upwardly revised 91.4 in July, based on contracts signed in August. It was 21.5 percent below the August 2006 index of 108.9. Lawrence Yun, NAR senior economist, said the mortgage market impact is quantifiable. **“Fewer contracts were being written because of mortgage availability issues, and a separate internal survey of our members shows more than 10 percent of sales contracts fell through at the last moment in August, primarily the result of canceled loan commitments,”** he said. “The volume of activity we’re seeing today is below sustainable market fundamentals because some creditworthy people are trying to buy homes but can’t because of the credit crunch. **“The impact was greater in high-cost markets that are more dependent on jumbo mortgages. In some areas, as much as 30 percent of signed contracts were falling through in August**

when the credit crunch problem peaked,” Yun said. “The problem has since become less severe, though jumbo loan rates are still higher than they would be under normal conditions. **Therefore, sales activity in late fall will better reflect market fundamentals.” [I won’t argue with that. I suspect Mr. Yun thinks it will be higher. It will instead be even worse]** The index is a leading indicator for the housing sector, based on pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not closed, though the sale usually is finalized within one or two months of signing. Annual changes in the index are more closely related to actual market performance than are month-to-month comparisons. As the relatively new index matures and seasonal adjustment factors are refined, the month-to-month comparisons will become more meaningful. An index of 100 is equal to the average level of contract activity during 2001, which was the first year to be examined as well as the first of five consecutive record years for existing-home sales. The PHSI in the West was down 2.7 percent in August to 80.3 and was 27.1 percent below a year ago. In the Midwest, the index fell 2.9 percent from July to 78.1 and is 18.0 percent lower than August 2006. The index in the Northeast fell 8.3 percent in August to 77.3 and was 18.3 percent below a year ago. In the South, the index dropped 9.5 percent in August to 97.8 and was 21.3 percent below August 2006. **Mortgage Problems Continue to Hamper Pending Home Sales**

http://www.realtor.org/press_room/news_releases/2007/phs_aug07_mortgage_problems_continue.html

- Oct. 2 (Bloomberg) -- The number of Americans signing contracts to buy previously owned homes fell more than forecast in August, **another sign the housing recession will persist. [not according to the Street – CNBC declared this was proof the bottom was in. Too bad CNBC can’t be held accountable for the billions it costs listeners with such irresponsible claptrap]** The National Association of Realtors' index of signed purchase agreements dropped 6.5 percent to the lowest level since record-keeping began in 2001, the group said today in Washington. The gauge plunged 11 percent in July. **“The existing homes market is now in freefall,” said Ian Shepherdson, chief U.S. economist at High Frequency Economics Ltd., in Valhalla, New York. “The downside from here is still substantial.”** A Bloomberg survey of 30 economists forecast the index would decline 2.1 percent. Projections ranged from a decline of 4.7 percent to a gain of 3.4 percent. **[i.e. the worst case scenario was down 4.7 and it fell 6.5. yet the “bottom must be in”]** **Compared with a year earlier, pending home sales were down 22 percent.** Yields on U.S. Treasury securities and stock prices were little changed following the report. The yield on the benchmark 10-year note was 4.55 percent at 10:05 a.m. in New York, compared with 4.56 percent late yesterday. Today's report showed pending resales dropped in all four regions. They fell 9.5 percent in the South, 8.3 percent in the Northeast, 2.9 percent in the Midwest and 2.7 percent in the West. **Pending Sales of U.S. Homes Fell More Than Forecast**

<http://www.bloomberg.com/apps/news?pid=20601206&sid=a2XKiic12NUs&refer=realestate>

Housing Finance

- Oct. 5 (Bloomberg) -- **Washington Mutual Inc., the biggest U.S. savings and loan, said third-quarter profit fell about 75 percent after the worst housing slump in 16 years dried up demand for mortgages.** Earnings may be the lowest in almost nine years because Washington Mutual set aside \$975 million before taxes to cover bad loans and had losses and writedowns of \$410 million on home loans and securities, the Seattle-based company said today in a statement. Chief Executive Officer Kerry Killinger, 58, said he expects results to improve in the fourth quarter. "You're going to find a lot of companies having to come clean with these assets on their balance sheets," said Terry Wakefield, a mortgage-industry consultant based in Grafton, Wisconsin. **"There's still somewhere between \$75 billion and \$150 billion of write-offs that have not yet occurred, and they're going to surface as the quarterly earnings process unfolds."** Washington Mutual said it "continues to have the liquidity and capital necessary" to expand businesses and pay the current dividend. The stock rose 52 cents, or about 1.5 percent, to \$35.80 at 10:54 a.m. in composite trading on the New York Stock Exchange. Washington Mutual has cut its lending staff 28 percent since the end of 2005, the company said in a presentation Sept. 10 in New York. The lender fired about 1,000 people last month as it closed two divisions. It had 49,989 employees as of June 30. **Bank of America Chief Financial Officer Joe Price said Sept. 17 that "unprecedented dislocations" in credit markets will have a "meaningful impact" on third-quarter results.** **Washington Mutual Says Third-Quarter Profit Fell 75%**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a1N56kFq9Z8s&refer=home>
- NEW YORK, Oct 3 (Reuters) - H&R Block Inc the largest U.S. tax preparer, said on Wednesday bank lines at its Option One Mortgage Corp lending unit were terminated or reduced, as the subprime mortgage company reduces its lending volume. Banks reduced and closed out warehouse lines of credit, which H&R Block's Option One Mortgage Corp used to temporarily finance home loans made to consumers.
<http://q1.schwab.com/content/rb/2007/10/03/1398595.html>
- Oct. 4 (Bloomberg) -- **Subprime mortgage bonds created in the first half of 2007 contain loans that are going delinquent at the fastest rate ever, according to Moody's Investors Service.** The average rate of "serious loan delinquencies" in the bonds has been higher than 2006 bonds, New York-based Moody's analysts Ariel Weil and Amita Shrivastava wrote in a report today. Serious loan delinquencies are those 60 days or more past due, including properties in foreclosure or already foreclosed upon. "It is shocking what you see," said Kyle Bass of Hayman Advisors LP, a Dallas-based hedge fund that reported a 400 percent return on its bet the U.S. housing market would fall. **"Anything securitized in 2007 has got to have the worst collateral performance of any trust I've seen in my life."** Moody's, Standard & Poor's and Fitch Ratings have started downgrading subprime bonds issued in 2006, and Fitch said yesterday it's reviewing ratings on securities created in 2007. Moody's has cut ratings or placed on review 496 bonds backed by first mortgages issued last year, or 3 percent of the total number of such bonds created in 2006. Through Sept. 21, S&P had cut ratings on 433 securities from last year and backed by subprime loans, or 9.1 percent of the total. Fitch

yesterday cut ratings on \$18.4 billion of bonds backed by subprime loans. The Moody's report today compares with research from S&P in March that said 2006 bonds may be the worst-performing ever. Worst Year Ever **For bonds older than six months, 2006 was the worst year for serious delinquencies since at least 2000, Moody's said in the report. Data in the Moody's report suggests that accelerating delinquencies from 2007 bonds are likely to eclipse 2006.** Subprime mortgages are given to borrowers with poor credit or high debt. The perceived risk of owning subprime mortgage bonds created in the first half of 2007 was little changed today, according to traders of ABX indexes of credit-default swaps. The ABX index linked to 20 securities from the first half and given the lowest rating of BBB- was quoted today at 37, according to broker GFI Group Inc. It closed yesterday at 37.61, Markit Group Inc. composite prices show. The index rated AA, the second-highest rating, was quoted at about 87 after closing yesterday at 87.82.

Subprime Delinquencies Accelerating, Moody's Says

<http://www.bloomberg.com/apps/news?pid=20601087&sid=a8Mzhz09jHP8&refer=home>

- October 3, 2007 – (Financial Times) US mortgage companies are being overwhelmed by the large numbers of homebuyers who need to renegotiate their loans to avoid default, creating a “subprime traffic jam” **that could frustrate efforts by regulators to prevent foreclosures**, experts say. Mortgage servicers, the operations that collect loans, say they are having trouble making profits because of record levels of late payments and delinquencies. Litton Loan Servicing estimates that costs have increased 20 per cent in the last year for mortgage servicers, who even in good times depend on razor-thin profit margins. **The result is that few subprime mortgages are being renegotiated.** Moody's, the ratings agency, found that lenders had eased terms on just 1 per cent of subprime loans resetting at higher interest rates in January, April and July this year. “Servicers have failed because **there's a huge resourcing issue**,” said Barefoot Bankhead, managing director at Navigant Consulting. “As lenders have gone out of business, the servicing arms have been in transition without the resources to handle the enormous number of requests for loan modifications and restructuring.” **The problem could grow more severe as more than \$350bn in adjustable-rate mortgages reset at higher rates in the next 18 months.** “Servicer inactivity could turn the subprime traffic jam into a monumental pile-up, because the longer people wait to make decisions, the worse the situation gets,” said Don Brownstein, chief executive of Structured Portfolio Management, a hedge fund. Moody's found that few servicers made telephone calls to borrowers facing interest-rate resets in the near future. It said the majority of large servicers continued to rely on letters to contact borrowers. Moody's said this was of “particular concern” given the potential size of the problem. Moody's said servicer data showed that borrowers who were making payments before the reset and did not have their loans modified fell into arrears at a rate of up to 10 per cent. **Analysts estimate that resets could boost payments for borrowers by between 30 and 50 per cent.** Another complication in renegotiating mortgages is that most loans have been packaged into securities and sold to investors. Some modifications are being held up by disputes between investors with differing interests in the same pool of loans. **Mortgage lenders in subprime 'traffic jam'** <http://www.ft.com/cms/s/0/b7b4d912-71d5-11dc-8960-0000779fd2ac.html>

- Oct. 3 (Bloomberg) -- Fannie Mae and Freddie Mac, the largest U.S. mortgage-finance companies, would be allowed to expand their \$1.5 trillion mortgage portfolio to buy subprime loans under a Democratic plan to help struggling borrowers. Senate Majority Leader Harry Reid, House Speaker Nancy Pelosi and other leading Democrats also called on President George W. Bush to increase funding for foreclosure prevention and appoint a coordinator to oversee the administration's response to the mortgage-market turmoil in the plan they unveiled today in Washington. **“Our country faces a challenge that threatens the economic security and the dream of homeownership of many of America's working families,”** [notice no reference to whether the people could afford the homes] Pelosi, of California, said at a news conference. The announcement is congressional leaders' first response to the subprime mortgage crisis, which has roiled credit markets and left a record number of homeowners on the verge of foreclosure. A key component of the plan would let Fannie Mae and Freddie Mac buy at least \$120 billion in subprime loans by expanding their combined mortgage portfolio, Senator Chuck Schumer, a New York Democrat, said in an interview. The two government-chartered companies, which are barred from increasing their portfolios by more than 2 percent a year, would be required to use at least 80 percent of their new \$150 billion in spending authority to help homeowners with poor credit records refinance into more affordable loans, Schumer said. The asset constraints would be eased for a year, he said.

Proposed Legislation Schumer and other Democrats have called on the Office of Federal Housing Enterprise Oversight to relax government restraints barring Fannie Mae and Freddie Mac from buying home loans exceeding \$417,000 and from expanding their assets. The senator introduced legislation last month to let Fannie Mae and Freddie Mac temporarily increase their mortgage portfolios by 10 percent. **The bill would also allow the companies to buy loans in “high-cost areas” where values are 50 percent higher than the current \$417,000 cap. [does it make you feel good to know the Federal government wants to bail out people in \$600,000 houses????????????????]** U.S. Representative Barney Frank, chairman of the House Financial Services Committee, said **Congress would pursue “sensible regulation” to restore investor confidence in the mortgage markets.** [government meddling always inspires confidence right?? Wasn't it government meddling with interest rates that caused the whole problem to being with??] Frank, a Massachusetts Democrat, said he wants to meet with mortgage lenders to urge them to help borrowers refinance. “We need the people who hold the paper to be more flexible,” Frank said. `Mortgage Czar' Criticized Senator Richard Shelby, the top Republican on the Senate Banking Committee, criticized the idea of a “mortgage czar,” saying Treasury Secretary Henry Paulson and Federal Reserve Chairman Ben Bernanke already are responding to trauma in the markets. “I believe that their efforts should continue unimpeded by another layer of bureaucracy,” Shelby, of Alabama, said in a statement. **Democrats Want Fannie, Freddie to Buy Subprime Loans [since the Fed tried to bail out the Wall Street fat cats, you can't really argue with the Dems looking out fro their base. All of it is disgusting. All of it rewards irresponsibility and all of it costs the taxpayers]**

http://www.bloomberg.com/apps/news?pid=20601170&refer=special_report&sid=a8xNveDsFds

- Oct. 3 (Bloomberg) -- Credit Suisse Group Chief Executive Officer Brady Dougan, the former derivatives trader who took over in May, predicts the market for mortgage credit will be "problematic" for as long as 18 months. "U.S. mortgage credit will remain problematic through this year and perhaps through 2008," Dougan told investors at a conference organized by Merrill Lynch & Co. in London. The Zurich-based bank doesn't see a return to stability "any time soon" after a surge in subprime mortgage defaults sparked a seize-up in credit markets in the third quarter, Dougan said. Credit Suisse said Oct. 1 that profit from continuing operations will be between 1.04 billion Swiss francs (\$890 million) and 1.56 billion francs, compared with 1.47 billion francs a year earlier. While the bank has sufficient access to cash, mortgage markets have suffered "severe investor pull-back" and "origination has all but dried up," Dougan said today. **Credit Suisse Says Mortgages to Remain 'Problematic'**
<http://www.bloomberg.com/apps/news?pid=20601206&sid=aSifH3sSeCd0&refer=real estate>
- Oct. 3 (Bloomberg) -- Shares of Radian Group Inc., the mortgage insurer whose sale to rival MGIC Investment Corp. collapsed last month, fell the most in eight weeks on concern a new auditor may force it to write down asset values. **Radian dropped \$2.46, or 9.5 percent, to \$23.53 in New York Stock Exchange composite trading after accounting firm Deloitte & Touche LLP declined to renew its contract.** "A new accountant may take a more conservative approach to Radian's books," Steve Stelmach, an analyst at Friedman, Billings Ramsey & Co. wrote in a note to clients today. "The stock could remain pressured until we have clarity on the new auditor's assessment of the business," the Arlington, Virginia-based analyst said. He rates the shares "market perform." Record home foreclosures and the failed deal with Milwaukee-based MGIC sent shares of Radian, the third largest U.S. mortgage insurer, down about 55 percent this year. Mortgage insurers help lenders recoup losses when homeowners don't repay. Deloitte's action was revealed in a Radian regulatory filing yesterday after the close of regular trading. No reason was given for Deloitte's decision. The auditor will withdraw after Radian files its third-quarter financial report. "We've had no material disagreement with them," said Mona Zeehandelaar, spokeswoman for Philadelphia-based Radian. The mutual decision "is not indicative of any problems with our internal controls and procedures," she said. Deloitte spokeswoman Deborah Harrington wasn't available to comment. **Risk Increases** The risk of owning Radian's bonds rose the most in five weeks, according to credit-default swap traders. The contracts, used to speculate on the company's ability to repay its debt or hedge against the risk it won't, rose 48 basis points to 420 basis points, according to CMA Datavision in London. An increase suggests deterioration in investor confidence. A week after reporting second-quarter earnings on July 24, Radian said it might have to write down the entire \$518 million value of a joint venture that invests in subprime loans. Deloitte subsequently decided the company properly excluded the impairment from the results. Last week, Radian said it added \$100 million of capital to its bond insurance unit and won't receive dividends from the subsidiary this year or next. The insurer also may be required to cover losses on \$100 million of extendible commercial paper if assets backing the program are sold at a loss, Stephen Cooke, president of Radian Asset Assurance, said during an investor conference call last week. Fitch Ratings downgraded Radian Asset two levels to A+ when the MGIC

merger failed. **Today's decline snapped a five-day, 21 percent rally that began when Standard & Poor's removed the company from negative `creditwatch.'** **[it probably will get even cheaper now without an auditor]** **Radian Tumbles After Deloitte Steps Down as Auditor**

http://www.bloomberg.com/apps/news?pid=20601087&sid=a1AJhx_7WaFo&refer=home

- Home loans are becoming more expensive for borrowers and less profitable for banks, Britain's biggest mortgage lender said yesterday, as the continuing crisis in global credit markets takes its toll on UK homeowners. Speaking at a Merrill Lynch banking conference yesterday, Andy Hornby, chief executive of Halifax Bank of Scotland (HBOS), predicted a "fundamental shift" in the UK mortgage market, of which his bank holds a 20 per cent slice. He signalled a move in the lender's strategy, away from its traditionally aggressive push to grab market share from its rivals. Mr Hornby told an audience of hundreds of investors that he planned to scrap the bank's annual market share targets for net lending. Instead, HBOS will take month-by-month decisions about the "trade-off between volume and margins". There has been a "sharp reduction" in mortgage profitability, he said. Net lending is the difference between the amount lent to new customers and the value of business lost when customers pay off loans or move to a new lender. Borrowers and banks hit as credit crisis takes toll of homeowners **[Brittan has a housing bubble larger than the US at its worse. Housing inflation is a global problem not a US problem, so much for being saved by the global economy]**
http://business.timesonline.co.uk/tol/business/money/property_and_mortgages/article2578147.ece?EMC-Bltm
- **I believe it the nature of thinking people to double check their work in times like this to make sure we are not drinking out own Kool-Aid. With that in mind, I have really been working the housing numbers from the past 7-10 years. Looking simply at the interest rates and none of the credit issues, shows 30 year fixed rates ranging from just above 9 to just below 7 from 92 to 00. from Sept 00 the rate went from about 8 to just below 7 as of Sept 02 when it broke 6.5 and stayed below 6.5 until a brief trip above that rate last year and again this summer. Thus for most of the past 5 years, the rate has been below where it was the prior 10 years. Now POST 50 basis point cut, the rate remains at the high end of the range (just below 6.5). Thus, if one simply looked at interest rates as a determinant of the likelihood of a quick housing recovery (i.e. is there pent up demand likely to be unleashed by lower rates), one would be hard pressed to make a case. Of course it is idiotic to try to look at interest rates in a vacuum, but I would submit that is exactly the intended tactic of those who wish the believers to believe. (supporting data from chart below)**
http://www.mortgage-x.com/general/historical_rates.asp

Macro Economic

- Oct. 6 (Bloomberg) -- Asian stocks gained for a third week and reached a record after former U.S. Federal Reserve Chairman Alan Greenspan and Citigroup Inc. suggested that losses in credit markets will abate. Mizuho Financial Group Inc. and National Australia Bank Ltd. led a rally by financial shares after **Greenspan said lenders are displaying a**

willingness to take on greater risk and Citigroup forecast earnings will improve this quarter. Nikko Cordial Corp., Japan's third-biggest brokerage, surged after Citigroup Inc. said it will buy the remaining shares it doesn't own in the company. Cathay Financial Holding Co. gained after agreeing to take over China United Trust & Investment Corp. **``The concerns people had before about the credit squeeze hitting the financial sector now look exaggerated,``** said Kim Han Jin, vice president of Fides Investment Management in Seoul, which manages the equivalent of \$990 million in equities. **``Stocks are rising on liquidity and the fading concerns.``** Credit Woes Easing **``It's pretty natural for the market to rally to where it was before the credit crisis once concern over the problem is wiped out,``** said Yoshinori Nagano, who helps oversee about \$70 billion at Daiwa Asset Management Co. in Tokyo. Mizuho, Japan's second-largest publicly traded lender, added 8.4 percent to 710,000 yen this week, while National Australia, the nation's biggest bank, gained 2.6 percent to A\$40.76. HSBC Holdings Plc, which was among the first to disclose soured U.S. home loans seven months ago, climbed 6.3 percent to HK\$961.5. **``Lenders in recent days have been reaching out for longer-term, lesser quality assets, and that is a good sign,``** Greenspan said in a speech in London on Oct. 1. **``We're creeping closer to normality.``** **[complete and utter BS]** **``Buying Opportunity``** Cathay Financial, Taiwan's No. 1 financial group, climbed 6.7 percent to N\$82.40. Central Deposit Insurance Corp., the Taiwan government's bad-debt agency, agreed to pay Cathay United Bank, the company's banking unit, NT\$12.9 billion (\$396 million) to take control of the financial services company, Johnson Chen, the agency's president, said on Oct. 2. **``Recent financial market turmoil has created a buying opportunity for companies looking to expand through mergers,``** said Vickie Hsieh, who helps oversee \$1.4 billion at President Investment Trust Corp. in Taipei. **``Investors should take these deals as a cue and look for investment opportunities.``** **``The Tankan showed there's no bad evidence for the economy,``** said Masayuki Kubota, who oversees \$2.1 billion in assets at Daiwa SB Investments Ltd. in Tokyo. **``At A High``** Hong Kong's Hang Seng Index lost 4.3 percent in the two sessions ended Oct. 4, the most since a similar period ended Aug. 17. **The benchmark closed at a record 28,199.75 on Oct. 2, soaring 38 percent since the start of trading on Aug. 20, [no bubble here, the stocks were 27% undervalued 6 weeks ago!!!!!!]** when China said it will allow some citizens to invest directly in Hong Kong's stocks. **Asian Stocks Rise for Third Week as Credit-Market Concerns Ease**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aTYrwmT1TZPI&refer=home>

- Oct. 5 (Bloomberg) -- U.S. employment accelerated in September and revised figures for August showed an unexpected gain, easing recession concerns and making the Federal Reserve less likely to cut interest rates again. **Payrolls grew by 110,000 after an 89,000 increase in the previous month, the Labor Department said today in Washington.** [assuming each of the additional jobs payed 50K per year (generous in light of where the jobs came from and taking the 30K beat with the 90K "accounting adjustment") this would generate an annual 5.5 billion in total wage increases. , The change to the August figure wiped out what had been the first decline in four years, a drop that spurred predictions the six-year expansion would come to end amid the credit-market rout. Treasury notes fell as traders speculated that the central bank, which reduced borrowing

costs by half a point on Sept. 18, will resist lowering them at the next meeting. Analysts said more jobs and rising wages will help consumers weather falling home prices, sustaining the spending that accounts for more than two-thirds of the economy. "It certainly doesn't look like an economy that's losing momentum," said John Ryding, chief U.S. economist at Bear Stearns Cos. in New York. "The Fed will move to the sidelines or else it'll become much more apparent that the Fed was cutting for financial stability reasons and not the real economy." The yield on the benchmark 10-year Treasury note climbed 13 basis points to 4.64 percent at noon in New York. Futures traders put the chances of a reduction in October at 46 percent, down from 72 percent yesterday, based on prices at the Chicago Board of Trade. Stocks rallied. A basis point is 0.01 percentage point. 'Nimble' Fed Speaking less than an hour after the figures were released, Fed Vice Chairman Donald Kohn said officials must be "nimble" in setting rates given the risks of both slower growth and faster inflation. Commodity prices had the biggest monthly gain in 32 years in September, with the Reuters/Jefferies CRB Index advancing 8.1 percent. Today's report validates comments from Fed district bank presidents, who have consistently expressed skepticism about how much the economy has been hurt by the market turmoil of August. Richard Fisher, president of the Fed's Dallas branch, said yesterday that "things are healing." St. Louis Fed President William Poole warned investors a week ago not to assume further rate cuts would be forthcoming. The job number "eases fears that the economy will take a dramatic turn for the worse," said Julia Coronado, senior U.S. economist at Barclays Capital Inc. in New York. "That makes the Fed's decision a closer call. A rate cut in October is by no means a foregone conclusion."

Impact of Revisions Revisions added 118,000 workers to payroll numbers previously reported for July and August. The jobless rate rose to 4.7 percent from 4.6 percent the previous month. President George W. Bush praised the jobs numbers, saying that the revisions add up to 49 consecutive months of employment growth, the "most on record for our country." **In the six years since the last recession ended in November 2001, the economy has created 7.1 million jobs, compared with 12.5 million during the comparable period following the 1991 contraction.** Most of the August adjustment came in government payrolls, which expanded by 57,000 during the month, reflecting hiring of teachers for the new school year. School Holidays Changes in the timing of school holidays during the summer probably made it difficult for the department to count the number of teachers added for the new school year, economists said. Government payrolls further expanded by 37,000 in September, today's report showed. **Employment at businesses rose by 73,000 in September after a 32,000 gain in August. Private payrolls increased 115,000 per month on average from January through July.** [this is the GREAT NEWS on which the market burst to new highs] "The labor market is bending, but not breaking," said Michael Feroli, an economist at JPMorgan Chase & Co. in New York. "You still have some pretty good wage growth, some pretty good income growth that should be good for consumer spending." **[Hey Mike, how about an explanation that this is all lagging indicator stuff]** Service industries, which include banks, insurance companies, restaurants and retailers, added 143,000 workers last month after increasing 153,000 in August. Retailers shed 5,200 jobs after adding 8,700 in August. **Factory payrolls dropped by 18,000 after decreasing 45,000 a month earlier. Economists had forecast a drop of 10,000 in manufacturing employment. Payrolls at builders declined by 14,000 after falling 22,000 a month earlier. Lennar**

Corp., the biggest U.S. homebuilder, has cut 35 percent of its workforce and will eliminate more, Stuart Miller, chief executive of the Miami-based company, said in a statement Sept. 25. Lennar last month reported the biggest quarterly loss in its 53-year history. Real-Estate Losses Firings at mortgage companies are also contributing to the slowdown in the labor market. Morgan Stanley, the second-biggest U.S. securities firm, said this week it plans to cut 600 jobs after a decline in mortgage-related revenue led to lower third- quarter earnings than analysts estimated. The Fed on Sept. 18 cut its benchmark interest rate by a half-percentage point to 4.75 percent, and said they would "act as needed" to promote stable inflation and economic growth. Poole said that while he sees "tentative signs" that credit-market turmoil is easing, "financial fragility is obviously still an issue." **The payrolls report included the government's preliminary estimate for annual benchmark revisions. The Labor Department said payrolls for the 12 months ended in March 2007 will probably be revised lower by 297,000, the biggest downward revision since 2002.** Currently, government figures show 1.94 million jobs were created during the 12 months ended March 2007. The final estimate will be issued in February. **U.S. Economy: Job Growth Accelerates in September**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=akcvMdKul0r0&refer=home>

- "Meanwhile, American infrastructure keeps crumbling. The American Society of Civil Engineers gives the U.S. infrastructure report card a D average. Poor road conditions now cost the American taxpayer \$67 billion a year, \$5.6 billion a month, \$186 million a day, \$7.8 million an hour or \$130,000 every minute. "And that's just to patch roads and bridges. The EPA estimates that U.S. sewer system maintenance over the next 20 years will run in somewhere the ballpark of \$390 billion. That's another annual \$20 billion annually, or \$1.7 billion per month. "Meaning potholes and solid waste are costing roughly as much as a full-fledged war. The American Society of Civil Engineers warns that the United States has fallen so far behind in maintaining its public infrastructure -- roads, bridges, schools, dams -- that it would take more than \$1.5 trillion over five years just to bring it back up to standard. **"Let me say that again. It will cost \$1.5 trillion just to raise it to par.** DR 10/5
- The primary engine of global demand – the US consumer – is losing steam. Deep in debt and unnerved by falling real estate values, the US consumer can no longer be counted on to shoulder the burden of global growth. **Not to worry, goes the emerging consensus.** An alternative engine of global demand is the Chinese consumer, whose appetite for mobile phones, computers, televisions and other consumer staples has exploded in the past decade. And it's not just the basics the Chinese are snapping up: China ranks as the third-largest consumer of luxury goods in the world. More Bentleys are sold in Beijing than in any other city in the world. But investors beware. **It's not all fast cars and fancy malls for the average Chinese consumer. The importance of the consumer to economic growth in China has actually diminished.** Growth in household consumption has lagged behind the underlying pace of the overall economy for the balance of this decade – even though household consumption outlays in China almost doubled between 2000 and 2006. **Household consumption as a percentage of gross domestic product dropped from 46.4 per cent in 2000 to 36.4 per cent in 2006, leaving the mainland with one of the lowest consumption-to-GDP ratios in Asia.** While super-charged levels

of capital investment and exports have diminished the role of the Chinese consumer, something more fundamental is at work. **The average consumer in China is not a credit card-touting shopper.** Rather, saving continues to trump spending. The average Chinese family squirrels away a quarter of its after-tax income, **one of the highest savings rates in the world.** Why such a high level of savings? Prudence is one factor. Fear of the unknown is another. While many investors are well versed in China's stunning economic rise over the past three decades, most have paid too little attention to the wrenching social and economic issues that the nation faces. Millions of households can no longer count on the cradle-to-grave social welfare programmes of the Iron Rice Bowl. Many of these benefits have been scaled back or eliminated in the past decade and **Chinese consumers have been saddled with the burden of paying for healthcare, pensions, education and housing.** For instance, just half of China's urban population has basic health insurance, according to the Organisation for Economic Co-operation and Development, while fewer still are covered in the rural areas. All told, medical expenses account for nearly 12 per cent of household spending. **While Chinese consumers have little choice but to save for unexpected medical costs, the same holds true when it comes to retirement and unexpected job losses. [providing for yourself and looking beyond the December Lexus to Remember, what a unique concept. Maybe we can export financial irresponsibility??]** Only 17 per cent of the population are covered under any basic government pension scheme, while just 14 per cent of China's workforce was covered by unemployment insurance in 2005. Education represents another significant expense for the typical Chinese family. Per capita expenditure on education – a national obsession – accounts for about 8 per cent of total household consumption and that figure is increasing along with escalating expenses related to schooling. For many rural families, school fees can be the equivalent of one year's income. Add rising housing costs, which have increased as government subsidies on housing have declined, and increased spending on care for China's elderly. Investors should not bank on the Chinese consumer to save the global economy should the US consumer run out of steam and tip the American economy into recession. The inconvenient truth is that Chinese consumers are not ready to supplant US consumers as the primary engine of global demand. **Insight: Don't bank on Chinese consumer to save global economy [don't worry it is a global economy Day 2-1]** <http://www.ft.com/cms/s/0/f6685df0-710d-11dc-98fc-0000779fd2ac.html>

- Alistair Darling will next week downgrade his 2008 growth forecasts in the first confirmation that Britain is heading for an economic slowdown after being buffeted by the global credit squeeze. The chancellor told the Financial Times yesterday that the credit squeeze had affected many western economies and there would "undoubtedly be an effect" on Britain. Speaking only days before he sets out the government's public spending plans for the next three years to parliament, Mr Darling sought to pin the blame on the US housing downturn and the credit squeeze, which he said would affect every advanced economy. "It would be prudent to assume it will have some effect on us here," he said. Slower growth will put extra strain on the public finances and cast a degree of economic uncertainty over Gordon Brown, prime minister, as he wrestles with whether to call a November general election. The chancellor is expected to downgrade his 2.5 to 3.0 per cent growth forecast for 2008 when he presents his spending review and pre-budget

report to the House of Commons, probably next Monday. The average forecast among City analysts has fallen to 2.2 per cent and the most recent forecasts have tended to hover around the 2 per cent mark. However, Mr Darling's figures may be a little more optimistic. Mr Darling said he expected lenders to be more cautious and that the housing market might suffer as a result. Any cut in the treasury growth forecast has a knock-on impact in raising its borrowing forecast as tax revenues will fall alongside lower-than-expected spending and corporate profits. **Darling to lower UK forecast for 2008 [don't worry it is a global economy Day 2-2]** <http://www.ft.com/cms/s/0/ec90e212-72f6-11dc-b7ff-0000779fd2ac.html>

- Manufacturing jobs declined yet again – this time by 18,000 jobs – while the construction industry also lost 14,000 jobs in September. The service sector showed the biggest jump in hiring, with 143,000 jobs added. **[too bad we can't export French fry chefs. I'm thinking those minimum wage earners will be snapping up jumbo loans for \$600K starter homes in California]**
- **[Another not sure where to put this other than to say it is outrageous. These same clowns said there was no way there would be a cut in September. The level of misinformation being disseminated by the Fed is disgraceful. That anyone would be clueless enough to state that "I give them a lot of weight," means that person is either brain dead or has the attention span of a 6 year old.]** Oct. 4 (Bloomberg) -- [Federal Reserve district bank presidents are expressing skepticism about the need for further interest-rate cuts, and some investors agree.](#) The chance of policy makers cutting their benchmark rate twice more this year, to 4.25 percent, fell to 48 percent today, the lowest since the Fed cut borrowing costs on Sept. 18, futures prices show. The December contracts last week reflected a 74 percent likelihood of two quarter-point reductions. Sentiment has shifted since [St. Louis Fed Bank President William Poole](#), [Philadelphia Fed chief Charles Plosser](#) and [Atlanta's Dennis Lockhart](#) last week highlighted signs the turmoil in credit markets is easing. [from OSS September 2 Policy makers underestimated the contagion from subprime credit markets to less risky borrowers, the minutes showed. "Funding had become more costly and difficult to obtain for riskier corporate borrowers, but there had been little net change in the cost of credit for investment-grade businesses," the Fed said. {I want you all to keep in mind these are the guys who you all are counting on to bail you out. What a frightening lack of grasp of the obvious} from OSS Sept 9 [Sept. 9 (Bloomberg) -- Federal Reserve Bank of Philadelphia President Charles Plosser said there is an "underlying stability" {change it to past tense and the statement has veracity, certainly not the case today however} in the U.S. economy and officials need not always cut interest rates in response to turmoil in financial markets. "Disruptions in financial markets can be addressed using the tools available to the Federal Reserve without necessarily having to make a shift in the overall direction of monetary policy," Plosser said yesterday at a conference in Waikoloa, Hawaii. Plosser said while the housing slump has lowered forecasts for the expansion and there is "considerable uncertainty" about the outlook, he expects economic growth to return "toward trend later in 2008." {ignore the man behind the curtain}] The drag from housing will "gradually" ease, concluding sometime next year. {based on WHAT information can he make this claim?} Economy's 'Stability' "It is important to understand and appreciate this underlying stability of the economy [agreed, too bad you do not have a clue] in the face of temporary disturbances as we seek to assess monetary policy," Plosser told the Pennsylvania Association of Community Bankers convention. . . . A day

before the employment report, four Fed district bank chiefs in separate remarks declined to endorse a rate cut. Kansas City Fed President Thomas Hoenig and Dennis Lockhart of the Atlanta Fed said they hadn't seen sure signs of a housing spillover into the broader economy. St. Louis Fed President William Poole and the Dallas Fed's Richard Fisher said the effects of the turmoil so far were unclear. {the picture is about to become very clear}] Borrowing Costs The yield premium investors demand to buy investment-grade corporate bonds compared with benchmark Treasury securities had jumped almost a quarter of a percentage point in the two weeks before the Aug. 7 meeting. The gap widened to 1.47 percentage points on Aug. 21, the highest in four years, Merrill Lynch & Co. data show. ``The mistake the Fed made is that the market was clearly coming unglued prior to the meeting," said Scott Miner, who helps oversee \$24 billion of stocks and bonds at Guggenheim Partners LLC in Santa Monica, California. By maintaining the inflation bias, ``it telegraphed to the market that this Fed was really out of touch with how severe the credit dislocation was." Economic and financial reports have complemented their remarks, as the Fed today said commercial paper halted a seven-week slump and private surveys showed continued expansion of manufacturing and services industries. ``I give them a lot of weight," said Keith Hembre, who helps oversee \$110 billion as chief economist at FAF Advisors in Minneapolis, referring to the comments by the bank presidents. ``I don't think the evidence is clear that the Fed needs to take additional action." **Fed Rate Cut Skepticism Spreads From Bank Presidents to Traders**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aszeYbwdo1m4&refer=home>

- Oct. 4 (Bloomberg) -- Orders placed with U.S. factories fell in August by the most in seven months, raising concern the turmoil in credit markets eroded business confidence. Bookings declined a greater-than-forecast 3.3 percent after a revised 3.4 percent gain in July that was smaller than previously estimated, the Commerce Department said today in Washington. Excluding transportation equipment such as cars and airplanes, demand declined 1.7 percent after a 1.7 percent gain. The figures suggest business investment will slow in the second half of the year as a worsening housing recession hurts consumer spending. Economists project Federal Reserve policy makers will lower interest rates again to prevent economic growth from stalling. **August Factory Orders in U.S. Fall More Than Forecast**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=afNy.bXHPfI0&refer=home>
- Oct. 4 (Bloomberg) -- Seven & I Holdings Co. fell on the Tokyo stock exchange after a report **Japan's biggest retailer missed** its first-half profit forecast. **Seven & I Falls on Report It Missed Profit Forecast [don't worry it is a global economy]**
<http://www.bloomberg.com/apps/news?pid=20601205&sid=aazWcpsP0oOA&refer=consumer>
- Oct. 4 (Bloomberg) -- Bank of Japan Deputy Governor Kazumasa Iwata said financial-market turmoil and a slowdown in the U.S. or Europe could hurt the world's second-largest economy. ``If the stock slump and the yen's gain continue, that would have a negative effect on Japan's economic growth," Iwata, 60, said today in a speech to business leaders in Shimonoseki, southwestern Japan. Growth may also cool ``if the U.S.

economic slowdown deepens and European economies suffer a deceleration." **Iwata Says Markets, U.S. Slowdown Could Hurt Japan** [don't worry it is a global economy II] <http://www.bloomberg.com/apps/news?pid=20601068&sid=agmYHqpNP.qI&refer=economy>

- Oct. 3 (Bloomberg) -- Wynn Resorts Ltd. and Las Vegas Sands Corp., the U.S. casino companies making the biggest bets in Macau, both fell more than 9 percent in U.S. trading after Morgan Stanley said September gaming revenue in the Chinese region was lower than estimated. Preliminary revenue climbed a "disappointing" 55 percent from a year earlier, Celeste Mellet Brown, a Morgan Stanley analyst, said today in a research note. The firm had predicted a gain of about 75 percent. **Wynn, Las Vegas Sands Drop on Macau Revenue Report** [don't worry it is a global economy III] <http://www.bloomberg.com/apps/news?pid=20601205&sid=ab.amzjp3mxA&refer=consumer>
- Oct. 2 (Bloomberg) -- Emerging-market stocks rallied the most in almost two weeks on speculation the effect of subprime- mortgage losses on global financial markets is waning. Bank of China and OAO Sberbank, Russia's biggest bank, climbed. The Morgan Stanley Capital International Emerging Markets Index rose for a fifth day, adding 2.2 percent to 1,244.22 at 12:28 p.m. in London, the sharpest increase since Sept. 19. The measure has climbed 12 percent since the U.S. Federal Reserve lowered its main interest rate Sept. 18 by half a percentage point to prevent credit-market turmoil from slowing the economy. Stocks in developing countries followed gains in Europe and Asia. The Dow Jones Industrial Average rose to a record yesterday in the U.S. after Citigroup Inc., the largest bank, said it expects earnings to improve in the fourth quarter. Citigroup, based in New York, reported third-quarter profit yesterday that dropped 60 percent because of \$5.9 billion in credit and trading losses. **"With the banks clarifying the impact of the recent financial turmoil, investors' confidence has improved, which is paving the way for greater risk appetite," said Peter Jarvis, a London-based director of European equities at F&C Asset Management, which oversees about \$230 billion. "There's a lot of value to be had in emerging markets." [there is a 70% drop waiting in emerging markets, but party on Pete!]** Russia's dollar-denominated RTS Index advanced 2.5 percent and was heading for a record after President Vladimir Putin said late yesterday he'll lead the pro-Kremlin party in December's parliamentary elections and may become the next prime minister. **Hong Kong stocks climbed, lifting the Hang Seng Index above 28,000 for the first time, while South Korea's Kospi gained 2.6 percent to 2,014.09, breaking a previous record set July 25. [think Nikkei 36,000]** "There are a lot of institutional investors, particularly in the U.S., that are underweight emerging markets when they shouldn't be," said Mark Gordon-James, who helps manage about \$10 billion in emerging-market equities at Aberdeen Asset Management in London. **"We are looking for emerging-markets growth to drive the global economy going forward," [I guess that depends on whether the number is positive or negative]** said Jonathan Garner, chief emerging markets strategist at Morgan Stanley in London. Garner expects half of the world's growth in gross domestic product to come from emerging markets this year. **Emerging-Market Stocks Rise the Most in Two Weeks, Led by Banks** <http://www.bloomberg.com/apps/news?pid=20601087&sid=ao.72P.Y.pOo&refer=home>

- Oct. 1 (Bloomberg) -- **Manufacturing in the U.S. grew in September at the slowest pace in six months, suggesting that the economy is slowing without tipping into recession.** [one of several cheery stories the day of the massive we broke 14000 again rally. I wonder if there will be DOW 9,999 hats on CNBC on the way back through] Stronger growth overseas and a weaker dollar are spurring exports, keeping factories going and compensating for a softening in business spending and the housing slump. While orders cooled last month and companies reduced inventories, employment increased. "There are no real warning flags here saying there's imminent disaster," said Julia Coronado, senior U.S. economist at Barclays Capital Inc. in New York, which correctly predicted the index. "Manufacturing will probably remain in a modestly expansionary mode." Economists surveyed by Bloomberg News forecast the index would decline to 52.6, according to the median of 75 estimates. The measure averaged 53.9 last year. **U.S. Economy: Manufacturing Expands at Slower Pace**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aljvyd0nNSWA&refer=home>

Retail

- Marriot International (MAR \$42) offered soft guidance – Schwab closing summary 10/4
- [before reading the following recall the government and Street mantras that there is no inflation and consumer spending remains strong] Oct. 3 (Bloomberg) -- P.F. Chang's China Bistro Inc., the Asian-themed restaurant group, fell 2.8 percent in U.S. trading after third-quarter profit and sales trailed its forecast. Profit will be 18 cents to 20 cents a share, 5 cents to 7 cents less than forecast, P.F. Chang's said today in a statement, citing preliminary results. Sales rose 17 percent to \$270.8 million, also missing the company's forecast. **Labor costs, higher expenses for repairs, maintenance and restaurant supplies,** and a fire in a Nashville location along with lower sales all reduced profit, the company said. Fourteen analysts in a Bloomberg survey estimated \$272.3 million in sales for the quarter ended Sept. 30, on average, while 6 estimated earnings of 25 cents a share. **Casual-dining chains are being hurt by a slowdown in consumer discretionary spending,** Mark Sheridan, an analyst with Johnson Rice & Co. wrote in a research note Sept. 28. Such restaurants are paying workers more, increasing operating expenses, while higher fuel prices are causing consumers to spend less, he wrote. **P.F. Chang's Drops After Profit, Sales Trail Forecast**
<http://www.bloomberg.com/apps/news?pid=20601205&sid=a4Mmi1mJgk9Y&refer=consumer>
- Oct. 1 (Bloomberg) -- Walgreen Co., the largest U.S. drugstore chain, reported its first profit drop in almost a decade as expenses climbed and earnings from generic drugs fell. Walgreen stock plunged the most in at least 27 years. Net income declined to \$396.5 million, or 40 cents a share, below the 47-cent average estimate of 15 analysts surveyed by Bloomberg. Earnings were squeezed by lower profits for simvastatin, a generic version of the cholesterol medicine Zocor, as well as higher salaries and slower growth of prescriptions from the Medicare drug program begun last year. "Our expenses weren't in line with the level of reimbursements we were receiving," Chief Executive Officer Jeffrey Rein said in the statement. "Managing both expenses and lower reimbursements on some

generic drugs is my top priority. We're going to fix this." Walgreen declined \$6.99, or 15 percent, to \$40.25 at 12:19 p.m. today in New York Stock Exchange trading. The stock had gained 2.9 percent this year through Sept. 28. Drugstore rivals CVS Caremark Corp. and Rite Aid Corp. were also falling. Sales advanced 10 percent to \$13.4 billion in the three months through Aug. 31. Aware of Surprise ``We know our fourth-quarter performance isn't what shareholders expect," Rick Hans, director of finance, said in a pre-recorded conference call. ``Many of the challenges we faced in this quarter will continue, including comparisons to last year's blockbuster generics and growth in Medicare Part D prescriptions." **Walgreen Profit Unexpectedly Drops; Shares Plunge**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=arHNwaNNWH8o&refer=home>

Retirement

Risk

Savings Rate

Tech

Wall Street

- **Merrill Lynch (MER) said third-quarter profits will be wiped out by a huge writedown tied to this summer's credit crunch.** The New York-based brokerage firm said it expects to lose 50 cents a share for the quarter, reversing the year-ago \$2-a-share profit and falling well short of analysts' \$1.24-a-share profit forecast. **Merrill will take \$4.5 billion in writedowns on its holdings of collateralized debt obligations and subprime mortgages.** It will also write off \$967 million worth of leveraged lending commitments. The charges mean that Merrill has taken the biggest hit on Wall Street from this summer's turmoil in the credit markets. Last month's writedowns at rivals **Goldman Sachs (GS)** , **Lehman (LEH)** and **Bear Stearns (BSC)** were generally around the \$1 billion range. The news comes just days after a Goldman analyst predicted that Merrill would take \$4 billion in writedowns on CDOs and leveraged lending. "Despite solid underlying performances in most of our businesses in the third quarter, the impact of this difficult market was much more severe in certain of our FICC businesses than we expected earlier in the quarter," said CEO Stan O'Neal. "While market conditions were extremely difficult and the degree of sustained dislocation unprecedented, we are disappointed in our performance in structured finance and mortgages," he added. "We can do a better job in managing this risk, as we have done with other asset classes, including leveraged finance, interest rate and foreign exchange trading, equity trading, principal investments and commodities." The depth of Merrill's despair in the fixed-income area was telegraphed earlier this week, when the company shook up the management of that unit. **Merrill's move comes at the end of a week of writedowns on Wall Street. Citi (C) led things off with a \$3.3 billion writedown Monday, and big overseas competitors Deutsche Bank (DB) and UBS (UBS) also took sizable hits.** Unlike Citi chief Chuck Prince, who predicted a return to normal earnings conditions in the fourth quarter, O'Neal was cautious in his outlook Friday. **[DOW up 100!!!!!!!!!!!!!!!] Merrill Takes a Mammoth Hit** <http://www.thestreet.com/pf/newsanalysis/wallstreet/10383014.html>

- "Although the outlook for fourth-quarter revenues remains difficult to predict, we continue to see evidence of strong long-term growth trends in each of our global businesses," he said. "While it is very early in the current quarter and despite continued challenges in structured finance, we are beginning to see signs of a return to more normal activity levels in a number of markets."
- Oct. 4 (Bloomberg) -- Bear Stearns Cos., the securities firm hit hardest by the collapse of the subprime mortgage market, **said debt-market conditions have improved and a recovery is under way. [Bear Stearns the same firm that lost 100% of its investors' money in a matter of months in 2 billion dollar hedge funds says . . . who cares what they say????????]** The availability of credit has increased since the Federal Reserve lowered its benchmark interest rate on Sept. 18, Bear Stearns President Alan Schwartz said today at an investor conference in New York. **``Things are getting better," Schwartz said. ``Liquidity has improved." [please notice there are never any supporting numbers just vague references to things being better]** **Bear Stearns reported a 61 percent decline** in third-quarter profit last month after turmoil in credit markets cut into fixed-income sales and trading. The failure of two of the firm's hedge funds, which bet on mortgage securities and lost **\$1.6 billion of clients' money**, triggered the market troubles when investors fled the riskiest types of debt. Schwartz said losses accumulated because the firm's hedging models didn't work. Bear Stearns is avoiding **``big directional bets"** for now and will make risk management a priority over growth, he said. Chief Executive Officer James Cayne said at the conference that **the firm will ``weather the storm."** **[as for the clients who did not in fact "weather the storm" but instead lost 100% of their investment, who cares we can always find more suckers, it is our bonuses that should matter to you marks]** The Bear Stearns hedge fund collapse led to the ouster of Co-President Warren Spector on Aug. 5. Spector, 49, was viewed by analysts as the most likely successor to the 73-year-old Cayne. **Bear Stearns Sees Debt Recovery Since Fed's Rate Cut**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=af51t7pqSip8&refer=home>
- Oct. 3 (Bloomberg) -- Merrill Lynch & Co., the world's biggest brokerage firm, fired the global chief of its fixed-income division and one of his top two U.S. deputies after losses in credit markets. Osman Semerci, 39, head of fixed income, currencies and commodities, and Dale Lattanzio, 43, co-head of the division's Americas operations, left today, Merrill spokeswoman Jessica Oppenheim said, declining to elaborate. David Sobotka, 50, head of the firm's commodities unit, will take Semerci's place, New York-based Merrill said in a memo to employees. Dow Kim, an adviser who served as Semerci's supervisor until May, also left, Oppenheim said. Merrill may write down fixed-income assets by as much as \$4 billion, resulting in the lowest quarterly earnings in almost six years, Goldman Sachs Group Inc. analyst William Tanona said last week. The fixed-income division accounted for 22 percent of the firm's \$5.42 billion of revenue in the first half of this year. **[bottom's in – AGAIN] Merrill's Semerci Departs After Fixed-Income Slump**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aYIofso25oso&refer=home>
- Oct. 3 (Bloomberg) -- The Federal Reserve's Aug. 7 decision to keep interest rates unchanged set off a chain of high-level discussions with Wall Street executives, money managers and cabinet officials that culminated in Chairman Ben S. Bernanke's public

about-face 10 days later, according to records of his schedule. Starting with a phone call from former Treasury Secretary Robert Rubin the day after the August rate meeting, Bernanke's appointments included Lewis Ranieri, founder of Hyperion Capital Management Inc., and Raymond Dalio, president of Bridgewater Associates. Rubin, 69, now chairman of the executive committee at Citigroup Inc. in New York, told Bernanke that the Fed made the right decision on Aug. 7, even as traders complained the central bank was oblivious to weakening markets, according to a person familiar with the conversation. On Aug. 9, Bernanke met from 11 a.m. to noon with Ranieri, a former vice chairman of Salomon Brothers Inc. and a pioneer in the mortgage-backed securities market. Fed Governor Randall Kroszner and Community Affairs Director Sandra Braunstein, who also runs an enforcement team, joined the conversation with Ranieri. Ranieri, 60, wasn't available for comment. Dalio visited Bernanke at 2 p.m. the same day. Bridgewater is the fourth-largest U.S. hedge fund firm, with \$32.10 billion in assets under management as of July 1, according to HedgeFund Intelligence's Absolute Return magazine. **Bernanke Spoke With Rubin as Credit Crisis Worsened [proper headline s/b "Bernanke Spoke With Wall Street Lobbyists Before Entering into a Bailout that will Destroy America but Preserved for a Few Months the Status Quo]**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=ae21h4HAD6Ag&refer=home>

- **My notes of October 1, 2007 October 1, 1987 numbers versus today. Comparing numbers DOW up 1.4% today, 1.6% then – new high today, within 3% of a new high then; SP500 up 1.33% now 1.8% then – within 1% of new high today, within 3% of a new high then, NAZ up 1.5% today, .9% then – no where near a new high today, within 3% of a new high then**
- Oct. 2 (Bloomberg) -- Morgan Stanley, the second-biggest U.S. securities firm, plans to cut 600 jobs after a decline in mortgage-related revenue led to lower third-quarter earnings than analysts estimated. About 500 jobs will be eliminated in the U.S. and about 100 in Europe, including 90 from a U.K. mortgage subsidiary, the New York-based firm said today in a statement. The cuts represent about 25 percent of Morgan Stanley's residential mortgage origination and servicing jobs, said spokesman Mark Lake. They are just over 1 percent of the firm's entire workforce. Morgan Stanley, the world's second-biggest securities firm, follows competitors such as UBS AG and Merrill Lynch & Co. in eliminating jobs after record U.S. home foreclosures sapped demand for bonds backed by mortgages. Wall Street firms, which make money by packaging loans into bonds and reselling them to investors, acquired mortgage companies in recent years to get more loans, a trend that is now reversing. **"Everyone who has any mortgage business is cutting back,"** said Benjamin Wallace, who helps manage \$750 million, including shares of Morgan Stanley, at Grimes & Co. in Westborough, Massachusetts. **"There are fewer mortgages coming through the pipeline for everyone."** [ok. Fewer mortgages, permanent cuts, but 50 basis points will rejuvenate the housing market] **The firm took a bigger role in mortgages in December, just as the subprime crisis was unfolding, when it bought Saxon Capital Inc. for \$705 million.** [in fact all the investment bankers got in at the very top. Yet these are the very entities that now are able to call the bottom????????? Good luck with that] In addition to being a mortgage provider, Saxon services home loans to people with patchy credit histories by collecting payments,

maintaining records and foreclosing on delinquent borrowers. Lehman Brothers Holdings Inc., the biggest underwriter of U.S. mortgage bonds, said in August that it was shutting its subprime mortgage unit, cutting 1,200 jobs. Last month Lehman also closed a Korean home loan business. Bear Stearns Cos., the second-largest mortgage bond underwriter, cut about 240 jobs at two home lending units in August because of a decline in demand. Merrill Lynch, the third-biggest U.S. securities firm, said last month that it was cutting jobs at subprime mortgage lender First Franklin Financial Corp., which it acquired for \$1.3 billion nine months ago. **Morgan Stanley Cuts 600 Jobs in Home Loan Business**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=amtW3zzCH6Ro&refer=home>

- Oct. 2 (Bloomberg) -- Saudi Prince Alwaleed bin Talal, Citigroup Inc.'s biggest single investor, said he supports the strategy of Chief Executive Officer Charles Prince after the largest U.S. bank said third-quarter profit slumped 60 percent. "I'm backing the management of Citi," billionaire Alwaleed said in an e-mailed statement today. With the "hiccup" of third-quarter results out of the way, "our journey with Citi will continue because we remain loyal," he said. Citigroup, based in New York, announced yesterday that \$5.9 billion of credit and trading losses on loans and mortgage-backed securities pushed profit lower in the past three months. CEO Prince, under pressure to increase earnings and the stock price, said the bank expects "to return to a normal earnings environment in the fourth quarter." The contagion from the worst U.S. real-estate market in 16 years is taking a growing toll on global banks. UBS AG, Europe's biggest bank, reported its first quarterly loss in almost five years yesterday. Morgan Stanley, Bear Stearns Cos. and Lehman Brothers Holdings Inc., three of the five largest U.S. brokerages, reported declining profits last month after reducing the value of their loan commitments and mortgage-bond holdings. No One 'Immune' "No financial institution is immune from the financial turmoil in global markets or its ripple effects," Alwaleed said today. **Citigroup "will show normalized levels of performance towards the fourth quarter," he said. [this is either a pumping opinion of a major shareholder and thus NOT NEWS OR a blatant violation of Reg FD if in fact he has been given information directly from the company, which has not been disclosed to the public]** Alwaleed first invested in the U.S. company in 1991 and his Kingdom Holding Co. retains a 3.6 percent stake, according to the statement.
- Oct. 1 (Bloomberg) -- **Wall Street strategists got it right when they predicted two months ago the U.S. housing slump wouldn't end the stock market's five-year rally. [blind squirrels and acorns]** The Dow Jones Industrial Average today climbed above 14,000 for the second time in its 111-year history to close at a record, recovering from a July and August sell-off that wiped out almost \$2 trillion in U.S. market value. Alcoa Inc., the world's second-largest aluminum company, and General Motors Corp., the biggest U.S. automaker, led the rebound. The gains were sparked by the Federal Reserve's decision Sept. 18 to lower its benchmark interest rate for the first time in four years. Strategists tracked by Bloomberg maintained their prediction that the Dow average would end the year at almost 14,200, even as the gauge plunged to a three-month low of 12,845.78 on Aug. 16. "This correction was very short," said Kenneth Fisher, who oversees \$42 billion at Fisher Investments in Woodside, California. "To me, that's the surprising part. The reason forecasts haven't necessarily dropped so much is because it

hasn't been that long." The Dow average, created in May 1896 by Dow Jones & Co. to measure the performance of industrial companies, climbed 1.4 percent to a record close of 14,087.55 in New York **as investors speculated the worst may be over for banks and construction companies hurt by subprime mortgage losses. [they have been doing that for more than a year and been wrong every time. This will be no different]** Fed Rate Cut **None of the 13 the Wall Street strategists tracked by Bloomberg cut their 2007 Dow or S&P 500 forecasts through the sell-off, even as borrowing costs between banks surged to the highest in six years and defaults on home loans to people with poor or limited credit deepened the worst U.S. housing slump in 16 years.** Citi Investment Research, A.G. Edwards & Sons Inc., Goldman, Sachs & Co. and Strategas Research Partners LLC, the four firms that provide Bloomberg with year-end forecasts for the Dow, **on average predict the gauge will climb to 14,162.5 this year.** U.S. stocks surged on Aug. 17 after the Fed unexpectedly reduced the interest rate it charges banks, the first time it has cut borrowing costs between scheduled meetings since 2001. Fed Chairman Ben S. Bernanke's reduction of the discount rate was his first acknowledgement that a policy shift was needed to contain the subprime-mortgage collapse. Cheaper Stocks Stocks rallied the most in four years on Sept. 18 after the Fed cut its benchmark lending rate by half a percentage point to 4.75 percent, more than economists surveyed by Bloomberg had expected. The rebound has left the Dow average within 0.6 percent of strategists' average year-end forecasts. **For the Standard & Poor's 500 Index, they are forecasting a year-end close of 1,595, the most bullish since December 2000, data compiled by Bloomberg show. They have become more optimistic during the year, bringing the average S&P 500 estimate up from 1,550 in January. The S&P 500 climbed 1.3 percent to 1547.04 today.** Both the Dow and the **S&P 500 are cheaper now than when they reached records on July 19. [NEWC was cheaper in March than it was in February. Oh that's right it went from 48 to 48 cents before it went under completely]** The Dow trades for 17.1 times its members' profit in the past year, down from 18.6 in mid-July. The S&P 500's price-earnings ratio has dropped to 17.9 from 18.2, according to data compiled by Bloomberg. **A.G. Edwards's Goldman on July 17 raised his year-end forecasts for the Dow average and the S&P 500 to 14,500 and 1,650, respectively -- three days before the Dow began its plummet from its record. The forecasts proved to be prescient in part because of the Fed's rate cut. [Apparently this Bloomberg writer does not know the year ends December 31, not October 1. we will see. We will see]** "The sell-off the subprime losses caused was greater than I was cranking into my year-end projection," Goldman, the St. Louis-based chief market strategist at A.G. Edwards, said last month. Once in a while "I'll be right on the number. You know why? Luck." **Wall Street Strategists Are Ratified by Dow's Record**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aoXnl6jNKX8Q&refer=home>

- Oct. 1 (Bloomberg) -- U.S. businesses, with the help of civil libertarians, are on the verge of outmaneuvering federal prosecutors and persuading Congress to limit the government's power to pursue corporate fraud. Lawmakers are considering a measure that would, among other things, bar the government from demanding that companies reveal confidential talks with their lawyers in order to win leniency in plea deals. It would also prohibit federal agencies, including the Securities and Exchange Commission, from

demanding that companies fire or cut off legal support for employees under investigation. Such tools were crucial in helping prosecutors pry loose valuable information in hard-to-prove cases against WorldCom Inc. and Enron Corp. Curtailing them may mean fewer such investigations in the future, putting investors more at risk. ``Pre-Enron, U.S. attorneys never brought these cases, and after this bill is passed, they will quit bringing them again," says Lynn Turner, a former SEC accounting chief. ``This is a very clear message from Congress: Don't touch white-collar criminals." **U.S. Prosecutors Say New Limits May Help Future Enrons Go Free**

<http://www.bloomberg.com/apps/news?pid=20601109&sid=ao7ml.ImFeHc&refer=home>

- Oct. 1 (Bloomberg) -- **U.S. stocks rallied, sending the Dow Jones Industrial Average to a record, as investors speculated the worst may be over for banks and construction companies hurt by subprime mortgage losses. Lennar Corp. and D.R. Horton Inc., the two biggest U.S. homebuilders, advanced after Citigroup Inc. said the industry's 53 percent decline this year has made the stocks attractive.** Citigroup led financial shares higher after the largest U.S. bank said it expects ``a normal earnings environment" in the fourth quarter and former Federal Reserve Chairman Alan Greenspan said the credit slump may be ending. The Dow's record caps a six-week recovery from a slump that helped wipe out almost \$2 trillion in U.S. market value. The 30- stock gauge added 144.2, or 1 percent, to 14,039.83 at 12:13 p.m. in New York, above the intraday high of 14,021.95 on July 17. The Standard & Poor's 500 Index increased 15.12, or 1 percent, to 1,541.87. The Nasdaq Composite Index gained 27.44, or 1 percent, to 2,728.94. ``**There are some examples out there that we have our hands around the subprime problem,"** said Igor Golalic, who manages \$2.5 billion at Federated Investment Inc. in Pittsburgh. ``**There's a perception that the worst is over, now that the Fed is on our side.**" Homebuilders Rally Homebuilders rallied after Citi Investment Research advised buying shares of Lennar, D.R. Horton, Pulte Homes Inc., Centex Corp. and Ryland Group Inc., saying the builders may rally. ``It is precisely when things have gotten this bad that the stocks start looking good," wrote Citi analysts led by Stephen Kim. **Dow Average Jumps to Record on [Mindless] Speculation Worst of Credit Crisis Is Over**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aZIVXhRdG9qg&refer=home>

Don't Fight The Fed

- ``**Recent financial market turmoil has created a buying opportunity for companies looking to expand through mergers,"** said Vickie Hsieh, who helps oversee \$1.4 billion at President Investment Trust Corp. in Taipei. ``**Investors should take these deals as a cue and look for investment opportunities.**" **[it's always a buying opportunity]**

- **“It's pretty natural for the market to rally to where it was before the credit crisis once concern over the problem is wiped out,”** said Yoshinori Nagano, who helps oversee about \$70 billion at Daiwa Asset Management Co. in Tokyo.
- **“We've increased markedly our exposure to risky assets and we think a lot of the sell-off is over,”** said Joseph Di Censo, a fixed-income strategist at Lehman in New York. **“We will see a rally in the spread sectors that were the most beat up.”**
- **BlackBerry, at Record, May Defy Short-Sellers Again** Oct. 1 (Bloomberg) -- The last time investors bet on a decline in Research In Motion Ltd., maker of the BlackBerry e-mail phone, the stock tripled in a year. Now the shares are near a record and two-thirds of 37 analysts say it's still a mistake. **“You never short a stock that has strong fundamentals,”** said Joseph Parnes, president of Technomart Investment Advisors in Baltimore. He owns Research In Motion and **says it will keep rising. “This stock has a lot to go.”** Analysts raised their price targets after sales surged 76 percent in the first quarter. Boosters include Mike Abramsky at RBC Capital Markets in Toronto, who says consumer demand for advanced phones will help Research In Motion, based in Waterloo, Ontario, more than triple its annual shipments to 22.8 million in fiscal 2009.
- **“There are a lot of institutional investors, particularly in the U.S., that are underweight emerging markets when they shouldn't be,”** said Mark Gordon-James, who helps manage about \$10 billion in emerging-market equities at Aberdeen Asset Management in London.
- **There are no real warning flags here saying there's imminent disaster,”** said Julia Coronado, senior U.S. economist at Barclays Capital Inc. in New York, which correctly predicted the index. **“ [I actually am speechless trying to come up with a response to this. I guess the old “we will see” is the best I can do]**
- **None of the 13 the Wall Street strategists tracked by Bloomberg cut their 2007 Dow or S&P 500 forecasts through the sell-off, even as borrowing costs between banks surged to the highest in six years and defaults on home loans to people with poor or limited credit deepened the worst U.S. housing slump in 16 years. [this was actually a “don't fight the Fed before it was even time to not fight the Fed]** Citi Investment Research, A.G. Edwards & Sons Inc., Goldman, Sachs & Co. and Strategas Research Partners LLC, the four firms that provide Bloomberg with year-end forecasts for the Dow, **on average predict the gauge will climb to 14,162.5 this year.**
- **For the Standard & Poor's 500 Index, they are forecasting a year-end close of 1,595, the most bullish since December 2000, data compiled by Bloomberg show. They have become more optimistic during the year, bringing the average S&P 500 estimate up from 1,550 in January. The S&P 500 climbed 1.3 percent to 1547.04 today.**
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- Homebuilders rallied after Citi Investment Research advised buying shares of Lennar, D.R. Horton, Pulte Homes Inc., Centex Corp. and Ryland Group Inc., saying the builders may rally. **``It is precisely when things have gotten this bad that the stocks start looking good,"** wrote Citi analysts led by Stephen Kim. [wait a minute, isn't CIT the company that just missed by 60%. In a village of idiots you in fact may be chief Senor Kim]
- **``People overstated the downside risk to the U.S. economy, and we're seeing the adjustment to the dollar,"** said Robert Sinche, head of global currency strategy in New York at Bank of America Corp.
- **``It's pretty natural for the market to rally to where it was before the credit crisis once concern over the problem is wiped out,"** said Yoshinori Nagano, who helps oversee about \$70 billion at Daiwa Asset Management Co. in Tokyo.
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I Disagree . . . and why

Article of the week:

UM EMBA