

July 15, 2007 Review

Comments

Happy 14000!

It took only a day last week to blow out my “failed rally” theory.

I yet again attempted to apply reason in a financial world without any (currently).

As you will read below, the “new all-time Dow” high stands in stark contrast to economic news. There is at least one “bright” spot. Retail spending rose 3.4% last week. God Bless the American consumer. What is that you say? The retail spending was up because “[r]ising food prices caused more shoppers to purchase groceries at discounters”. So it is a good thing that food costs more and people need to buy it in bulk at Sam’s instead of Tom Thumb? Will the good news ever end?

On the less cheery front, those pesky Bear Stearns funds are back in the news. It seems the investors lost **ALL** their money. It also brings up a question or two. Since Bear Stearns is widely lauded as one of the best in the field, how could they **lose 100%** of their investors’ money? **IN JUST A FEW MONTHS**. There are two equally frightening possibilities.

Either:

- These experts really did not understand the risk in the investment

OR

- These experts really did not understand the risk in the leverage they applied to the investment.

Which ever way you chose, what do you the chances are that those less sophisticated and with less inside information made better choices (and yes I am referring to the multitudes of billion dollar hedge funds run by New Era money managers who think risk is missing a dip buying opportunity)?

For those of you who received the July 2006 packets setting forth the disaster scenario, dust them off. The winner of the derivative game has been decided and it is not the ones who shorted the risk. The only question remaining is the timing of the collapse.

We will see . . .

Credit

- July 17 (Bloomberg) -- Chrysler increased the interest rates on \$12 billion of loans it is seeking to fund a buyout by Cerberus Capital Management LP **after investors balked at the money-losing carmaker's original terms**, lenders said. The company raised the yield it is willing to pay on a \$10 billion term loan for its auto unit to 3.75 percentage points over the London interbank offered rate from 3.25 percentage points it was seeking on June 28. Chrysler is offering Libor plus at least 7 percentage points on a \$2 billion second-lien loan, up from 6 percentage points, said three investors, who declined to be named because terms aren't public. **Chrysler's struggle to find lenders reflects a sudden slump in demand from loan investors, who are pushing back against a record amount of debt being sought by lower-rated borrowers.** At least 16 companies have been forced to rework or cancel loan or bond offerings. Auburn Hills, Michigan-based Chrysler, being sold by DaimlerChrysler AG, would pay an extra \$70 million a year in interest under the new terms. The ``timing could not be much worse," said Pete Hastings, a fixed-income analyst at Morgan Keegan Inc. in Memphis, Tennessee. ``Appetite for lower-rated credits is not too high." Cerberus is seeking \$20 billion of loans to fund the buyout. The remaining \$8 billion of loans are in the name of the carmaker's financial services unit. **In a leveraged buyout, the buyer borrows most of the purchase price and uses the target company's cash flow to repay lenders.** [So it is a good idea to straddle a money losing company with more interest expense?] Banks led by JPMorgan Chase & Co. held meetings with potential lenders on June 28 to sell the Chrysler loans, according to investors who may buy the debt. After failing to find demand, the banks held more meetings today and offered higher rates, the lenders said. As Chrysler sought to find buyers for its loans, declines in the subprime mortgage market fueled investor concerns about risky assets. Spreads over Libor for U.S. companies rated four or five levels below investment grade widened to 2.72 percentage points from 2.12 percentage points in February. **Prices fell to a four- year low in secondary-market trading last week, according to data compiled by Standard & Poor's.** On the Hook The failure of banks to find financing for buyouts has left them on the hook for more than five takeovers in the past month, data compiled by Bloomberg show. **Bear Stearns Cos. strategists estimate that about \$290 billion of deals still need to get funded**, including Chrysler, and Greenwood Village, Colorado-based credit-card processor First Data Corp. and TXU Corp. of Dallas. US Foodservice, the food distributor acquired this month by Kohlberg Kravis Roberts & Co. and Clayton Dubilier & Rice Inc., canceled a planned sale of high-yield loans and bonds to fund its buyout after failing to find demand. **Chrysler Forced to Pay Higher Rates on Buyout Debt**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aEhcVLBwB2cs&refer=home>
- July 17 (Bloomberg) -- Goldman Sachs Group Inc., JPMorgan Chase & Co. and the rest of Wall Street are stuck with at least \$11 billion of loans and bonds they can't readily sell. The banks have had to dig into their own pockets to finance parts of at least five leveraged buyouts over the past month because of the worst

bear market in high-yield debt in more than two years, data compiled by Bloomberg show. Bankers, who just a few months ago boasted that demand for high-yield assets was so great that they would have no problem raising debt for a \$100 billion LBO, are now paying for their overconfidence. The cost of tying up their own capital may curb earnings and stem the flood of LBOs, which generated a record \$8.4 billion in fees during the first half of 2007, according to Brad Hintz, the former chief financial officer at New York-based Lehman Brothers Holdings Inc. "The private equity firms, being very tough negotiators, are unlikely to let the banks off the hook," said Martin Fridson, chief executive officer of high-yield research firm FridsonVision LLC in New York. "They'll say that's your problem and that's why we're paying you: To take risk." As the market began to turn sour last month, Goldman Sachs, Citigroup Inc., Lehman and Wachovia Corp. had to buy \$725 million of bonds that Goodlettsville, Tennessee-based Dollar General Corp. was selling to finance Kohlberg Kravis Roberts & Co. purchase of the company for \$6.9 billion. All of the securities firms are based in New York, except Wachovia, which is located in Charlotte, North Carolina. Record Sales Acquisitions by private equity firms such as New York's KKR and Blackstone Group LP helped push sales of high-yield bonds and loans worldwide up more than 70 percent during the first half of the year to a record \$708 billion, according to data compiled by Bloomberg. High-yield, or junk, bonds are those rated below Baa3 by Moody's Investors Service and BBB- by Standard & Poor's. The investment banking fees generated by LBOs in the first half amounted to almost two-thirds of the \$12.8 billion paid by LBO firms to Wall Street in 2006, data compiled by Freeman & Co. and Thomson Financial show. In the race to win deals, the five largest U.S. investment banks more than tripled their lending commitments to non-investment grade borrowers during the past year to \$174 billion, according to their regulatory filings. KKR co-founder Henry Kravis in May called it the "golden era" of buyouts at a conference in Halifax, Nova Scotia. The extra yield investors demanded to own junk bonds rather than Treasuries shrank to a record low of 2.41 percentage points in June from the peak of more than 10 percentage points in 2002, according to index data from New York-based Merrill Lynch & Co. The spread has since widened to 3.07 percentage points. In most deals, investment banks promise to provide loans to the buyer. They then seek other lenders to take pieces of the loans and find buyers for bonds. When buyers vanish, the banks must either buy the bonds themselves or provide a bridge loan to the borrower, tying up capital that would otherwise be used to finance more deals. The banks typically parcel out portions of bridge loans to reduce their risk. "Beyond Our Risk" "Many of these things are beyond our risk desires," said Bruce Monrad, who manages \$1.5 billion of high-yield bonds at Northeast Investment Management Inc. in Boston. Banks can always sell the debt if demand increases. [pigs can always fly if they sprout wings] Meanwhile, they may have to report a loss from the decline in value of their holdings, a process known as marking to market. [that is when the game ends] Banks could also lose money should they have to offer discounts on loans in order to syndicate the deals, said Tanya Azarchs, a banking industry analyst at New York-based S&P. "I don't think it's going to cause banks to fail or even lead to downgrades,"

Azarchs said. "But I do think there will be a little indigestion and lower earnings." [remember last years "there is no problem in housing finance" this will prove equally prophetic] TXU, First Data "The thing about this business is memories are two seconds long," said James Schell, a private equity attorney in the New York office of Skadden, Arps, Slate, Meagher & Flom LLP. Banks led by Citigroup committed to extend \$37.2 billion in credit to fund the purchase of TXU by a group that included KKR, Fort Worth, Texas-based TPG Inc. and Goldman Sachs's private equity group. The financing will comprise \$25.9 billion of term loans and \$11.3 billion in an unsecured bridge loan. Credit Suisse, based in Zurich, is leading banks in the U.S. that have agreed to provide KKR with \$16 billion of loans for its \$26.1 billion takeover of First Data. The plans include an \$8 billion bond sale, which is scheduled for August or September, according to a Banc of America Securities LLC research report. For firms such as KKR or Blackstone, both based in New York, the tighter credit environment may make their acquisitions less profitable and even change the way they go after future targets. Mark Semer, a spokesman for KKR, declined to comment. "The underwriters are going to be forced to provide bridge loans and it's getting pretty ugly, but Wall Street deserves to get smacked around a little," said William Featherston, managing director in high-yield at J. Giordano Securities LLC in Stamford, Connecticut. "It's been easy for so long." **Goldman, JPMorgan Saddled With Debt They Can't Sell**

http://www.bloomberg.com/apps/news?pid=20601109&sid=axKl6VX_lcco&refer=home

Commercial Real Estate

Commodities

Currency

- July 18 (Bloomberg) -- The dollar fell to a record low against the euro after Bear Stearns Cos. reported hedge fund losses, fueling speculation the Federal Reserve will cut interest rates to support the economy. The U.S. currency also fell against the yen as investors scaled back carry trades, where they buy higher-yielding assets with money borrowed in Japan. Fed Chairman Ben S. Bernanke may be asked about financial industry losses caused by mortgage defaults when he testifies before Congress today. "The subprime woes may weigh on the broader U.S. economy," said Yuji Saito, head of the foreign-exchange sales department at Societe Generale SA in Tokyo. "There's a bias for selling the dollar." The dollar fell to a record low of \$1.3822 against the euro before trading at \$1.3816 at 9:41 a.m. in Tokyo from \$1.3781 in New York yesterday. It dropped to 121.94 yen from 122.34. The U.S. currency may decline to \$1.3830 per euro and 121.50 yen today, Saito said. The dollar fell to a 26-year low of \$2.0495 against the pound. It was quoted at 87.53 U.S. cents against the Australian dollar, near an 18-year low of 87.60. The dollar has fallen against 15 of the 16 most-active currencies since Bear Stearns said June 22 it had to bail out its hedge fund because of wrong-way bets on securities backed by subprime loans. **Dollar Slumps to Record Low Versus Euro on Bear Stearns Losses**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aMtV.07BfeXg&refer=home>

- July 18 (Bloomberg) -- The yen gained against the dollar and the euro on concerns losses on subprime mortgages will deepen, spurring investors to exit so-called carry trades. The yen was at 122.06 per dollar at 7:36 a.m. in Tokyo from 122.34 late in New York yesterday. Japan's currency traded at 168.27 per euro from 168.59. **Yen Gains as Subprime Mortgage Concerns Spur Risk Aversion**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aZRk8xKKiHHo&refer=home>

Diversification

Derivatives

Housing

- July 17 (Bloomberg) -- Confidence among U.S. homebuilders fell this month to the lowest level in 16 years, signaling the housing market continues to tumble. [I guess no one told Warren Buffet. For those of you who lead real lives, the Friday “rally” in homebuilders was attributable to a rumor that Buffet was buying homebuilder Hovian (HOV). Just another example of how ridiculous things are at Wall and Broad.] **The National Association of Home Builders/Wells Fargo sentiment index declined to 24 this month, the lowest since January 1991, from 28 in June**, the Washington-based association said today. Readings less than 50 mean most respondents view conditions as poor. Builders are pulling back on construction of new homes as inventories remain high as sales haven't recovered. Housing probably will be a drag on economic growth the rest of this year, economists said. **The National Association of Realtors, on July 11, reduced its sales forecast for this year for a seventh straight month and projected that purchases of single-family homes will probably fall in 2008 to their lowest level since 1995.** The supply of new homes for sale at the current purchase pace reached the highest level in 16 years in March and has stayed elevated in recent months, according to figures from the Commerce Department. That has caused builders to cut prices, increase incentives and halt new projects. D.R. Horton Inc., the second-largest U.S. homebuilder, said July 10 that it will report a third-quarter loss after orders plunged 40 percent. The company took 8,559 orders in the fiscal quarter, compared with 14,316 in the year earlier period, and the cancellation rate was 38 percent. Residential investment has subtracted from economic growth every quarter since the last three months of 2005. Spending on home-construction projects fell at a 15.8 percent annual rate last quarter and subtracted 0.9 percentage point from gross domestic product. **U.S. July Homebuilder Confidence Falls to 16-Year Low**
http://www.bloomberg.com/apps/news?pid=20601068&sid=ae_hu4LRL3aw&refer=economy
- July 17 (Bloomberg) -- Southern California house and condominium sales plunged 36 percent last month to the lowest level for a June in 14 years as prices fell from a record, mirroring a nationwide slump after lenders tightened credit. A total of 20,166 new and existing single-family homes and condominium units were sold in Los Angeles, Riverside, San Diego, Ventura, San Bernardino and Orange counties last month, down

from 30,303 a year earlier, La Jolla, California-based DataQuick Information Systems said today in a statement. It was the lowest sales count for any June since 1993, when 19,974 homes were sold. Median Price The median price for all homes and condominiums sold in South California fell 0.6 percent to \$502,000, from a \$505,000 record set in March and repeated in both April and May. The June median was up 2.4 percent from \$490,000 a year earlier. When adjusted for a drop in lower-cost homes sold, the median price was down about 2 percent from a year earlier. Prices are unchanged or increasing in the upper half of the market, DataQuick said. The monthly mortgage payment on a median-priced home in Southern California at current interest rates was \$2,430 last month, up from \$2,364 in May and \$2,422 a year earlier, according to DataQuick, a unit of Richmond, British Columbia-based MacDonald, Dettwiler & Associates Ltd. The number of single-family homes and condominium units that changed owners dropped in all six counties. San Bernardino and Riverside counties had the largest sales declines, at 50 percent and 47 percent, respectively. **In Los Angeles County, the most populous U.S. county, only 7,580 homes changed hands last month, the lowest June sales count for the region on DataQuick's record books, LePage said. DataQuick's statistics go back to 1988.** The median price dropped in three Southern California counties, rose in two and was unchanged in one, DataQuick said. The biggest drop was in Ventura County, where the median price fell 6.9 percent. **Southern California Home Sales Drop 36%, Prices Fall**
<http://www.bloomberg.com/apps/news?pid=20601206&sid=aDR.F5eQaPnQ&refer=real estate>

Housing Finance

- Lawmakers and consumer groups have blamed mortgage brokers for abuses that have left a record number of borrowers at risk of losing their homes. In appearances before Congress, federal bank regulators have said they lack authority to regulate state-licensed brokers. "Mortgage brokers are a significant part of the problem in subprime," former Fed governor Lyle Gramley, a senior economic adviser at the Washington-based Stanford Group Co., said in an interview. "They will make any loan to anybody." Senate Banking Committee Chairman Christopher Dodd, a Connecticut Democrat, and House Financial Services Committee Chairman Barney Frank, a Massachusetts Democrat, have pressed the Fed to strengthen consumer protections in mortgage and other types of lending. In a committee hearing last month, Frank threatened to strip the Fed of its rule-writing authority if it doesn't act. The program aims to curb abusive lending practices that contributed to a surge in foreclosures and defaults among borrowers with weak credit or high debt. Loans to such subprime borrowers typically carry higher interest rates and fees. **The number of foreclosures increased 87 percent last month from a year ago,** according to data released July 12 by RealtyTrac, a company that monitors real-estate data. **Fed, States Bolster Supervision of Subprime Lenders**
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aCsIDkjzfoEA&refer=home#>
- July 16 (Bloomberg) -- Fannie Mae, the largest provider of money for U.S. home loans, cautioned lenders to be more thorough in scrutinizing property appraisals in weakening housing markets. The company will provide lenders using its underwriting system with

alerts when a home is located in an area experiencing a price decline or ``where it may be difficult to assess home values," according to a July 13 memo posted on its Web site. Such conditions may occur when the supply of houses exceeds demand or properties stay unsold for more than six months. The directive may make it harder for potential homebuyers in softening markets to get loans, and could drive down values further. Government-chartered Fannie Mae, which owns or guarantees \$2.6 trillion of U.S. mortgage debt, or about a fifth of the total, said it expects to buy loans in all markets. Brian Faith, a spokesman, didn't immediately return a telephone call to elaborate on the memo. Softening Markets U.S. home prices have declined from year-ago levels, according to S&P/Case-Schiller indexes and the National Association of Realtors, two of the three reports cited in Fannie Mae's memo. The indexes from Standard & Poor's Corp., Fiserv Inc., and MacroMarkets LLC, based on repeat sales of the same homes, show prices dropping the fastest in and around Detroit; San Diego; Washington; Boston; and Tampa, Florida. **The realty group expects the median sales price for existing homes to fall this year for the first time since the 1930s, after a 2.1 percent decline from a year earlier in May.** S&P found the same U.S. year-over-year drop in April. The Office of Housing Enterprise Oversight, Fannie Mae's regulator, reported a 4.3 percent rise in prices in the first quarter from a year earlier. **Fannie Mae Cautions Lenders in Weakening Home Markets**

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- July 13 (Bloomberg) -- General Electric Co. plans to sell WMC Mortgage, the company's three-year-old U.S. subprime mortgage unit, following a surge in defaults by borrowers. ``The mortgage industry has greatly changed since the purchase of WMC," Laurent Bossard, chief executive officer of the division, said in an e-mail to employees yesterday. ``The current subprime market environment has made a significant negative impact on the business." GE's decision to divest WMC comes as more than 60 mortgage companies have halted operations, gone bankrupt or sought buyers since the start of 2006, according to Bloomberg data. The contraction in the subprime industry caused the near-collapse last month of two hedge funds run by Bear Stearns Cos. and the downgrading of almost \$12 billion of mortgage securities by ratings companies. **GE Will Seek Buyer for Subprime Unit After Defaults**
http://www.bloomberg.com/apps/news?pid=20601170&refer=special_report&sid=apEZD4lgnmDA
- July 11 (Bloomberg) -- **On Wall Street, where the \$800 billion market for mortgage securities backed by subprime loans is coming unhinged, traders are belatedly acknowledging what they see isn't what they get.** As delinquencies on home loans to people with poor or meager credit surged to a 10-year high this year, no one buying, selling or rating the bonds collateralized by these bad debts bothered to quantify the losses. **Now the bubble is bursting and there is no agreement on how much money has vanished: \$52 billion, according to an estimate from Zurich-based Credit Suisse Group earlier this week that followed a \$90 billion assessment from Frankfurt-based Deutsche Bank AG.** Even the world's second-largest company by market value must ``triangulate" the price of an asset-backed bond when it gets bids from traders, said James Palmieri, who helps oversee \$197 billion in investments at General Electric Co.'s Stamford, Connecticut-based GE Asset Management Inc.

- "We do not foresee the poor performance abating," Standard & Poor's said yesterday as it threatened to downgrade \$12 billion worth of securities backed by subprime mortgages. Losses "remain in excess of historical precedents and our initial assumptions," S&P said. Moody's Investors Service went further, lowering the ratings on \$5.2 billion of subprime-related debt. Moody's today said it may cut the ratings on \$5 billion of collateralized debt obligations backed by subprime debt. Why Now? More than a few investors would like to know what took the New York-based rating companies so long to discover a U.S. liability of Iraq-sized proportions. **"I track this market every single day and performance has been a disaster now for months," said Steven Eisman, who helps manage \$6.5 billion at Frontpoint Partners in New York, during a conference call hosted by S&P yesterday. "I'd like to understand why you made this move now when you could have done this months ago."** A total of 11 percent of the loan collateral for all subprime mortgage bonds had payments at least 90 days late, were in foreclosure or had the underlying property seized, according to a June 1 report by Friedman, Billings, Ramsey Group Inc., a securities firm in Arlington, Virginia. In May 2005, that amount was 5.4 percent. **One subprime mortgage bond, Structured Asset Investment Loan trust 2006-3 M7, was valued at about 91 cents on the dollar to yield 9.5 percent, according to prices posted earlier this week by the securities unit of Wachovia Corp. Charlotte, North Carolina-based Wachovia today valued that security at 76 cents on the dollar for a yield of 15.9 percent, said spokeswoman Amy Jones. Merrill Lynch in New York puts the price of the same security at 67 cents to yield 18 percent.** Bear Stearns Cos., the second-largest underwriter of mortgage bonds, was forced to extend \$1.6 billion of loans to its High-Grade Structured Credit Strategies Fund, one of two money-losing hedge funds, last month after bad bets on bonds tied to home loans. New York-based Bear Stearns offered to salvage the fund after creditors including Merrill Lynch seized securities held as collateral and started selling them in auctions **At least a third of hedge funds that invest in asset-backed bonds pick and choose values for their investment that help mask wide swings in performance, according to a survey of 1,000 funds worldwide by Paris-based Riskdata, a risk management firm for money managers. [i.e. the game is over and those long the risk have lost]** "If you have five different brokers you will get five different quotes, so if you don't have an objective valuation process you can choose the quote which for you is the most interesting," said Olivier Le Marois, chief executive officer of Riskdata. "There's no consensus on where the market price is." **Wall Street has benefited from keeping the so-called structured finance market opaque. Securities firms collected \$27.4 billion in revenue from underwriting and trading asset-backed securities last year alone, according to Kian Abouhossein, an analyst at JPMorgan Chase & Co. in London. Subprime Losses Drub Debt Securities as Ratings Drop**
http://www.bloomberg.com/apps/news?pid=20601170&refer=special_report&sid=aIz_NFvqbKUc

Macro Economic

- [This is included because it is tragic that either he believes these things or that Fed officials so shamelessly try to pump things up with misleading rhetoric. Of course I could be wrong. It maybe that the bankruptcy and foreclosure industries will be**

phenomenal job generating machines] July 17 (Bloomberg) -- Federal Reserve Bank of Kansas City President Thomas Hoenig said U.S. economic growth will approach a 3 percent annual rate for the rest of the year as employment gains spur consumer spending. "The economy should grow back towards the 3 percent that I estimate to be our long-term potential," Hoenig said at a luncheon in North Platte, Nebraska. "Consumers can afford to purchase goods." The comments reflect the Fed's view that the economy will grow at a "moderate" pace in coming quarters. Hoenig said there are risks both that the expansion will be faster and slower than expected. Either scenario would put pressure on policy makers to raise or lower interest rates, he said. Hoenig is the last Fed policy maker scheduled to comment before Chairman Ben S. Bernanke tomorrow delivers his semi-annual report to Congress. Hoenig and his colleagues on the Federal Open Market Committee voted unanimously June 28 to keep the benchmark U.S. interest rate at 5.25 percent. Policy makers have kept borrowing costs unchanged for a year after raising them 17 times from 2004 to June 2006. The Fed reiterated a prediction last month that the economy will grow at a "moderate" pace in coming quarters. Officials also said that while so-called inflation data, which exclude food and fuel costs, have "improved modestly," there hasn't yet been a convincing slowdown. "As you look at the economy, I can make the case for both an easing and tightening as you move forward," he said, referring to setting interest rates. Read on Inflation "We've seen some elements of core inflation begin to back off," Hoenig said at an event hosted by the Kansas City Fed, whose district includes Nebraska. The comments were similar to his last speech on the economy, on June 6 in Cody, Wyoming. Inflation has receded, with the Fed's preferred price gauge, which excludes food and energy costs, rising 1.9 percent in May from a year ago. The rate has fallen for three straight months from 2.4 percent in February, which matched the highest recording since 1995. "We've seen some various fits and starts around inflation issues," Hoenig said. "This mixed bag of information is something we have to sort through as we think about what policy should be as we go forward, and that's extremely important." Growth, meanwhile, is accelerating as Fed policy makers predicted. Economists estimate the economy expanded at a 3 percent annual rate last quarter after growing just 0.7 percent, the slowest in four years, in the previous three months. Housing Slump **The housing slump still presents a risk for economic growth, Hoenig said. [do you think?]** He said the market is taking longer to rebound than he anticipated. Also, delinquencies and defaults on subprime mortgages have increased the stock of unsold homes, Hoenig said. Hoenig, 60, joined the Kansas City Fed in 1973 and became its president in 1991. He has dissented three times from rate decisions and is the second longest-serving Fed policy maker, after Minneapolis Fed President Gary Stern. This year, Hoenig has supported all four decisions to keep interest rates unchanged. **Fed's Hoenig Says Growth Rate Will Approach 3% Pace by Year-end**

<http://www.bloomberg.com/apps/news?pid=20601068&sid=aCJUjHeFsJjQ&refer=economy>

Retail

July 17 (Bloomberg) -- U.S. retailers' same-store sales climbed 3.4 percent last week compared with a year earlier, the biggest gain in three months, as consumers spent more groceries and

began back-to-school shopping. July sales at stores open at least a year may increase 3 percent, the International Council of Shopping Centers and UBS Securities LLC said today. **Rising food prices caused more shoppers to purchase groceries at discounters**, such as Wal-Mart Stores Inc., and bulk outlets, including Costco Wholesale Corp. Retailers cleared out merchandise last month to prepare for an influx of back-to-school spending, said Michelle Tan, an analyst with UBS. June Results Last month, retailers posted the smallest June same-store sales gain in four years as retailers discounted merchandise. Shoppers bought groceries and consumer goods in bulk to cope with higher prices following June clearance markdowns. "Consumers are basically hedging themselves on inflation," Richard Hastings, a senior retail analyst at Smyth-Bernard Sands LLC, said yesterday. **[wait, if they are moving future purchases up, why is it good news that spending went up. Doesn't that mean that it will go down? Oh, maybe they just think the cost of food rising will make up for it.] Food prices have risen 3.1 percent this year, the fastest pace in 15 years**, Deborah Weinswig, an analyst with Citigroup Inc., said today in an e-mail. June sales at U.S. retailers rose 2.4 percent, the ICSC said last week, exceeding its forecast for a gain of as much as 2 percent. **U.S. Retailers' Sales Increased 3.4 Percent Last Week**

<http://www.bloomberg.com/apps/news?pid=20601205&sid=adqtsyQYwLFE&refer=consumer>

Retirement

Risk

Savings Rate

Tech

Wall Street

July 17 (Bloomberg) -- Bear Stearns Cos. told investors in one of its hedge funds that they won't get any money back after creditors forced it to sell assets at depressed prices, according to a letter sent by the firm. **While a second fund still contains "sufficient assets" to cover the \$1.4 billion it owes the New York-based firm, there's "very little value left for the investors,"** **[this is actually my favorite quote of the week. too bad the investors got screwed, but we got our money out]** Bear Stearns said in the two-page letter, a copy of which was obtained by Bloomberg News from a person involved in the matter. Bear Stearns bailed out that fund last month with \$1.6 billion in emergency funding. The situation underscores the severity of the shakeout in collateralized debt obligations, securities that the funds used to bet on subprime mortgage loans. Bear Stearns said in the letter that the funds faced "unprecedented declines" in bonds that were rated AAA or AA, the two top investment grades. "That has implications for credit weakness in the next several days and weeks," said Peter Plaut, an analyst at New York-based hedge fund Sanno Point Capital Management. "There's going to be more risk aversion." Bear Stearns spokeswoman Elizabeth Ventura declined to comment. Borrowed Money The fund that now has nothing left for investors, the High-Grade Structured Credit Strategies Enhanced Leverage Fund, had \$638 million of capital as of March 31, according to performance reports sent to clients at the time. The second fund, called the High-Grade Structured Credit Strategies Fund, had \$925 million. Both funds made leveraged bets in an effort to boost returns. The enhanced fund

borrowed about \$11 billion, or almost 20 times its capital. Its sister fund, the one Bear Stearns bailed out last month, borrowed almost \$9 billion. That second fund has lost about 91 percent of its value this year, according to a person with direct knowledge of its performance who declined to be identified because the figures aren't public. ``During June, the funds experienced significant declines in the value of their assets resulting in a loss of net asset value," Bear Stearns said in today's letter. ``In light of these returns, we will seek an orderly wind-down of the funds over time." [remember where we started – these guys were the experts] **Bear Stearns Warns Hedge Fund Investors of Total Loss**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aTWcpRkJovJ0&refer=home>

I Disagree . . . and why

[Article of the week:](#)

UM EMBA