

## July 29, 2007 Review

### Comments

This is a wonderful example of what is wrong with Wall Street. It is Thursday afternoon and I am reading one of the many daily newsletters I receive. After todays across the board “pummeling”, there is still very little fear. Instead, it is the standard “buying opportunity”:

Our cautious optimism is leaning much more to the cautious side after the market was pummeled today. Housing data-points over the last few days have shown that the housing market is in much worse shape than most pundits believed (remember, former Fed Chief Alan Greenspan called a bottom in home sales on March 7th), elevating credit risk. While this is a clear negative to the financials and one reason they remain under pressure, the yield curve is now at its steepest since October 2005. Thus, while our bullishness of the sector appears to have been early, we would continue to selectively accumulate shares of "Buy"-rated financials on the Recommended List.

OR from the Street.com's Jim Cramer:

#### **Jim Cramer and Farnoosh Torabi**

Find out Jim Cramer's take on when to buy homebuilding stocks and the financials.

**OR**

How about this from Sunday:

**“The fundamentals in my opinion are quite strong," said Lincoln Anderson, who helps manage \$150 billion as chief investment officer of LPL Financial in Boston. “The second-half earnings outlook is pretty doggone good. I look at this period as more of a buying opportunity.**

My view - this “buying op” will be as effective a strategy as would have been buying real estate in March. The idea that things are a “good buy” because they are lower than they were recently was soundly disproved in 2001-2. Why memories are so short escapes me.

We will see . . .

### Credit

- July 27 (Bloomberg) -- Japanese corporate bond risk rose to the highest in more than two years and debt sales faltered globally as investors shunned all but the safest of debt. Tyco Electronics Ltd. canceled a bond offering. DAE Aviation Holdings Inc. scrapped plans for a loan. Credit-default swaps on Goldman Sachs Group Inc. and Bear Stearns Cos.

rose to records on concerns investment banks will be stuck with high- yield, high-risk debt that they are unable to sell. The rout spread to indexes gauging the risk of owning everything from bank loans to emerging market debt. "The fear has set in," said Gregory Habeeb, who manages \$7.75 billion of bonds at Calvert Asset Management Co. in Bethesda, Maryland. **"No one wants to hold bonds and everyone wants to sell."** Risk premiums surged after Absolute Capital Group Ltd., an Australian hedge fund, suspended withdrawals from two funds after forecasting losses on U.S. subprime mortgages. Bankers for Chrysler and Europe's Alliance Boots Plc this week agreed to take on \$20 billion of loans to the companies after failing to sell the debt. Credit-default swaps based on 1 billion yen (\$8.45 million) of debt included in the iTraxx Japan Series 7 Index of 50 investment-grade Japanese companies increased to 3.50 million yen from 3.03 million yen at 8:50 a.m. in Tokyo, according to prices from JPMorgan Chase & Co. The risk of owning Japanese corporate debt rose to the highest since May 2005. The contracts are financial instruments based on bonds or loans that are used to speculate on a company's ability to repay debt. An increase indicates worsening investor perceptions of credit quality.

**Emerging Markets** The perceived risk of owning the dollar-denominated debt of the Philippines rose yesterday to the most since October, credit-default swaps show. Contracts based on \$10 million dollars of the Southeast Asian nation's bonds rose \$3,400 to \$150,600, according to data compiled by Bloomberg. The spread, or extra yield, widened 30 basis points yesterday to 2.26 percentage points, the highest since June, 2006, according to JPMorgan. It was recently at 2.22 percentage points. A basis point is 0.01 percentage point.

**Heightened Risk** "It's a story of heightened risk aversion," said Sue Trinh, a strategist at RBC Capital Markets in Sydney. **"The market is jittery that it's not contained to the U.S."** Investors, whose confidence has been sapped by losses from subprime mortgages, are balking at absorbing more risky debt. More than 40 companies reworked or abandoned bond offerings in the past three weeks. The retreat forced banks to take on at least \$32 billion of risky debt and threatens to bring an end to a record run for leveraged buyouts, which surged to a total \$690.4 billion of deals this year. An index allowing investors to bet on the U.S. leveraged loan market fell to its lowest since it began trading two months ago. Benchmarks gauging the risk of owning investment-grade corporate bonds in the U.S. and Europe had their worst day on record. **An ABX index tracking default risk on the safest subprime bonds fell to its lowest ever and premiums of mortgage securities guaranteed by government-chartered companies Fannie Mae and Freddie Mac rose to the highest in four years.**

**Tyco Quits Sale** Tyco Electronics, the Berwyn, Pennsylvania maker of electronic connectors, abandoned plans to sell \$1.5 billion of notes and DAE Aviation, an aviation repair company, postponed a sale of \$937 million of high-yield loans. "There's just a giant backlash right now," said Parham Behrooz, portfolio manager at Tattersall Advisory Group in Richmond, Virginia, who helps oversee \$18 billion of fixed- income assets. "Once the market gets into this kind of funk, **it's kind of impossible to price a deal because everyone's trying to reduce risk.**" The extra yield, or spread, investors demand to own investment-grade corporate bonds instead of U.S. Treasuries widened 13 basis points to 125 basis points yesterday, according to index data compiled by Merrill Lynch & Co. **The move was more than 50 times the average change in the index of 0.23 basis points.**

**Lehman Notes** Lehman Brothers Holdings Inc.'s \$2 billion of 6.5 percent subordinated notes due in 2017 fell about 1.5 cents to 97.2 cents on the dollar to yield

211 basis points more than similar- maturity Treasuries, according to Trace, the bond-price reporting system of the NASD. The notes were issued on July 12 at 99.8 cents on the dollar and a spread of 140 basis points. A basis point is 0.01 percentage point. Spreads on high-yield bonds rose 42 basis points to 413 basis points, the highest since June 2005, according to Merrill Lynch indexes. **Investors pulled money out of high-yield corporate bond funds for a seventh straight week**, Arcata, California-based AMG Data Services said today. Withdrawals accelerated to \$386 million in the week ended July 25, AMG said. The CDX North America Investment Grade Index, tracking the credit risk of 125 U.S. investment-grade companies, rose \$10,750 to \$67,500 in New York after reaching \$71,000, according to Deutsche Bank AG. Goldman, Bear Stearns **Credit-default swaps on \$10 million of Goldman bonds jumped \$12,000 to \$79,000 after reaching a record \$85,000, according to broker Phoenix Partners Group in New York. Bear Stearns credit swaps surged \$21,000 to \$102,000 after touching \$110,000. New York-based JPMorgan Chase & Co., which is helping finance both the Chrysler and Boots deals, rose \$15,000 to \$65,000. Lehman rose \$19,000 to \$99,000 after rising to \$104,000.** "Investors are less risk tolerant," said Camilla Petersen, an analyst at Atlantic Equities LLP in London who covers U.S. banks and securities firms. For the brokers, that means underwriting of leveraged loans and high-yield bonds may slow, she said. "It's not a credit issue right now, because corporations aren't defaulting on their debt. It's more of a volume issue." The CDX North America High-Yield Index, a gauge of U.S. junk-bond risk that falls as confidence erodes, declined 1.13 to 91.75, according to Phoenix. The price implies it costs about \$504,000 to protect \$10 million in junk bonds, up from \$471,000 yesterday, according to a JPMorgan pricing model. Implied prices earlier reached a record \$527,000. LDX, ABX The LCDX index, tied to the speculative-grade loans of 100 companies, dropped to its lowest since it started trading May 22, signaling an erosion of confidence in that market. It fell 1.4 to 93.2 after earlier dropping to 92.75, according to Goldman. ABX indexes plunged after reports showed delinquencies on some subprime mortgages accelerated in June. Some bonds linked to subprime mortgages lost at least half their value as defaults among the riskiest borrowers rise. The ABX-HE-BBB- 07-1 index, linked to 20 bonds with the lowest investment-grade ratings sold in the second half of 2006, fell 5.4 percent to 37.72, according Markit Group Ltd. Contracts linked to AAA rated bonds created in the deals fell 1.6 percent to about 92.97. The 10-year interest-rate swap spread, a gauge of what companies pay over benchmark lending rates, rose to 74.2 basis points, the highest since February 2002. **Global Bond Risk Premiums Soar as Investors Seek Safest Assets**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a2w5w029fvH8&refer=home>

- July 26 (Bloomberg) -- The risk of owning bonds of Wall Street firms soared and their stocks plunged as concerns escalated that investment banks will be hurt by losses from subprime mortgages and corporate debt. Credit-default swaps on \$10 million of Goldman Sachs Group Inc. bonds jumped as much as \$18,000 to a record \$85,000, according to broker Phoenix Partners Group in New York. Bear Stearns Cos. credit swaps surged as much as \$29,000 to \$110,000, also a new high. Lehman Brothers Holdings Inc. climbed as much as \$24,000 to \$104,000. Goldman shares declined as much as 4.7 percent, Bear Stearns fell 5.9 percent and Lehman dropped 5 percent. Risk premiums surged and stocks dropped after Absolute Capital Group Ltd., an Australian

hedge fund, suspended withdrawals from two funds after forecasting losses on U.S. subprime mortgages. **The credit swaps extended increases from yesterday when banks including Goldman were stuck with \$20 billion in loans they couldn't sell** to finance buyouts of Auburn Hills, Michigan-based automaker Chrysler and Europe's Alliance Boots Plc. An increase in the credit-default swaps, which are five-year contracts used to bet on the companies' creditworthiness, signals deterioration in investor confidence. Confidence Sapped That confidence has been sapped after slumping demand for high-yield, high-risk debt forced almost 40 companies to rework or abandon bond offerings in the past three weeks, leaving banks holding at least \$32 billion of risky debt on their own books. The decline threatens to bring an end to a record run for leveraged buyouts, which surged to a total \$690.4 billion of deals this year, spelling a slide in advisory and underwriting fees. The rising risk perceptions of brokers extended to stock indexes as well as those gauging the risk of owning everything from bank loans to subprime mortgages. `Less Tolerant' ``Investors are less risk tolerant," said Camilla Petersen, an analyst at Atlantic Equities LLP in London who covers U.S. banks and securities firms. For the brokers, that means underwriting of leveraged loans and high-yield bonds may slow, she said. ``It's not a credit issue right now, because corporations aren't defaulting on their debt. It's more of a volume issue." **Wall Street's Bond Risk Soars, Shares Plunge on Credit Concerns**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=a9dswSiAng8Y&refer=home>

- July 25 (Bloomberg) -- Kohlberg Kravis Roberts & Co.'s banks, led by Deutsche Bank AG, failed to sell 5 billion pounds (\$10 billion) of senior loans to fund the leveraged buyout of Alliance Boots Plc, two people with direct knowledge of the deal said. KKR's eight underwriters will offer higher interest rates to sell 1.75 billion pounds of junior loans, said the people who declined to be identified because the discussions are private. The banks will keep the senior loans on their balance sheets, the people said. The New York-based leveraged buyout firm led by Henry Kravis, which for the last five years benefited from falling interest costs, faces resistance as losses from record defaults on U.S. mortgages make investors wary. Chrysler, the unit of DaimlerChrysler AG, today abandoned plans to sell \$12 billion of loans to complete its purchase by Cerberus Capital Management, according to investors who were briefed on the decision. At least 35 companies postponed or restructured bonds and loans in the past five weeks as borrowing costs rose. ``It's certainly a bad signal to the market," said David Watts, a strategist in London at research firm CreditSights Inc. ``It not only makes private equity more reluctant to do deals but also the banks. Banks don't want to be stuck with the bridge loans. You're not going to want to stick your neck out." **KKR Banks Fail to Sell \$10 Billion of Boots Loans**

[http://www.bloomberg.com/apps/news?pid=20601087&sid=aQDYE\\_5ZT0Y4&refer=home](http://www.bloomberg.com/apps/news?pid=20601087&sid=aQDYE_5ZT0Y4&refer=home)

- July 25 (Bloomberg) -- Chrysler abandoned plans to sell \$12 billion of loans to complete its purchase by Cerberus Capital Management LP after investors balked at purchasing the high-yield, high-risk debt, according to investors who were briefed on the decision. The unit of DaimlerChrysler AG scrapped the sale of loans linked to its automotive business after failing to find demand, said the investors, who declined to be named because the terms aren't public. Banks led by JPMorgan Chase & Co. will assume \$10 billion of that

debt and Cerberus and DaimlerChrysler agreed to buy the remaining \$2 billion, the investors said. "The implications of this are simple; there remains a significant amount of risk aversion in the market," said Peter Plaut, an analyst at New York hedge fund Sanno Point Capital. **Chrysler, Facing Resistance, Abandons Loan Sale Plan**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=awDQzs2dinS0&refer=home>

## Commercial Real Estate

## Commodities

- To me, it is clear that gold is still in a bull market. All the signs are there... First, the fundamentals... Central banks around the world are pumping out paper money to ward off deflation and engage in competitive devaluations. Governments around the world are desperately trying to keep their currencies from appreciating too much, which would kill off exports. But all the currencies cannot become cheaper against all the other currencies. At best, it will be a race to see who can cheapen the quickest, with first one "winner" and then another. But the ultimate beneficiary will be gold. It is not easy to find and mine new gold, not nearly as easy as creating more money and credit. It is only a matter of time, I think, before gold really takes off. And right now, the long-awaited correction in metals is now clearly underway. After a huge run-up from May 2001 to May 2006 it was time for a rest. Markets are like human beings in one important way: They cannot sprint indefinitely. They need to rest from time to time. This is true for even the athletes among us in the best possible shape. Only you can decide how much of your total investments should be in the precious metals area. I would say at least 10% should be. But you must be comfortable with whatever percentage you choose. Not too small that you don't profit, but not so large that you panic along the way. That 10% (or whatever percentage is right for you) of your portfolio allocated to gold and silver, should emphasize the actual metals. Ideally, you should own a number of ounces in your own name at a safe bank. But if you cannot do this, then what I recommend you do instead is buy the **iShares Silver Trust (SLV)** and the **streetTRACKS Gold Shares (GLD)**. These two exchange-traded funds (ETFs) were created to track the spot prices of gold and silver, respectively. Other than holding actual gold and silver, these two ETFs are a good way to take a position in the metals, without having to take actual possession. You can buy these through any regular broker. **How to Profit From The Precious Metals Bull Market**  
**Editor's note:** Chris Weber is hands down one of the best investors we know. In over 35 years of investing, he has never had a losing year. Right now, Chris is recommending three ways to play the bull market in precious metals – as well as a savings account that yields double-digit returns annually. If you're interested, [click here](#) to get the details. [I think this article raises some interesting points. I include the "editor's note from the article (which is from a free daily newsletter), not as an endorsement but instead to give proper credit).

## Currency

- July 27 (Bloomberg) -- New Zealand and Australia's dollar had the steepest declines in almost five months against the yen as a drop in global stocks prompted investors to slash so-called carry trades. The currencies are favorites of the strategy as investors have reaped returns by buying the nations higher yielding assets with money borrowed cheaply in Japan. New Zealand's dollar dropped to a six-week low and Australia's to the least in almost a month versus Japan's currency after U.S. stocks fell the most since February and investors rushed to buy safer assets. "There is more downside to come for these two currencies," said Paul Milton, chief dealer at Societe Generale SA in Sydney. "The carry unwind needed some sort of trigger and equities brought that." New Zealand's dollar slumped 2.9 percent, the biggest fall since March 5, to 92.95 yen at 8:55 a.m. in Tokyo from 95.75 yen yesterday. It also dropped 1.7 percent to 78.25 U.S. cents from 79.60 cents, its third-straight daily slide since reaching 81.10 cents on July 24, the strongest since the currency started trading freely in March 1985. The Australian dollar fell 2.7 percent, also the most since March 5, to 103.46 yen from 106.36 yen late in Asia yesterday. It declined 1.2 percent to 87.40 U.S. cents from 88.42 cents after reaching 88.71 cents on July 25, the highest since February 1989. Relative Interest-Rates Japan's 0.5 percent overnight lending rate, the lowest of any major economy, compares with New Zealand's 8.25 percent and Australia's 6.25 percent benchmark rates. That's helped New Zealand's dollar advance 29 percent and Australia's 17 percent versus the yen over the past 12 months. The New Zealand dollar has dropped 5.6 percent against the yen since July 25, its biggest two-day slide since October 1998, erasing more than half the gains accrued by the annual rate differential with Japan. The Standard & Poor's 500 Index fell 2.3 percent, the most since February, while the FTSE 100's biggest drop in four years led losses across Europe. Futures contracts signal Asian equities will also drop. Government bonds of the two nations surged with the yield on Australia's benchmark 10-year note plunging 12 basis points, or 0.12 percentage point, to 6.02 percent. New Zealand's equivalent yield falling 11 basis points to 6.71 percent. Bond yields move inversely to prices. **New Zealand, Australian Dollars Plunge as Carry Trades Dumped**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a.v1KyRzD364&refer=home>

## Diversification

### Derivatives

- July 26 (Bloomberg) -- Absolute Capital Group Ltd., an Australian hedge fund that invests in collateralized debt obligations, suspended withdrawals from two of its funds after forecasting they may lose as much as 6 percent this month. The firm froze its Yield Strategies Fund and Yield Strategies Fund NZD, which together have about A\$200 million (\$177 million) in investments, according to a statement on its Web site. **Absolute Capital, which said it doesn't invest in the riskiest portion of CDOs, cited a "lack of liquidity in the market" for suspending withdrawals. It won't process requests to pull money out until Oct. 25. "We currently expect that towards the end of this time window, liquidity in the market may improve," the statement said. [on what facts to**

they base their assertion that things will get better. The reality is they misjudged liquidity already or would not be in this position. Only the beginning . . .] ``We have taken this proactive step as other managers, who have larger exposures, are unwinding positions in the market." Absolute Capital's funds have been hurt by a selloff across credit markets, triggered by concerns that CDO declines will mean losses for holders of even the least risky debt. Almost 40 companies have reworked or abandoned debt offerings in the past three weeks as investor interest dwindled. **The proportion of Absolute Capital's investments in devalued U.S. subprime mortgages, which have caused losses at hedge funds worldwide, is less than 5 percent, it said. [i.e. there are significant problems in other derivatives – this is not favorable despite what Bill might think]** Bill Entwistle, chief investment officer at Absolute Capital in Sydney, said 50 percent of the two funds is invested in the so-called ``mezzanine" portions of CDOs, which are typically assigned the second-highest non-investment grade rating of BB by ratings companies. These portions are usually second or third in line behind the riskiest equity tranches for losses when borrowers fall behind on mortgage payments. **Hedge Fund Absolute Capital Suspends Withdrawals After Losses**

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

- July 25 (Bloomberg) -- The risk of owning the bonds of JPMorgan Chase & Co. and Goldman Sachs Group Inc. jumped after the banks got stuck with \$10 billion of Chrysler loans that investors refused to buy. Credit-default swaps on \$10 million of JPMorgan bonds jumped \$7,000 to about \$50,000, according to broker Phoenix Partners Group. Goldman credit-default swaps surged almost \$6,000 to \$67,000, the highest since November 2002. An increase in the five-year contracts, used to bet on the companies' creditworthiness, signals deterioration in investor confidence. The banks failed to find buyers for the debt amid an investor pushback that has prompted almost 40 companies to rework or abandon debt offerings in the past three weeks. Chrysler needs the financing to complete its buyout by Cerberus Capital Management LP. ``The drying up of liquidity in the primary markets is a big scare as so many of these loans are necessarily risky and capital intensive and holding them on the books is expensive," said Tim Backshall, chief strategist at Credit Derivatives Research LLC in Walnut Creek, California. **JPMorgan, Goldman Bond Risk Rises as Chrysler Loan Sale Fails**

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aF9RCmvmn2to&refer=home>

## Housing

- July 26 New home sales in June 2007 were 834,000, down 6.6% from May and down 22.3% from one year ago. <http://www.economicindicators.gov>.
- July 26 (Bloomberg) -- Purchases of new homes in the U.S. dropped more than forecast in June, signaling no end to the real-estate slump that's weakened the economy. Sales fell 6.6 percent, the most since January, to an annual pace of 834,000 last month from a revised 893,000 rate the prior month that was less than previously estimated, the Commerce Department said today in Washington. Builders may have to cut prices even more and sweeten incentives to turn sales around and trim bloated inventories. **[Anyone who is buying a house now either has to have one or is clueless.]** Rising mortgage rates and stricter rules to qualify subprime borrowers with poor credit histories will extend the

worst housing slump in 16 years and continue to slow growth. Economists forecast new home sales would decline to an 890,000 annual pace from an originally reported 915,000 rate the prior month, according to the median estimate in a Bloomberg survey of 75 economists. Forecasts ranged from 850,000 to 925,000. [Think about this the next time you hear “the bottom is in” - these are experts in the field and all 75 overestimated the number by more than 10,000 houses. This is only beginning.] Sales of new homes were down 22 percent from the same time last year. The median price of a new home fell 2.2 percent to \$237,900 last month from \$243,200 a year earlier, the report showed. Purchases approached the seven-year low of 830,000 reached in March. Other reports today showed an unexpected decline in orders for durable goods excluding demand for Boeing CO. planes and a drop in first-time jobless claims. Durables Orders Drop Orders for durable goods excluding transportation equipment dropped 0.5 percent in June, the most since February, The Commerce Department reported earlier. A report from the Labor Department showed initial applications for unemployment benefits unexpectedly fell last week to 301,000, the lowest in two months. The yield on Treasury securities dropped after the reports and stocks fell. The yield on the benchmark 10-year Treasury note decreased to 4.84 percent at 10:20 a.m. in New York, from 4.90 percent late yesterday. The Dow Jones Industrial Average was down 100 points. Inventories of unsold homes were unchanged as purchases dropped, pushing up the months' supply. The number of homes for sale held at 537,000 during the month, and the supply of homes at the current sales rate rose to 7.8 months' worth, the most since March, from 7.4 months. The number of homes that are completed and waiting to be sold fell by 2,000 to 177,000. Regional Breakdown Purchases dropped in three of four regions. They fell 27 percent in the Northeast, 23 percent in the West and 17 percent in the Midwest. Sales rose 7.6 percent in the South. A report yesterday from the National Association of Realtors showed sales of previously owned homes fell 3.8 percent to an annual rate of 5.75 million, the slowest pace since November 2002. The supply of homes on the market at that sales pace held at 8.8 months, matching the highest since 1992. Economists consider sales of new homes a leading indicator of market demand because they are recorded when a contract is signed. Home resales are compiled mainly from closings that usually reflect contracts signed a month or two earlier. Purchases of new homes account for about 15 percent of total home sales and existing homes account for the rest. Other reports in recent days suggest continued weakness in housing. Building permits, which reflect builders' intentions, fell in June to the lowest level in a decade, the Commerce Department said last week. The decline overshadowed an unexpected increase in starts. Homebuilder confidence in July fell to the lowest in 16 years, an index from the National Association of Home Builders/Wells Fargo showed. A jump in mortgage rates is making borrowing more expensive even for those with good credit. The average rate on a 30-year fixed loan rose as high as 6.74 percent in mid-June, the highest since July 2006, according to figures from Freddie Mac, the No.2 buyer of U.S. mortgages. Builders and mortgage lenders are bracing for the downturn to last longer than previously forecast. Countrywide Financial Corp., the biggest U.S. mortgage lender, on July 24 reported a third straight quarterly earnings decline and reduced its 2007 forecast. Chief Executive Officer Angelo Mozilo said he expects “difficult housing and mortgage market conditions to persist” through the end of this year. Smaller Headwind Still, the drag on the economy should lessen in coming quarters after residential construction subtracted

0.9 percentage point in the first quarter and 1.2 percentage points in the second half of 2006, economists say. "Declines in residential construction will likely continue to weigh on economic growth over coming quarters, although the magnitude of the drag on growth should diminish over time," Federal Reserve Chairman Ben S. Bernanke last week said in congressional testimony. The housing slump is also squeezing sales at housing-related merchants. Home Depot Inc., the world's largest home-improvement retailer, on July 10 said it may post its first revenue decline ever this year. "No news is coming to our attention that is giving us any comfort that there'll be a recovery this year," Chief Financial Officer Carol Tome said in a statement, adding that the market would "remain challenging for the rest of 2007 and into 2008." **U.S. New-Home Sales Decreased 6.6% to an 834,000 Pace (Update2)**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a3eVO7GspHtU&refer=home>

- July 26 (Bloomberg) -- Beazer Homes USA Inc., the homebuilder under investigation by the FBI and securities regulators, posted a third-quarter loss on costs for lowering the value of its inventory and scrapping contracts to buy land. The loss in the three months ended June 30 was \$123 million, or \$3.20 a share, compared with net income of \$102.6 million, or \$2.37, a year earlier. Revenue declined 37 percent to \$761 million, the Atlanta-based company said today in a statement. Weak demand amid a glut of unsold houses is causing homebuilders to report profit declines and losses. Stricter lending standards because of the subprime mortgage crisis and higher interest rates have cut sales. Investigations of the company's mortgage operations have also hurt Beazer's share price. **Beazer Homes Reports Third-Quarter Loss on Inventory Writedowns**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a07B9MYLYUnc&refer=home>
- July 25 (Bloomberg) -- Sales of existing homes in the U.S. fell more than forecast last month, a sign that residential real estate remains mired in its worst recession in 16 years. Purchases declined 3.8 percent to an annual rate of 5.75 million, the slowest pace since November 2002, from a revised 5.98 million in May, the National Association of Realtors said today in Washington. At the same time, the supply of homes for sale dropped for the first time this year and the median price rose for the first time in 11 months. **U.S. Economy: Home Sales Decline More Than Forecast**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a8IaXBwTrMmg&refer=home>

## Housing Finance

- NEW YORK, July 29 (Reuters) - American Home Mortgage Investment Corp. (AHM.N: [Quote](#), [Profile](#), [Research](#)) said its banks are demanding it put up more cash after the mortgage lender wrote down the value of its loan and security portfolios significantly. The company said in a statement released late Friday that as a result of the margin calls from lenders, it has delayed paying dividends on its common stock, and plans to delay payments on its preferred shares. The margin calls could create big difficulty for American Home Mortgage, which relies on short-term bank financing to temporarily

fund home loans it makes. Rising mortgage rates and defaults have hurt mortgage lenders this year. More than 50 lenders have filed for bankruptcy or sold themselves. The hardest hit lenders focused on borrowers with weaker credit ratings than American Home Mortgage's average borrower. If American Home Mortgage does not have cash on hand to meet its banks' demands, it may have to sell assets, find new financing, or restructure its debt. If it were unable to satisfy its lenders, in the worst-case scenario it would have to file for bankruptcy. On July 19, rumors that a bank had withdrawn one of American Home Mortgage's credit facilities pushed the company's shares 20 percent lower. American Home Mortgage told analysts that rumor was false. American Home Mortgage had \$4.01 billion of borrowings outstanding under its warehouse lines of credit as of March 31, and total liabilities of \$19.3 billion, according to its regular first-quarter filing with regulators. The company's assets had a total book value of \$20.553 billion. American Home Mortgage focused on prime and "near prime" borrowers, which had higher credit ratings than the subprime borrowers whose default levels have jumped. But many of American Home Mortgage's customers provided little documentation, creating more risk for the company. **QUARTERLY LOSS EXPECTED** The company said in late June that it would likely post a second-quarter loss after suffering credit losses from a type of loan it stopped making. It withdrew its earnings outlook for 2007, but said it expected losses to be contained. The company also said it sold \$125 million of convertible securities to Marathon Asset Management LLC. American Home Mortgage relies on short-term financing from banks to fund mortgage loans, and then bundles those loans into bonds it sells to investors. Proceeds from the bond sales pay back the banks, allowing the company to make new mortgage loans. American Home Mortgage's shares closed on Friday at \$10.47, their lowest level since April 2003. Melville, New York-based American Home Mortgage said delaying paying dividends will allow the company to keep cash on hand until it better understands the impact of market conditions on its balance sheet and liquidity. **American Home Mortgage says faces margin calls**  
<http://www.reuters.com/article/marketsNews/idUKN2934026720070729?rpc=44&pageNumber=2>

- MELVILLE, N.Y.--(BUSINESS WIRE)--July 28, 2007 American Home Mortgage Investment Corp. (NYSE: AHM) announced today that its Board of Directors has decided to delay payment of its quarterly cash dividend on the Company's common stock and anticipates delaying payment of its quarterly cash dividends on its Series A Cumulative Redeemable Preferred Stock and Series B Cumulative Redeemable Preferred Stock in order to preserve liquidity until it obtains a better understanding of the impact that current market conditions in the mortgage industry and the broader credit market will have on the Company's balance sheet and overall liquidity. The disruption in the credit markets in the past few weeks has been unprecedented in the Company's experience and has caused major write-downs of its loan and security portfolios and consequently has caused significant margin calls with respect to its credit facilities. The quarterly cash dividend of \$0.70 per share on the Company's common stock had been declared on June 15, 2007 and was to be paid on July 27, 2007 to all shareholders of record as of July 9, 2007. The Series A Preferred Stock dividend and Series B Preferred Stock dividend had been declared on June 15, 2007 and are payable on July 31, 2007, to shareholders of record as of July 9, 2007. **American Home Mortgage Investment Corp. Delays Payment of Quarterly Dividends**

<http://www.bloomberg.com/apps/news?pid=conewsstory&refer=conews&tkr=AHM:US&sid=atwgUUTe5mms>

- July 27 (Bloomberg) -- U.S. homeowners with adjustable-rate loans will add about \$26 billion in mortgage payments through the end of next year, exacerbating problems in the subprime-lending industry, according to Barclays Capital. Homeowners with about \$820 billion of adjustable-rate home loans will start paying more from next month to the end of 2008, with the riskiest borrowers accounting for 54 percent of the debt, New York-based analysts led by Ajay Rajadhyaksha wrote in a research report yesterday.  
**Rising Mortgage Payments to Worsen Subprime Woes, Barclays Says**  
<http://www.bloomberg.com/apps/news?pid=20601206&sid=aTx1e72BOWWo&refer=realestate>
- July 26 Another one bites the dust. The second largest mortgage lender, **Wells Fargo** (WFC), is shuttering its subprime mortgage unit. The move comes after the biggest independent lender, **Countrywide Financial** (CFC), warned that defaults and delinquencies were creeping beyond subprime into its supposedly better-quality loans. San Francisco-based Wells said it will shut down its Baton Rouge, La., and Des Moines, Iowa, subprime shops. **"We believe continued turmoil in subprime in the non-prime sector will result in financial returns in our non-prime wholesale channel that are not commensurate with the risks inherent in this business,"** said the company, in a statement issued to mortgage brokers. "Investor appetite for the product was different so the returns had started to become diminished," comments Michael Lepore, executive v.p. of institutional lending at Wells Fargo's home mortgage unit. The mortgage executive explained that the entire subprime industry overall has seen pricing levels paid by investors in subprime fall by 50%. **"We felt there was no immediate end in sight,"** he adds. "We have not downsized this channel, we have shut it down," Lepore says. He declined to speculate on whether the bank would return to providing an exclusive subprime lending platform in the future. **Wells Dumps Subprime Unit**  
<http://www.thestreet.com/pf/newsanalysis/banking/10370488.html>

## Macro Economic

- July 26 (Bloomberg) -- Orders for U.S. durable goods excluding transportation equipment unexpectedly dropped in June for a second month, casting doubt on forecasts that gains in business investment will help sustain the expansion. Excluding transportation equipment, demand for goods meant to last several years fell 0.5 percent, after a revised 0.2 percent decrease in May, the Commerce Department said today in Washington. Total bookings rose 1.4 percent, led by a jump in orders for commercial aircraft. Companies may be pulling back as consumer spending slows, offsetting record overseas demand for American goods. Federal Reserve policy makers have said a lack of business investment is a risk for an economy already depressed by the biggest housing slump in 16 years. "Consumer spending is shifting into lower gear," Carl Riccadonna, an economist at Deutsche Bank Securities Inc. in New York, said before the report. "In that environment, this rebound in production could be relatively short-lived." **U.S. June Ex-Transportation Durables Orders Drop**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=azHrqiaEjv84&refer=home>

### 3. Beige Book

The [Federal Reserve's Beige Book](#) significantly downgraded the assessment of US consumer spending yesterday. Why? Rising costs in things such as food and energy.

- The Beige Book, which is the Fed's survey of regional economies, painted an overall picture of the U.S. economy as continuing to expand with strong employment but "ongoing cost pressures."
- The report noted that that high food and energy prices are restraining consumer spending and that sales of housing-related items such as furniture are "weak or declining" (for more on that see today's Number 4).
- "New York, Atlanta, Kansas City, and Dallas reported sales as flat and/or below expectations."
- For comparison's sake, a little more than a month ago the Beige Book report indicated that in Cleveland, Atlanta, Kansas City, and Dallas sales were "disappointing or below expectations."
- Last month too the Beige Book highlighted the discrepancy between positive retail sales in luxury items versus low-end items.
- Finally, one additional item to note in this report:
- "Household credit quality deteriorated marginally, while business credit quality remained mostly favorable."
- Meanwhile, this morning, as we were typing that last sentence, the following news alert scrolled across our Bloomberg: "Stocks fell around the world and US Treasuries rallied on concern higher borrowing costs will slow takeovers, spur debt defaults and curb earnings."
- Oops. So much for "favorable" business credit quality.

### 4. Housing Weakness Well Contained to Newspapers, Home Improvement Retailers, Japanese Securities Firms

Does this spell the end of the "well contained" mantra?

- The slump in the US housing market is taking a toll on the newspaper industry, the [Financial Times](#) observed this morning.
- Two publishers yesterday reported weak earnings that they say were pressured by sharp drops in real estate advertising.
- Tribune (TRB) reported a 24% year-over-year drop in real estate advertising for the second quarter.
- The New York Times Company (NYT) said real estate advertising fell 20.9% year-over-year for the quarter, contributing to a broader 5.7% slide in the company's advertising revenue.
- The FT notes that back in the good old days the housing market had been "a rare bright spot for US newspapers."
- Last year many papers posted gains in their real estate classified ads of 20% or more.

- Meanwhile, **Black and Decker** (BDK) reported sales were about flat for the second quarter, held back by a 2% decrease in sales of power tools and accessories, as well as a 3% decrease in sales in the hardware and home improvement segment... you know, areas most affected by the housing market.
- "Looking ahead, we expect that the weak U.S. housing industry and significant commodity inflation will continue to adversely affect our earnings comparisons," Chairman and CEO Nolan Archibald said.
- And according to the **Financial Times**, **Nomura**, Japan's largest broker, yesterday said it was considering withdrawing from the US residential mortgage-backed securities (RMBS) market due to substantial losses related to subprime mortgages
- 
- <http://www.minyanville.com/articles/Homes-goods-japan-BDK-XOM/index/a/13469>

## Retail

### Retirement

- A recent survey of people with retirement plans, covering a wide range of ages, revealed a significant drop in confidence in the soundness of their retirement strategies and lack of confidence in their financial future in general. The survey was conducted by Spectrem Group, a Chicago-based research and consulting organization specializing in affluent and retirement markets, and compared financial confidence in May and last January. The results showed a significant drop in only five months.

Those surveyed were asked if they expected their personal financial situation to be better one year from the time the survey was taken. In January, 77% felt their finances would improve. By May that number had dropped significantly to 53%. The decrease was most significant in the over-50 age group, with a decline from 68% in January to 48% in May.

At the same time, the survey indicates the number of people who feel they have a sound retirement investment policy also is declining. In January 2006, only 43% believed they had a sound retirement policy. That meager percentage dropped to 39% a year later in January 2007, and further declined to 31% in May. Those with larger retirement accounts felt somewhat more confident in their investment strategy than those with smaller accounts of less than \$100,000.

The pessimistic attitude is blamed in part on rising gasoline prices, the slow job-growth rate that is at its lowest level in three years, and all-time high personal debt levels, according to the Spectrem report.

“Advisors should treat these numbers as a warning flag alerting them to talk to their clients,” said Spectrem director Gerry O'Connor. [from an email I receive]

## Risk

## Savings Rate

## Tech

- July 27 (Bloomberg) -- Chartered Semiconductor Manufacturing Ltd., the world's third-biggest customized-chip maker, posted its first loss in seven quarters on price declines and tax expenses. The shares fell as much as 5.6 percent. The second-quarter net loss was \$24.7 million, or 11 cents per American depositary share, compared with profit of \$12.9 million, or 4 cents, a year earlier, Singapore-based Chartered said today. The loss, which included a \$28.5 million tax expense, was wider than company and analyst estimates. Sales fell 11 percent to \$324.3 million. Chartered forecast a loss of as much as \$5 million this quarter on weaker demand from computer customers. Advanced Micro Devices Inc., a Chartered client and the world's second-biggest maker of computer processors, posted a loss on July 19, and industry leader Taiwan Semiconductor Manufacturing Co. said profit slid as demand eased from handset makers. "Their biggest customer is not doing very well," said Patrick Yau, a Macquarie Securities Ltd. analyst in Singapore, referring to Advanced Micro. Chartered's "adoption of advanced technology is being delayed" partly because customers are holding back orders, said Yau, who has an "outperform" rating on the stock. The company, which also makes chips used in Apple Inc.'s video iPods and Microsoft Corp.'s Xbox 360 game console, was expected to earn net income of \$2 million, according to the median estimate of five analysts Bloomberg surveyed. Estimates ranged from a loss of \$2.9 million to profit of \$4.4 million.

### **Chartered Has First Loss in Seven Quarters on Prices**

<http://www.bloomberg.com/apps/news?pid=20601204&sid=an0H.XdX36.8&refer=technology>

- July 27 (Bloomberg) -- Intel Corp., the world's biggest chipmaker, broke antitrust laws by giving illegal rebates to computer makers to wrest sales away from rival Advanced Micro Devices Inc., European regulators said. The European Commission is bringing a formal case against Intel. A statement of objections, or an official charge sheet, was sent yesterday, said Ton Van Lierop, a spokesman for the commission, the European Union's antitrust regulator in Brussels. The decision to file charges follows a six-year probe into alleged illegal discounts to personal-computer makers. Intel, based in Santa Clara, California, dominated sales with about 80 percent market share until last year. Advanced Micro came back with newer chips and won over customers, and Intel ended 2006 with its share at an 11-year low. **Intel Broke Antitrust Laws in Advanced Micro Fight, EU Says**  
<http://www.bloomberg.com/apps/news?pid=20601204&refer=technology&sid=aG4iaUIFyaRg>

## Wall Street

- July 27 (Bloomberg) -- The evaporation of funds for financing takeovers in the past week signals leveraged buyouts have peaked and U.S. stocks were overvalued, Marc Faber said. "The LBO was a function of loose monetary policies and excessive credit growth, an environment where borrowing was very easy," said Faber, managing director of Marc Faber Ltd. and publisher of The Gloom, Boom & Doom Report. "The LBO bubble has dispersed. The peak of the LBO boom has been reached. It was long overdue that the market would go down." The \$1.51 trillion of U.S. mergers and acquisitions this year fueled the Standard & Poor's 500 Index's rally. The Dow Jones Industrial Average and S&P 500, which rose to records last week, fell the most since February yesterday on concern higher borrowing costs will slow mergers and spur defaults. Funds for leveraged buyouts are drying up, Richard Bernstein, Merrill Lynch & Co.'s chief investment strategist, wrote in a report yesterday. Narrow credit spreads made it too easy to finance takeovers using debt, said Leon Cooperman, Chief Executive Officer of Omega Advisors Inc., a \$6 billion hedge fund. "It wasn't that stocks were overvalued -- it's that bonds were overvalued and credit spreads were too tight, encouraging this enormous substitution of debt for equity," he said in a phone interview. "Wall Street Event" "From everything we can tell right now, we think it's a Wall Street event. We think Wall Street got too greedy, and they're getting themselves adjusted here. That's our expectation. The risk, to our view, is the problems on Wall Street spread into Main Street." LBOs, where buyers typically use debt backed by a target's assets to finance purchases, were the engine behind the S&P 500's largest second-quarter gain since 2003. The index rose 5.8 percent as M&A increased 77 percent from a year earlier to about \$782.6 billion, according to data compiled by Bloomberg. Investors are showing less willingness to finance deals. Two days ago, Daimler Chrysler AG's Chrysler unit and Alliance Boots Plc, the U.K.'s biggest pharmacy chain, failed to find investors for \$20 billion of loans. Faber told investors to bail out of U.S. stocks a week before the 1987 Black Monday crash, according to his Web site. A Zurich native who learned English while picking potatoes in the U.K. countryside at the age of 13, Faber started his own firm in 1990. He correctly predicted in May 2005 that stocks would make little headway that year. The S&P 500 gained 3 percent that year, the smallest annual rise since 1987. He also told investors to buy gold in 2001, before it more than doubled. **Stocks Drop Revealed Peak of 'LBO Boom,' Faber Says**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aeKT5Afm6k0o&refer=home>
- July 26 (Bloomberg) -- Bear Stearns Cos. seized securities from one of its failed hedge funds to control their sale as prices plummet amid a flight by investors from risky assets. Taking the securities will allow Bear Stearns to establish hedges to "protect against future price declines," a spokesman, Russell Sherman, said today in an interview. The New York-based firm will continue an "orderly liquidation" of the High-Grade Structured Credit Strategies Fund, he said. Bear Stearns last month assumed the fund's debt, then valued at \$1.6 billion, after creditors seized assets from a sister fund that also bet on collateralized debt obligations. Prices for CDOs, which repackage bonds, loans and derivatives into new securities, have tumbled as rising defaults on home mortgages decreased investor appetite for risk. The fallout spread today, as stocks fell worldwide.

“It's a bloodbath in the markets, so it's tough to tell whether things will recover,” said Erin Archer, an analyst at Minneapolis-based Thrivent Financial for Lutherans, which owns about 200,000 Bear Stearns shares. **“It's no longer a Bear Stearns problem but a market problem.”** The Dow Jones Industrial Average and the Standard & Poor's 500 Index fell the most since February, while the FTSE 100's biggest drop in four years led declines across Europe. Benchmark stock indexes in Argentina, Brazil, Mexico, Turkey and Sweden sank more than 3 percent. ‘Unprecedented Decline’ Bear Stearns told investors in the two hedge funds last week that they'll get little if any money after “unprecedented declines” in the value of securities used to bet on subprime mortgages, or loans to homebuyers with the weakest credit. The firm has said it expects to lose no money from the debt it assumed from the High-Grade Structured Credit Strategies Fund. “We don't anticipate any material change in financial exposure to Bear Stearns as a result of this action,” Sherman said. He said the debt Bear Stearns took over from the fund last month is now valued at \$1.3 billion. Shares of Bear Stearns have lost 24 percent this year on concern the troubles in the mortgage market will hurt earnings. The firm was the largest U.S. underwriter of mortgage-backed bonds in the last two years. It dropped to No. 2 this year, behind Lehman Brothers Holdings Inc. Shares of Lehman have dropped 17 percent. \$4 Billion Liquidation The two Bear Stearns funds had hedged their CDO bets using derivatives. When the hedges and the securities declined at the same time, the funds lost as much as 20 percent of their value, prompting clients to demand their money back and spurring creditors to seek more collateral. That forced the funds to liquidate at least \$4 billion of securities in June. Lenders including Merrill Lynch & Co. seized assets when their margin calls weren't met. Merrill eventually sold a portion of the \$850 million of securities it took from the funds. Bear Stearns will probably lose its own \$34 million investment in the funds, as well as \$43 million of unsecured loans it made to them. The firm will also forego about \$30 million in management fees it would otherwise collect annually, at the typical 2 percent rate for hedge funds. Last month, Bear Stearns ousted the head of its asset- management unit, Richard Marin, replacing him with Lehman Vice Chairman Jeffrey Lane, who has four decades on Wall Street. The firm also assigned its top mortgage trader, 45-year-old Tom Marano, to get the best prices for the funds' remaining assets. **Bear Stearns Seizes Assets From Failed Hedge Fund**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=a2rP8XvO7WV4&refer=home>

- Investors who bought shares in **The Blackstone Group’s** initial public offering are feeling “swindled,” *The New York Post* reports, and want CEO **Stephen Schwarzman** to do “something soon to boost the buyout giant’s beaten down stock.” But if they have anyone to blame for their unhappiness, it’s themselves, says **Daniel Primack** of *PE Week*. Analyzing the situation, Primack says the crux of the problem is that buyers just “don’t understand the difference between shares in a listed private equity firm and LP interests in a private equity fund.” Primack notes that Blackstone offered “a long-term growth play that some institutions misread as an immediate bonanza.” Further, investors seeking “restitution” for their disappointment by means of boosting short-term stock price, he says, “would be a further reflection of public market ignorance.” And to do so, says Primack “could be a betrayal of Blackstone’s limited partners who are in this for the long haul.” He concludes, “Someone forgot to remind public buyers of the J-curve. Smart

investors wouldn't have bought Blackstone –they would have bought Hilton two weeks earlier...I doubt too many LPs care that Blackstone's stock was down at \$26 a share...After all, they did their diligence.” [a perfect example of the big guys making lots of money and then handing the ticking time bomb off the little guys - *"There's a sucker born every minute...and two to take 'em."* The source of the quote is most likely famous con-man Joseph ("Paper Collar Joe") Bessimer.] **Blackstone IPO Investors: "We Wuz Robbed**

<http://www.institutionalinvestor.com/Article.aspx?ArticleID=1396877&LS=EMS135480>

## I Disagree . . . and why

- [It is always a “buying opportunity”. This is a wonderful example of the misapplication of historical data to an extremely volatile forward environment. The pundits claim that stocks are “the cheapest in 16 years, not only simply looks at a trailing PE number; it fails to offer an explanation as to why the equities may be cheap. It then offers the standard disclaimers such as “if bond losses don't worsen.” One can rest assured that no one knows for sure if bond losses will worsen but a strategy that requires success only if they do not is a risky strategy indeed.] July 30 (Bloomberg) -- Investors are preparing to snap up shares of telephone, health-care and computer companies after last week's \$2.1 trillion global stock market rout left U.S. equities the cheapest in 16 years. [“Cheap on a trailing PE basis. Not remotely cheap in a risk reward forward looking strategy. Further the inflated PEs are based largely on cost cutting and stock buy backs financed by cheap credit and not revenue growth or capital investment.”] “The window for buying is starting to open,” said D.A. Davidson & Co. chief market strategist Frederic Dickson, who oversees \$23 billion. His Great Falls, Montana-based firm plans to buy drug and technology stocks as long as bond market losses don't worsen. [How in the world would this dope know if bond losses will worsen before he buys stock. His strategy is in fact to buy stock and hope bond losses do not worsen.] D.A. Davidson, LPL Financial Services and Credit Suisse Group, which manage a total of \$771 billion, are bullish after the biggest decline in the Standard & Poor's 500 Index since September 2002. The benchmark for American equity is valued at 15.4 times estimated profit, the lowest since January 1991, according to data compiled by Bloomberg. [see prior – in addition this PE is very high by historical measures and will drop significantly if there is a severe recession] Only 33 companies in the S&P 500 gained and the index slumped to a 3 1/2-month low last week. The index plunged 4.9 percent on concern mortgage defaults caused by the steepest U.S. housing slump in 16 years will reduce corporate loans and end the boom in leveraged buyouts that pushed the measure to a record high earlier this month. [Yes it did. How many of these “experts” said a week ago – watch out for a major drop. My guess is not one and all of them were advocates of loading up the wagon last week at the much higher prices] Profit Growth Earnings among the 313 members of the S&P 500 that reported second-quarter results rose 9.7 percent, twice the average analyst estimate on July 13. Average profit among S&P 500 members is forecast to rise 9 percent this year and 11 percent in 2008, according to analysts surveyed by Bloomberg. They estimate phone companies will grow this year by 27.8 percent, health care by 15.8 percent and technology by 10.5 percent. [How much of that “growth” was balance sheet inflating versus real sales? How much accounting manipulation? How much changing tax rates? How much due to stock buy backs initiated through cash flow from increased

debt? What role did increased leverage play? How much riskier are those "earnings"? We will see, and IMO the answers to the foregoing would not be ones that in retrospect would make an intelligent investor want to "open the buying window"] "The fundamentals in my opinion are quite strong," said Lincoln Anderson, who helps manage \$150 billion as chief investment officer of LPL Financial in Boston. "The second-half earnings outlook is pretty doggone good. I look at this period as more of a buying opportunity." Worst Performers Technology shares gained 8.1 percent from 2005 through 2006, the least among 10 industry groups in the S&P 500. They have climbed 9.7 percent this year. Rising defaults in the housing industry prompted Kevin Caron, who helps oversee \$20 billion as market strategist for Ryan Beck & Co. in Florham Park, New Jersey, to be "defensive" and keep 35 percent of his clients' assets in cash. The ABX-HE-BBB-06-1 index, which measures bonds backed by mortgages with the lowest investment-grade ratings, fell more than 60 percent this year, according to London-based Markit Group Inc., which oversees the index. Banks may slow lending for debt-fueled acquisitions after they were unable to find investors for 5 billion pounds (\$10.1 billion) of loans they provided to finance Kohlberg Kravis Roberts & Co.'s purchase of U.K.-based pharmacy chain Alliance Boots Plc. **Philipp Vorndran, who manages \$598 billion as investment strategist at Credit Suisse Asset Management in Frankfurt, said subprime defaults won't spread to higher-rated debt and predicted credit markets will stabilize. [it already has happened, AHM will be in bankruptcy in short order and CFC said it is having problems in PRIME. How do people like this get in positions to manage \$598 billion. One thing we can be sure is that he will be managing a much smaller sum this time next year if he still has a job]** "There is a good opportunity to move back to a bullish equity position in a month," [nice call September and October are traditionally the worst times to own equities. Thanks for being a hero Phil] Vorndran said. "The stability of financial markets is not at risk." **Cheapest Stocks in 16 Years Entice Investors Amid Market Rout**  
<http://www.bloomberg.com/apps/news?pid=20601087&sid=aKzU06IS2uRU&refer=home>

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Article of the week:

**UM EMBA**