



BULLS & BEARS

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HEADLINES

- Dow closes at 6-year low, Gold near record high
- Banks pounded after nationalization fears
- Consumer prices edge higher
- US sues UBS to disclose secret accounts
- Obama announces \$75B mortgage rescue plan, disappoints markets

FINANCIAL MARKETS

DOW	7,365.67, -7.15%
NASDAQ	1,441.23, -6.52%
S&P 500	770.05, -7.80%
OIL	\$38.94, -\$2.34
10 YR	99 20/32 2, -10/32
EURO	\$1.2833

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MARKET SUMMARY

Monday 02/16/09

Markets Closed - President's Day

Tuesday 02/17/09

Stocks extended the previous week's gruesome performance, with the major market indices plummeting right out of the gate this morning. Investors were dismayed by the New York Fed's latest Empire State Manufacturing index, which fell to a record low of negative 34.7 in February from January's reading of negative 22.2. Within the report, 51% of respondents noted that business conditions worsened. Elsewhere, auto anxiety also weighed on traders' minds, with General Motors Corporation and Chrysler scheduled to submit their survival plans to the Treasury Department after the market's close. Against this backdrop, the Dow found itself on a quick trip back to its late-November lows, and closed nearly 300 points in the red.

Wednesday 02/18/09

The equities market seesawed between positive and negative territory today, as investors digested a glut of news from Capitol Hill. Most notably, the Street sorted through President Obama's \$75 billion plan to stabilize the housing market, which is expected to help roughly 9 million "at risk" homeowners refinance or modify their mortgages. Coincidentally, the details of the highly anticipated proposal came on the heels of the Commerce Department's latest report, which indicated that construction on new housing units plunged to a record low in January. The Dow ended the day closing with hardly any change, as it recovered most of its earlier losses by day's end.

Thursday 02/19/09

Stocks started the day on a positive note, as an onslaught of downbeat news failed to truly rattle investors. On the economic front, the number of U.S. workers filing for unemployment last week remained stuck near record highs, while the Philly Fed Index plummeted to an 18-year low of negative 41.3. Meanwhile, in earnings news, Hewlett-Packard was pummeled with price-target cuts after slashing its full-year forecast. The Dow closed 90 points lower, and broke the crucial 7500 level which market the November low's.

Friday 02/20/09

Right out of the gate this morning, the equities market resumed yesterday's path lower, shrugging off news that inflation remained subdued in January. Financial issues acted the leaders into lower territory, as the Street shuddered amid chatter regarding the nationalization of privately held banks to rescue the sector. However, government officials stepped in to curb the escalating fear, with White House spokesman Robert Gibbs reiterating the Obama administration's belief that "a privately held banking system is the correct way to go." By the closing bell, the major market indices pared a good portion of their losses, but the Dow still closed 100 points lower.

THE WEEK IN QUOTES

"They were once givers, and now they're having to ask for assistance."

-Brenda Beavers, human-services director for the New Jersey Salvation Army, on the increase in people having to utilize the group's food pantries as a result of the recession

"Nobody is flying on Ryanair because it is a bastion of solitude where you can contemplate life."

-Michael O'Leary, CEO of Ryanair, defending the airline's decision to let travelers make and receive cell-phone calls at rates of two to three euros per minute

"The Swiss are saying that this is the end of Swiss banking as they knew it."

-Jack Blum, a specialist in offshore banking, on the decision of UBS to reveal the names of Americans who may have used the Swiss bank to avoid paying income tax

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Profiles: Advice Brokers *By Daniel Sholler, University of Pennsylvania*



Jim Cramer

Behind the ardent and eccentric television personality's antics, Jim Cramer's abundance of financial knowledge and experience serve as both practical advice and impulsive inspiration for his viewers and readers. A controversial character since his time at Harvard in the mid-1970s, Cramer has made his own agenda throughout his career. His success has been contingent upon the synthesis of his roles as a journalist, television host, and former hedge fund manager. Cramer's contributions to modern finance go well beyond the opinions rendered as host of CNBC's *Mad Money*.

Before Cramer entertained millions with his outlandish stock market advice and criticism and introduced some of the economy's most innovative businesses on television, he honed his financial knowledge amongst Wall Street's finest. Following a largely successful stint as a broker at Goldman Sachs, Cramer founded his own hedge fund group in 1987. He retired after a very lucrative hedge fund career in 2001. During his time with the hedge fund, he co-founded *TheStreet.com*, a financial advising site that he still holds considerable stake in. He recently began *MainStreet.com*, offering a crash course in stocks for the average citizen. In addition, he serves as the manager of a charitable trust portfolio.

Cramer's extensive experience in the financial world in tandem with his entertainment value provides a unique perspective on the current crisis and other economic issues. He frequently criticizes the world's most respected and successful finance geniuses, recently adding Warren Buffett to the list. Viewers and readers can expect a candid and honest opinion from Cramer, who finds himself at the center of considerable controversy on a regular basis. His apparent disinterest in anything conventional has led him into several positions and he continues to expand his repertoire of exploits and accomplishments. Despite the constant criticism he receives, Cramer's advice is almost always geared towards the working class American.



John C. Hull

Perhaps the greatest influence on the markets and the development of the economy as a whole rests with the academic leaders in business and finance. John C. Hull has maintained a considerable impact on global education in finance. Any upper-level business or finance student can expect to encounter Hull's most notable works, including "Options, Futures, and Other Derivatives" and "Fundamentals of Futures and Options Markets."

Hull is well versed in his fields of study. Prior to obtaining his current position as Professor of Derivatives and Risk Management at the Rotman School of Management at the University of Toronto, he became prominent in research and academia. He specializes in quantitative finance, as he studied mathematics at Cambridge University and holds an M.A. in Operational Research from Lancaster University in addition to a Ph.D. in finance from Cranfield University. After working with Alan White in 1990 to develop the Hull-White model for future interest rates, he obtained editorship of various financial journals. He still holds positions at the *Journal of Derivatives*, the *Review of Derivatives Research*, the *Journal of Derivatives Use*, and the *Journal of Credit Risk* among others. The awards he has received include the Financial Engineer of the Year Award from the International Association of Financial Engineers in 1999. In 2001, he was appointed Chairman of the Moody's Academic Advisory Committee. He holds several awards for teaching and research, the most recent coming in 2008 when the Professional Risk Managers International Association (PRMIA) made him the first honoree in its History Makers series.

Hull's contributions to the financial world are immeasurable due to the breadth of his research and teaching. Individuals like Hull are invaluable to the advancement of the global economy. They provide the very basis for financial growth, as they educate future leaders of the economy. Hull not only has developed new ideas and information, but has innovated the way in which it is delivered to the financial world and its young minds.

THE GREAT DEPRESSION AND TODAY: WHAT CAN BE LEARNED? *By Daniel Sholler, University of Pennsylvania*

In seeking answers to contemporary problems, historians and politicians alike often look towards the past situations to both learn from mistakes and recreate successful solutions. As a new administration enters its second month in office, it is worthwhile to compare its plans and ideas for solving the current economic crisis with those of Great Depression-era legislators. In doing so, we must also evaluate the similarities and differences between the causes and consequences of the two crises.

The first step in analyzing the comparisons is to examine the environment prior to each economic decline. What we see are very similar mistakes in markets and ideology that resulted in a few key root causes.

The major similarity between the markets in the 1920s and those of the 1990s and early 2000s is the asset bubble, in which securities were traded in large amounts for prices varying from their true value. In the 1920s, real collateral had a lesser value due to this bubble variance and led to non-transparency, very similar to what was seen in the real estate market of the late 1990s and early 2000s.

Another noteworthy comparison can be drawn between the “Investment Pools” of the 1920s and 30s and the emergence of securitization and Hedge Funds of the current era. Dr. Krassimir Petrov notes that while Depression-era non-transparency was an indirect result of similar securitization and lack of sufficient regulation, financial institutions of today intentionally created today’s non-transparency. While the idea of “financial engineering,” as he puts it, existed in the 1920s and 30s, recent manipulation of the markets is far worse.

Drawing the comparisons between pre-crisis market conditions allows us to assess the ensuing difficulties and compare responses. One of the most dangerous and harrowing aspects of the Depression was the credit market, which we are now seeing decline and become increasingly “clogged.” This should stand as a warning sign as to what could occur

if the current trend and lending practices continue. Perhaps more threatening is the incorporation of the real estate market into today’s crisis. The overvaluation of home values in today’s market has more frightening prospects than the real estate woes of the Depression. While the amount of foreclosures is certainly troubling, the correction of the problems evolved in the subprime mortgage market will undoubtedly induce considerable suffering upon the national economy.



Emerging difficulties and those of the Depression cannot be discussed without mentioning the governmental policy surrounding them. To examine the mistakes of preceding administrations and legislators, however, would be unsuitable for a piece of this length. The blunders of the George W. Bush administration in failing to effectively regulate the growing and increasingly complex economy are comparable to those of Warren G. Harding, Calvin Coolidge, and Herbert Hoover. The truly interesting development and comparison will be between Franklin D. Roosevelt and current President Barack Obama.

The most important aspect of this comparison may be the timing of each presidential term. Much of history’s praise for Roosevelt could be attributed to the fact that he entered office towards the “natural” turning point of the Depression. The nation was on a path for recovery, and the imminence of World War II secured his success in ending the Depression. However, Obama is entering office in the middle or, perhaps, the beginning of a major economic meltdown. His response may determine how history writes this. In any case, his proposals seem to emulate the New Deal policies of Roosevelt, an approach that is highly criticized for its spending and far-reaching goals. By the end of his term in office, we will surely be able to draw more significant similarities and differences between Roosevelt and Obama.

MIXED REVIEWS ON GEITHNER *By Cara Repasky, University of Pittsburgh*

Being the Treasury Secretary of the United States of America is an immense honor; you get your signature on every new bill, giving it authority and defending its honor. Timothy Geithner's plan to save the struggling banking sector could do the opposite. He announced a three-point plan on February 10th to "clean up and strengthen the nation's banks." The confident goal was followed by a vague declaration to use "the full resources of the government to help bring down mortgage payments and to help reduce mortgage interest rates." Unfortunately, those are conflicting plans. Maybe that's why the Dow Jones Industrial Average slid steadily in the hours following Geithner's morning announcement of the financial-sector rescue effort. The Dow ended the day down 4.6%, or nearly 400 points.

Indeed it seems that anytime the Obama administration makes any public declaration of plans to fix the ailing economy, the markets cringe. Geithner's first run as Treasury Secretary was greeted with skepticism from both Wall Street and Capitol Hill. Senators from both parties grilled him for nearly four hours in the afternoon during his first appearance before Congress. Many complained about the lack of detail in his rescue plan. It did little to clarify the two big issues of how to handle toxic assets on bank balance sheets and how to ease foreclosures and prop up real-estate prices. "Is there a concrete plan here, and if so, how do we assess it? We need to see it...operational details," Republican Senator Richard Shelby of Alabama told Geithner.

True, the Treasury Secretary's tax problems and role in the previous administration's crisis management have marked him as an easy target. Conservative Republicans have all but eviscerated Geithner while a wide swath of economists and even prominent Democrats have hopped on the bandwagon. But not everyone has been criticiz-

ing the new Secretary of the Treasury. Many supporters admit that the plan lacks details, but commend Geithner for refusing to propose any additional bank freebies. The plan calls for no new loan guarantee programs, backstops of losses on the bank's bad assets, or government capital infusions in the form of underpriced preferred shares. Banks will now have to prove themselves via a "stress test" on their solvency, in order to access new capital.



The chorus of those arguing for a temporary nationalization of the banks continues to grow. As the sound is amplified, the assets in question continue to fall. The continued decline in banking stocks this Wednesday could be interpreted as a sign that investors are growing more comfortable with the idea that the nation's largest, struggling banks will be taken over and restricted by the government. Lawmakers have raised the possibility and President Obama has left plenty of wiggle room should he deem such a step necessary. Geithner has been lukewarm to the idea, but few want to see a decade of misery similar to the Japanese experience in the 1990's. Federal Reserve Chairman Alan Greenspan still retains author-

ity on economic affairs despite the widespread criticism of his decisions. However, he cannot pull the trigger on the dreaded nationalization fear.

Ethan Harris, a Lehman Brothers economist, has declared that the Treasury Secretary has the "general gist" of the financial rescue right: more capital for needy banks and new efforts to revive lending. However, Harris feels that Geithner's initial announcement failed to provide enough details to sway anyone's view on the economic outlook. While it appears that opinions on the new Secretary of the Treasury are mixed, one thing remains certain: the opportunity is there for Geithner to prove himself. Whether or not he's up to the challenge is yet to be determined.

STANFORD BANK CRISIS *By Robert Sun, Carnegie Mellon University*

Just a few weeks prior, Sir Allen Stanford was famous for being a financier and sponsor of professional cricket. He created and funded the Stanford 20/20 cricket tournament and sponsored a cricket championship with the largest prize ever awarded to a single team. As a dual citizen of the United States and Antigua and Barbuda, he became the first ever American to be knighted by that Commonwealth nation for his philanthropy.

But fast forward to today and his name becomes synonymous with Bernard Madoff and his company, Stanford International Bank, draws comparisons with Enron. On February 17, 2009, federal agents raided the offices of Stanford Financial Group and the Securities and Exchange Commission charged Stanford with investment fraud “of a shocking magnitude” with regards to his \$8 billion investment scheme.

Investigators examining the offshore bank now state that the \$8 billion has gone missing and believe that the bank was a “Ponzi scheme,” similar to the Madoff scandal where money from one investor gets paid to another as his “return.”

Recently, the bank had its assets frozen and reports claim that the fraud case could take years to clean up. Coupled with the Madoff scandal, some investors have been hit particularly hard since the middle of 2008. However, unlike the Madoff scheme that targeted extremely wealthy investors, Stanford Bank primarily focused on middle to upper class investors on a more international level.

Latin Americans have been on a frantic quest to recover their investments while the Venezuelan government seized control of the Caracas-based Stanford Bank SA Venezuelan investors alone have been reported to have up to \$2 billion in the scheme, if not more.

One reason for the large number of Venezuelan assets is that in a nation marked by financial turmoil, many wealthy investors find haven in overseas accounts as a way of deal-

ing with tough currency controls, inflation, and government uncertainty. Stanford was so successful in Latin America in finding the investors worried that their wealth could be snatched away by the government. After hearing about the Stanford situation, many Latin Americans are angry, but have remained mostly civil due to the possibly false promises that they will get their money back. Also, due to the tendency for the investors to be wealthy, many Latin Americans are avoiding blatant public complaining in order to avoid being identified as wealthy for security reasons.



Within Stanford’s walls, employees were not sure of the validity of Stanford’s claims of sure returns on sure investments. As early as 2003, former employees tried to notify regulators their concerns about the bank, to no avail. One former employee, broker Charles Hazlett, was fired for questioning the details of the investments.

Hazlett was a standout, once rewarded with a new BMW after selling \$10 million in certificates of deposit in a single quarter. However, when a client asked about basic information regarding risk and asset allocations, Hazlett could not find a single person who could tell him. After calling a meeting with a top official at the bank about how the investments worked, he was given two options, resign or be fired.

Hazlett and other employees were trained to deflect questions about the investment strategy while pitching to wealthy clients. And when they tried to learn about where the money went, Stanford CFO Laura Pendergest-Holt and deputy James Davis turned them away.

Pendergest-Holt and Davis are among those charged.

As we enter the next decade, investors, economists, and historians may look back and realize just how influential this decade was on regulation and the SEC. Just in what direction that influence will be might take another decade to realize.

OBAMA AIDS HOMEOWNERS *By Wyatt Ozmore, Rutgers University*

An integral part of President Obama's stimulus plan is the \$75 billion that will soon go directly to keeping homeowners in their houses. The subprime crisis and foreclosures were the main driving forces behind our current economic decline and these problems still hinder our economy. As the recession deepens, the effects have continued to show through unemployment, unintended inventories, and foreclosure. The crisis which started approximately a year ago affects everyone from the single mother without a residence to the struggling family dutifully paying off bills for a house now worth less than its original price. Of course, it can not be forgotten to mention the neighbor whose property value is now pushed lower as surrounding houses continued to be deserted and boarded up.

The President's plan to pump billions of dollars into this area may not be the perfect medicine for the long run, but this is what is needed by millions of desperate homeowners. This country has currently reached a point where twenty five percent of people are underwater on a mortgage – meaning they owe more than their house is worth. This is mainly the result of the end of the housing bubble, which was characterized by higher prices than can be economically justified. Over the years, individuals and families purchased homes that they could not truly afford. Explaining the rationality of their purchases by continually increasing housing prices, many were forced on the streets when the value of their homes dived straight down. A portion of the stimulus plan affecting about five million people will allow those with enough equity to refinance. Owners will be eligible if their current mortgage is under 105% of the home's current worth. An additional component will be directed at the banks, providing them with incentives to alter loans and make them more affordable. Expected to help about 4 millions families and individuals, the goal is to reduce monthly payments to thirty one percent of the homeowner's income.

Finally, two hundred billion dollars of the stimulus package will go to Fannie Mae and Freddie Mac with the ob-

jective of increasing credit available for loans. President Obama has made it clear that he only hopes to help families who have "played by the rules." He plans to effectively enforce the guidelines of only providing loan modifications to those whose primary residence is in question. He does not seek to help those seeking to refinance a vacation

residence or investment home. According to Obama, "It will not rescue the unscrupulous or irresponsible by throwing good taxpayer money after bad loans." Hopefully, the stimulus plan will deter the expected growth rate of the number of foreclosures and housing problems that are expected to rise throughout the year. Critics this plan argue that the task of evaluating those who truly need assistance will be extremely difficult.

The requirements for who shall be helped must be firmly defined or these funds can easily be misdirected. Still, the efforts to help people with underwater mortgages may not be enough. Millions of homeowners are far beyond the 105% mark and some believe this percentage will have to grow or the amount of people receiving aid will be too low to be effective.

With such a large injection into our economy, politicians hope not for an immediate recovery, but to first lessen the effects of the ongoing recession and then to bring a gradual expansion back to the economy. While the ardent republicans of Congress may be worried about increasing interest rates down the road, we must remember John Maynard Keynes who said, "In the long run we are all dead." We will most certainly face some adversity in the future, but we must first jump-start this economy back to its potential and save not only our fellow Americans from this current hardship but the global economy from this financial downturn as well. "None of this will be easy," says President Obama. "The road to recovery will not be straight. We will make progress, and there may be some slippage along the way. We have begun the essential work of keeping the American dream alive in our time."



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