



# BULLS & BEARS

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## HEADLINES

- Stocks gain for 4th straight week
- 2 Million jobs lost so far in '09
- G20 summit pledges to pump more money in world financial systems
- March auto sales plunge, GM on verge of bankruptcy
- Record drop in home price index

## FINANCIAL MARKETS

DOW	8,017.59, +3.10%
NASDAQ	1,621.87, +4.96%
S&P 500	842.50, +3.26%
OIL	\$52.51, +\$0.13
10 YR	98 26/32, 2.88%
EURO	\$1.3482

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## MARKET SUMMARY

Monday 03/30/09

Auto industry woes returned to the forefront today, as the Obama administration gave a resounding thumbs-down to the business plans submitted by bailed-out car companies General Motors and Chrysler. Investors reeled in shock at news that CEO Rick Wagoner was asked by the White House to step down from his post at GM, but President Obama defended the bold move by asserting, "It's a failure of leadership -- from Washington to Detroit -- that led our auto companies to this point." The threat of a possible bankruptcy filing also hurt stocks, with the president commenting that automakers could use Chapter 11 as a "tool" to help clear away old debts and get them back on their feet. Elsewhere, Treasury Secretary Timothy Geithner contributed to the market's troubles by warning that he expects additional losses from the troubled financial sector. The Dow closed nearly 250 points lower.

Tuesday 03/31/09

Stocks proved their resilience today, as well as its short memory. Fresh on the heels of Monday's miserable performance, the major indices surged into positive territory. Stocks shrugged off dire economic reports; the Chicago purchasing managers' index fell in March to its lowest level since July 1980, while Standard & Poor's reported that home prices in 20 major U.S. cities contracted at a record-setting pace of 19% during the year that ended in January. In fact, it might have been another victorious session for the bears if it didn't happen to be the final trading day of the first quarter. Much of the credit for today's rally should probably go to the window-dressing efforts of money managers, who snapped up outperforming stocks en masse in an attempt to inflate their investment returns. The Dow closed nearly 90 points higher.

Wednesday 03/01/09

Stocks started the day by tumbling in the wake of dismal unemployment data. The ADP employment index revealed that the U.S. labor market remained wounded last month, with private-sector companies trimming 742,000 positions in March. In addition, investors digested the latest bankruptcy buzz surrounding General Motors, and prepared for the kickoff of the highly anticipated G20 summit in London. However, the equities market eventually turned higher after the Institute for Supply Management's manufacturing index improved from February. Also helping stocks rebound were the latest round of auto sales, with most Detroit divas posting dismal -- yet better-than-expected -- numbers for March. Against this backdrop, the Dow closed 150 points in the green.

Thursday 03/02/09

Stocks shot higher right out of the gate this morning, as the Street shrugged off dismal jobless data in favor of encouraging factory figures. The U.S. government reported that orders for factory goods jumped 1.8% in February, marking the first increase after 6 months of declines. Intensifying broad-market buying pressure was word from across the pond, after leaders from the G20 agreed to provide \$1 trillion in resources to the International Monetary Fund, in a unified effort to combat the global economic crisis. Adding fuel to the fire was the Financial Accounting Standards Board, which voted to relax fair-value accounting rules and give auditors more wiggle room in assessing illiquid assets. With all the stars seemingly aligned, the major market indices prolonged their recent push into positive territory, sending the Dow to 216 point surge.

Friday 03/03/09

The Labor Department took center stage ahead of the bell this morning, releasing the highly anticipated nonfarm payrolls report for March. The pink slips continued to pour last month, with nonfarm payrolls falling by 663,000, and the unemployment rate swelling to a 26-year high of 8.5%. Though the results painted an unpleasant picture, the figures were roughly in line with economists' expectations. This, along with an impressive earnings report from tech titan Research In Motion, helped sustain the recent optimism on the Street, and allowed the major market indices to end the week on a high note. The Dow closed just 30 points lower.

## THE WEEK IN QUOTES

*"I'm sitting here saying, 'What am I doing? What am I doing?'"*

*-Howard Leschner, 54, on being unemployed, after the U.S. unemployment rate climbed to 8.5%, its highest level in a quarter-century*

*"This was the day the world came together to fight back against global recession."*

*-Gordon Brown, British Prime Minister, after G-20 leaders pledged a total of \$1.1 trillion in funding to tackle the global economic crisis*

*"The crisis didn't actually spontaneously erupt in Europe, did it?"*

*-Nicolas Sarkozy, President of France, blaming the U.S. for Europe's economic woes, during a speech at the G-20 summit in London*

## ANNOUNCEMENT

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## Sarkozy & Brown *By Daniel Sholler, University of Pennsylvania*



*Nicolas Sarkozy*

One may wonder how a politician earns a nickname such as “Zorro.” A study of French President Nicolas Sarkozy’s history of negotiation reveals the qualities that contribute to the “strongman” persona.

Prior to the conclusion of the G-20 summit, Sarkozy made his domestic intentions known. “I will not associate myself with a summit that would end with a communique made of false compromises that would not tackle the issues that concern us,” he stated, returning to the politics that have defined him since he took office in 2007.

His platform has consistently been concerned with restoring France’s economic stability. While at the summit, he made public France and Germany’s feelings about the original G-20 draft. Employing his old tactics of threatening to walk out of the meetings, Sarkozy told reporters that he would not take part in a movement to “sidestep” strong motions for change. Following the summit, he was lauded throughout France for his firm stance and his ability to reinvigorate the Franco-German alliance. Many media commentators have noted Sarkozy’s ability to return this alliance to prominence in European affairs and on the world stage.

French citizens have not always praised Sarkozy. He is a controversial figure with strong opinions on contentious issues. However, he was elected largely for his experience, as his positions have varied from city counselor to the French Minister of the Interior and the Minister of Finance. Although he failed the sixth grade and was a mediocre student throughout his schooling, Sarkozy is regarded as a great orator and highly skilled politician. This has proved valuable throughout his career, as he won the French Presidential election with 98% of the votes.



*Gordon Brown*

As Britain’s Prime Minister, Gordon Brown played host at the Group of 20 summit in London last week. This role brought a two-pronged responsibility, as Brown had to facilitate a meeting that would bring great yields for the global economy and for his own country. He has come under fire as Tony Blair’s successor due to the growing crises within the United Kingdom. At the G-20 though, he appears to have restored his credibility as the leader of one of the largest economies in the world.

Brown is no stranger to leadership. Just three days after he became the head of the Labour Party, he was appointed Prime Minister. Prior to this, he demonstrated exceptional political abilities as Chancellor of the Exchequer, maneuvering many sweeping economic reforms through government. Among the changes were altering control of interest rate change into the hands of the Bank of England, expanding the powers of the Treasury into policy decisions, the abolition of Advance Corporation Tax (ACT) relief in his first budget, and removal of the 10p tax rate. While controversial, these moves revealed outstanding legislative abilities.

Adding to his repertoire are his twenty-plus year stint in Parliament and his strong education from the University of Edinburgh. He graduated with First Class Honours MA and went on to obtain a Ph.D. His effective navigation of the media can be attributed to his prior career in television journalism. His experience has been put to the test as Prime Minister; his role as First Lord of the Treasury put him at the forefront of the credit crisis, having to oversee the nationalization of one of the U.K.’s largest banks, inflation, and the global economic meltdown. Brown’s approval ratings have declined due to these problems, but his recent accomplishments should revive some confidence in the Prime Minister’s leadership.

**NEW RULES FOR HEDGE FUND & PRIVATE EQUITY INDUSTRIES** *By Cara Repasky, University of Pittsburgh*

For years, U.S. hedge fund managers have been holding their breath, living in fear that their loosely regulated and secretive industry would one day face tougher regulations. It seems that judgment day has finally arrived for the absolute returns gang. Treasury Secretary Timothy Geithner has called on Congress to enact the most comprehensive changes to financial market regulation since the New Deal. Now, hedge fund managers as well as private equity gurus will start hunting for ways to preserve as much of their independence as possible.

Geithner's proposal offered limited details and will likely take months to work its way through Congress. Numerous hurdles wait with Republican lawmakers, who are immediately arguing that the administration is seeking too much power. Many investors, especially in the hedge fund world, were quick to announce their opposition as well. Many skeptics are questioning whether the new rules will work anyway. The Treasury Secretary has supported his proposal by insisting that the nation's economic crisis demands bold action. "We need much stronger standards for openness, transparency, and plain commonsense language throughout the financial system," he told the House Financial Services Committee last Thursday.

The legislation includes imposing tougher standards on financial institutions that are judged to be so big that their failure would threaten the entire system as well as extending federal regulation to all trading in financial derivatives for the first time. Additionally, the proposal would require larger hedge funds and other private pools of capital, including private equity and venture capital funds, to register with the Securities and Exchange Commission. The government would be empowered to take over major non-bank financial firms such as hedge funds and insurers if deemed necessary. Finally, Geithner plans to create a

regulator to monitor the biggest institutions though it is still uncertain as to which agency will be granted the authority.

Putting hedge funds on a tighter leash is guaranteed to add new nervousness to an industry already facing poor returns while being blamed for a financial crisis its managers say they did not cause. Specifically, hedge fund managers and their lawyers fear that public outrage over the enormous and notorious AIG bonuses amid the news of hefty hedge fund paychecks cause prompt lawmakers to impulsively try to impose unduly harsh rules. The private equity industry has also voiced concern, claiming the proposal

will impose significant undeserved regulation on the industry. "We believe that private equity investments do not create systemic risk," Douglas Lowenstein, president of the industry group of the Private Equity Council, said. "Private equity firms invest in companies, not exotic securities, and their investors are long-term investors, eliminating the 'run on the

bank' type of risk that helped create the current financial crisis," said Lowenstein.

The proposal has been received with mixed feelings by the financial world. But in the end, the people want change. Most hedge fund managers, investors, lawyers, and lobbyists have said that the industry is preparing to accept new constraints. Rather than fight a losing battle, they aim to limit the provisions of the legislation they consider too intrusive, such as making their trading records public. One can only hope that Congress takes its time with the matter while keeping the best interests of the global macroeconomic system in mind.



## WORLD POWERS UNITE AT G20 SUMMIT *By Robert Sun, Carnegie Mellon University*

The events leading up to the Group of 20 summit last week were tense. Financial markets around the world were shaky at best. Stories about threatened boycotts, infighting between leaders, and finger-pointing made the G20 summit important not only to spur global economic recovery but to unite differences amongst the world's top economic leaders. But by the end of the week, economists, journalists, and top political officials hailed the G20 triumph for both the world economy and world stability.

Said French President Nicolas Sarkozy, the results of the G20 summit were "beyond his expectations."

The agenda at the G20 summit covered four major topics: coordinating measures to revive the global economy through fiscal and monetary stimulus, government support to save collapsing banks, efforts to revitalize collapsing countries from international institutions, and measures to prevent such a crisis from occurring again. Within each of the four topics, there were major reforms and policies put in place, though actual results depend on the determination of each member.

Some of the measures taken to support collapsing banks are already starting to restore confidence. However, ironically, the measures were designed to increase transparency but the accounting rule changes actually make it easier for banks to hide their troubled toxic assets. The United States financial sector was up around 12 percent for the week, leading the way for a 6 percent broad market rally for the week.

In terms of supporting collapsing countries, the leaders agreed to support struggling developing countries with a package of new export credits and up to \$750 billion from the IMF. In total, the IMF is contributing \$1.1 trillion to combat the economic crisis. However, the biggest surprise was that the nations agreed to a new allocation of Special Drawing Rights. SDRs were a hot topic earlier in the month when China, worried about the high government spending from the US deflating the value of the dollar and the bonds it was holding, called for a change away from the dollar as the world's reserve currency to SDRs. Bonds and currencies of all emerging markets, especially in Eastern Europe, immediately rallied following the announcement.

To prevent a further collapse, Germany and France took the initiative by imposing tight regulations on hedge funds and investment banks. In the words of Sarkozy, they "turned the page on the Anglo-Saxon financial model." France and Germany closed tax havens to make low-tax jurisdictions less attractive to financial institutions. British Prime Minister Gordon Brown said on Sunday that we would be meeting with the heads of British banks to discuss the implementation of the new international regulatory rules.

Each player had a major objective coming into the G20 summit. For the Americans and President Obama, the two primary objectives are to keep Americans in their homes and stop the rising unem-

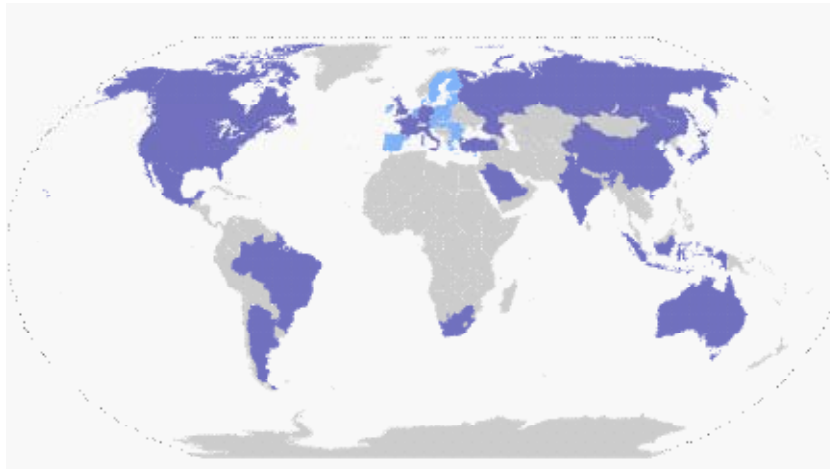
ployment rates. Within the United States, jobless workers have been calling for American companies to keep the jobs within the country.

Says one worker, "It disgusts me. I think it should be the President's number one priority. If they keep the jobs here then the economy is going to straighten itself out. And he should penalize the companies that do leave."

China entered the summit looking to stabilize demand for its exports. Part of the \$1.1 trillion injection from the IMF was pushed by China in an effort to keep world economies and world trade flowing. Also, China called for "improved mechanisms for controlling the issuance of reserve currencies" as well as strengthening supervision of reserve-currency, after the fears that American spending would lead to high inflation.

In Africa, Ethiopian Prime Minister Meles Zenawi also applauded the G20 summit, saying that Africa's needs were heard and success was achieved. Zenawi also expressed appreciation of the firm bilateral relations between Ethiopia and Germany, specifically the capacity building assistance from Germany.

The next G20 summit on the financial crisis will be in Japan by the end of autumn to follow up on the results from the most recent meeting.



## AUTOMAKERS SWERVE TO AVOID BANKRUPTCY *By Daniel Sholler, University of Pennsylvania*

Restructure or declare for bankruptcy.

President Barack Obama hit General Motors Corp. and Chrysler with a virtual ultimatum last week, placing a 60-day window on the process. In order to ensure that a shake-up would occur, the Obama administration asked former GM CEO Rick Wagoner to resign prior to introducing the proposal.

He also demanded more involvement and sacrifice from all parties involved in GM's crisis, including creditors, shareholders, and dealers. The Obama task force stated its belief "that there could be a viable business within GM if the company and its stakeholders engage in a substantially more aggressive restructuring plan," in a report last week.

Obama's demands are coming in the wake of \$17.4 billion in bailout money for the two automakers since the first package. In essence, this is his last offer to the companies before they are forced to file for bankruptcy. New GM CEO Fritz Henderson has vowed to do everything in his power to avoid this collapse. He assured the public that 60 days is a reasonable time limit, stating that "more time isn't going to help the process."

The first step in Henderson's restructuring scheme is the "Total Confidence" plan, which is designed to entice buyers to reconsider GM.

GM has proposed to cover up to nine car payments of \$500 and under to GM consumers if they are laid off within the first two years of purchasing the automobile. The offer runs through April 30 and also offers to pay the underwater portion on a financed vehicle if traded for another GM vehicle. The company needs an estimated 10.5 million vehicles to be sold annually to break even.

GM's plan will be rivaled by Ford's Advantage proposal, which extends the coverage to 12 months of payment up to \$700 per month. This offer is valid until June 1. To date, Ford has not accepted any government loans and is also struggling to avoid bankruptcy.

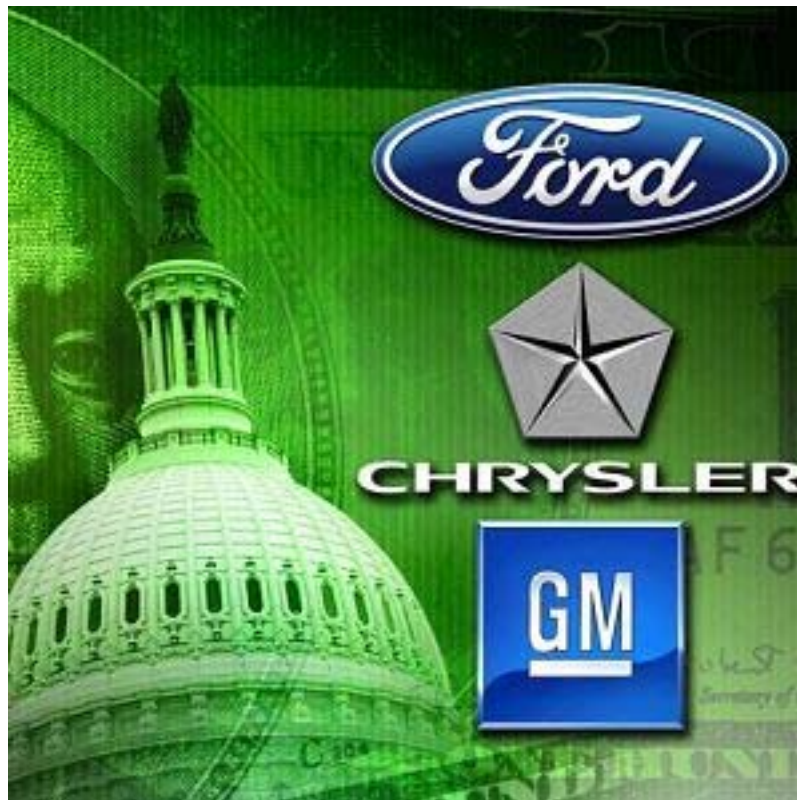
GM is also in an ongoing struggle to renegotiate with the United Auto Workers union. Without a new agreement, the motor company's plans are not feasible. However, a \$20.4 billion healthcare obligation is at stake in the negotiations. In addition, GM must convince bondholders that the restructuring plan is enough to keep their investments safe. They are not fully prepared to exchange the \$27.5 billion in GM's debt for equity.

Henderson has acknowledged the possibility of bankruptcy, stating that the company would know its fate early on in the restructuring process. He said that GM had made "contingency planning" for bankruptcy prior to Obama's announcement. He notes that a government-backed bankruptcy involves far less risk than a Chapter 11 filing.

Chrysler finds itself in a slightly different situation, as Obama gave half the timeframe, 30 days, for the company to complete a merger with Italian auto company Fiat. Chrysler has seen U.S. sales fall 30% last year and 49% in the beginning of this year.

The government has pressured big banks to trade \$5 billion of Chrysler's loans for stock in order to cut the

company's debt of \$6.8 billion. Without this reduction, the merger with Fiat and renegotiation with the UAW are put in jeopardy and will surely take more time. J.P. Morgan Chase & Co., Goldman Sachs Group Inc., Citigroup Inc., and Morgan Stanley are among the banks under pressure to assist Chrysler. The company may be worth more to lenders in a bankruptcy liquidation situation than in the restructuring plan, causing more resistance among already struggling banks. However, the United States Government provided funds to these banks as well, creating a unique and difficult three-way relationship.



## THIS WEEK IN BARRONS... *By r.f. culbertson, Carnegie Mellon University*

### THOUGHTS:

- In the past 15 days we've had: the FED trying to reflate the housing bubble, by offering 105% loans at 4.6% to credit scores below 620. (One might ask "isn't that sort of what got us into a housing mess in the first place?" - humm.) We handed out or pledged \$12.8 Trillion. We learned about Timmy Geithner's PPIP plan to enrich investors and toss the risk back on us. Recently the Mark to market rules have been relaxed so that banks can mark to fantasy instead of reality. And now we have bankers buying up toxic sludge with taxpayer money to sell for a profit at our expense.

- If you think it's just me - well just this week Charles Bowsher QUIT his job as the head of the Federal Home Loan Banks (FHLB) - who provides stable, on-demand, low-cost funding to American financial institutions for home mortgage loans, small business, rural, agricultural, and economic development lending. With their members, the FHLB represents the largest collective source of home mortgage and community credit in the United States. They service a large amount of debt (\$1.26 Trillion as of Dec. 31) making them the largest U.S. borrower after the federal government. If the FHLB takes a hit, once again taxpayers are going to be left footing the bill. So, why did the Chairman just step down after the Mark to Market decisions? "his discomfort in vouching for the banks' combined financial statements." In other words this man has enough integrity to say "I can't stand here and BS people. These banks are in way over their heads, and I'm not going to be the guy to says all is rosy, while we BS people" Now Mr. Browsers also warned us in the 80's of the impending Savings-and-Loan crisis - so there is a track-record here. AND he testified before Congress in 1994 stating that there was an "immediate need" for "federal regulation of the safety and soundness" of all major U.S. derivatives dealers. Naturally he was brushed aside, and shuffled off to the FHLB. So, my hat's off to a guy with backbone, willing to take it on the chin instead of playing the game. Unlike Mr. Geithner who allowed a couple banks to announce they were profitable, and has the audacity to come out and state that \$2 Trillion probably isn't going to be enough to solve the banking problem. Okay Tim - which is it - are they profitable, or insolvent?



- FYI - 5 Banks control about 90% of all the world's toxic derivatives.

### TIPS:

So what's up for this week:

- Because of the stimulus, tax refunds, and oversold conditions

we saw the market run up some 25% from the lows. We're still holding: UYM / UYG / FAS / XLF and SLW.

- Now, will the market continue higher - or will it roll over and play dead? Do we move back into cash, go short, or play more upside? Well, a 25% run is an huge run - and common wisdom will tell you that we witnessed a bear market bounce, that we are overbought, and we should pull back before any meaningful move forward again. But the flip side to that is the observation that the market is only there to serve the market, and it will do it's best to inflict the most amount of pain on the maximum amount of investors.

With so many calling for a pullback, and so many people going short on the MTM report in a "buy the rumor, sell the news" response, the market laughed at everyone and simply went higher. Can that continue? Yes it can. We have earnings coming this week, and if the bulk of the reporting suggests that they aren't getting worse, it could be interpreted as "bottoming" and spur a much greater move higher.

- In all reality, we should know by Tuesday if they want to keep pressing this thing higher, or if it's time to back out and scoop some shorts or puts for a little while. If we see the technology sector moving higher, look around for some laggards that haven't moved much yet, the street will look for those "bargains" too and buy them. Remember that companies considered "healthy" usually move up into their earnings reporting date. Just don't overstay your welcome. We NEVER hold a stock over it's reporting day. Odds are not in your favor if you do that.

- If we continue to run higher, look at: the SMH ( if makes it over 20 it might be worth a shot, especially if they think tech can lead them out of the financial funk). Therefore, if the SMH holds up, I would watch Intel (INTC) at 15.95, a move over 16.00 that holds could be interesting, and if it exceeds the closing prices set back in November at 16.26, it could romp for a while.

- For you daytrader folks, IGT, ACI, AEM and PNC all look like they have "volatility" written all over them. Try AEM long over 53.29, and short under 51.00. Just don't overstay your welcome. PNC is overbought but could go further - so potentially long at 36.09 and short at 34, will reap you a decent return.

- Again - be careful and see you next week.

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