



# BULLS & BEARS

Volume 2 • Issue 30 • April 20 2009

## HEADLINES

- Bank Stress Test Results Released May 4
- GS, Citi, and JP Morgan Beat Estimates
- Ebay plans to spinoff Skype
- Stores Suffer Big Drop in March Sales

## FINANCIAL MARKETS

DOW	8131.33, +0.59%
NASDAQ	1673.07, +1.24%
S&P 500	869.60, +1.52%
OIL	\$50.33, -\$2.07
10 YR	98 10/32, 2.94%
EURO	\$1.3092

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## MARKET SUMMARY

Monday 04/13/09

Stocks succumbed to widespread profit-taking right out of the gate this morning, as investors rushed to capitalize on 5 consecutive weeks of gains. Exacerbating the early selling pressure was uncertainty surrounding blue chips General Motors and Boeing. The former of the firms took a sizable hit after The New York Times broadcast potential bankruptcy buzz, while the latter said an "unprecedented" drop in global air traffic will weigh on its quarterly figures. However, the financial sector helped limit losses in afternoon trading, after JPMorgan said the first-quarter results of some larger banks will likely reflect "solid revenues." Though the Dow eventually finished 25 points in the red, the late-session bounce prevented triple-digit losses, and helped the other major market indices kick off the week on high note.

Tuesday 04/14/09

Despite a stronger-than-expected earnings report from Goldman Sachs Group, stocks spiraled lower today as economic concerns returned to the forefront. Bears came out in force after the Commerce Department reported that retail sales fell by 1.1% in March, defying analysts' expectations for a modest rise. Elsewhere, President Obama added to the Street's downbeat mood with some very cautious commentary at Georgetown University. Speaking on the economy, Obama warned, "...by no means are we out of the woods yet," adding, "2009 will continue to be a difficult year for America's economy." Against this backdrop, the Dow quickly surrendered its short-lived foothold atop the 8,000 level, and dropped 140 points.

Wednesday 04/15/09

Gloomy guidance from Intel nourished the bears ahead of the bell, sending stocks into the red right out of the gate. Exacerbating the selling pressure was disappointing manufacturing data, after the government said capacity use at U.S. factories fell to a record low in March. However, the clouds eventually parted thanks to stronger-than-expected earnings reports from the financial sector and a 10% dividend hike from Procter & Gamble, which helped the major market indices muscle into the black by the close, as the Dow closed 110 points higher.

Thursday 04/16/09

It was an up-and-down day on Wall Street, as traders weighed downbeat economic data against unexpectedly solid financial earnings. Dow component JPMorgan Chase & Co. (JPM) kicked things off by topping analysts' first-quarter expectations, and Regions Financial added to the glad tidings by reporting -- rather unexpectedly -- that it will swing to a quarterly profit. The Labor Department reported that continuing jobless claims climbed above 6 million last week for the first time on record, while the Commerce Department noted that housing starts plummeted by a steeper-than-expected 10.8% in March. Despite a few dips into the red, the equities market eventually brushed off the bad news and marched defiantly higher, as the Dow closed 95 points in the green.

Friday 04/17/09

It was a fast-paced Friday on Wall Street, with stocks bouncing between positive and negative territory. The expiration of April-dated options contributed a dash of volatility, and traders also digested highly anticipated earnings from a trio of heavy hitters: Citigroup, General Electric, and Google Inc. GE and Google topped analysts' profit expectations, while Citigroup managed to eke out a smaller-than-expected quarterly loss. Nevertheless, the bank's fundamental situation is far from rosy; Chief Financial Officer Ned Kelly echoed President Obama's comments earlier this week when he warned, "The economy is not yet out of the woods." Investors' enthusiasm was also tempered by commentary from General Motors CEO Fritz Henderson. The newly anointed chief executive said that GM hopes to accomplish its restructuring goals outside of Chapter 11, but added, "We have until June 1. If we can't accomplish it outside of bankruptcy by June 1, we would do it inside of a bankruptcy." The Dow closed almost unchanged.

## THE WEEK IN QUOTES

*"It is the ultimate anti-American statement."*

*-Jim Dunning, representative in Texas's state senate, on Governor Rick Perry's suggestion that Texans might get so fed up with federal policy that they may want to secede*

*"This is the best time to think like a champion."*

*-Donald Trump, on the troubling economy and the possibilities of making deals — for example, in buying a house*

*"We will seek out the Americans, and if we capture them, we will slaughter them."*

*-Ismal, a 25-year-old Somali pirate, warning that pirates will now target American-flagged ships like the Liberty Sun, which narrowly escaped a hijacking on April 16*

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## TO REGULATE OR NOT TO REGULATE *By Dan Sherry, Cornell University*

Beginning in the early twentieth century and continuing to this day, governments around the world have attempted to curb the perceived excesses of capitalism by imposing regulations in the economy. Today in America, there is hardly a business or industry that is not regulated in some way. Unfortunately, the results have been less than positive. The FDA is regularly criticized for over-regulating the drug industry and keeping potentially lifesaving drugs off the market for years. Meanwhile, deregulation of the trucking and airline industries in the late 1970's and early 80's has brought down prices and pushed up competition. Empirically speaking, deregulation is associated with greater efficiency and prosperity for the public at large.

What about the financial industry? In general, by reducing micromanagement and arbitrary barriers to entry, deregulated industries are better able to meet the public's demand and lift the economy as a whole. Unfortunately, the financial industry is not so simple. Is it such a tangled mess of information asymmetries and conflicts of interest that to leave it unregulated would spell disaster for the economy? Just two years ago, the answer to that question would have seemed obvious.

Business at the banks was booming, and there were no problems in sight. In the wake of the current financial crisis, however, the free market ideology that has been popular for nearly three decades has come under increasing criticism. Even Alan Greenspan, former Chairman of the Federal Reserve and perhaps the world's most prominent living champion of free markets, confessed that the apparent failure of free markets in recent months has left him "in a state of shocked disbelief." It is hard to support unregulated financial markets in light of such a statement, but we can try anyway.

Despite the severity of the current crisis, there are still legitimate grounds for retaining the freedom of the financial industry. The most important is that while this crisis is particularly nasty, in most areas and for most of history the financial industry has operated well and efficiently. Money is pumped from those who have

it to those who will pay for it, and poorly planned or executed regulations threaten to smother that process and do real harm to the economy. Compounding this argument is the belief that it is bad government policy that got us into this mess.

Free market proponents point to Alan Greenspan's loose monetary policy after the recession of 2001, the Clinton Administration enforcing the Community Reinvestment Act of 1977 by forcing banks to lower lending standards for home loans, and the moral hazard associated with the government bailing out financial firms whenever they are in trouble. According to this view, government is not the solution; it is part of the problem.

Opposing this view are former and current Fed Chairmen Paul Volcker and Ben Bernanke, former and current Treasury Secretaries Hank Paulson and Tim Geithner, and numerous others, all of whom are clamoring for tougher regulation. The basic premise of their argument is that while the financial industry works well most

of the time, when they fail, the spillover effects can be so disastrous for the economy as to require regulation. Warren Buffett, the world's most successful and famous investor, referred to derivatives as "financial weapons of mass destruction." The level of regulation represents a tradeoff between financial innovation and stability, a balance which needs to be shifted in favor of stability.

While there is little doubt that the government inadvertently created an environment in which financial collapse could take place, Main Street should not be torn apart by the disastrous incompetence displayed in Wall Street. The answer is that a certain level of regulation of the financial markets, especially derivatives, is necessary in order to avoid some of the more catastrophic risk-taking that will inevitably occur. Emphasis should be placed on smart regulation, not simply more regulation, or we risk doing more harm than good. Whether the government is actually capable of implementing and enforcing smart regulations is a different question, but there is always hope.



## TIME FOR A NEW TIGER? *By Melody Chu, Cornell University*

With the Dow Jones Industrial dipping to a fifty-two week low of 6,469.95 several Fridays ago, it becomes clearer and clearer that a pervasive pessimism has invaded investors' minds. The United States economy has entered the most severe depression since the early 1930's, and with the constant barrage of bad news making headlines everyday, hope for a speedy recover dwindles away. But while the industrial strongholds, the United States, Europe, China, Japan, and Australia, fall to the wayside as they struggle to reinvigorate their flagging economies, a perhaps unlikely diamond in the rough has come to light: Vietnam.

Perhaps better known for its Nike sweat shops, few people will have noticed that Vietnam attracted "1,171 new foreign direct investment projects with a total registered capital of more than \$60.2 billion in 2008," more than three times the amount garnered in 2007. In fact, foreign investors have been putting money into Vietnam's banking and retail sectors, a surprising contrast to the American banks that have been hemorrhaging money as of late. In mid-2008, Korea and Malaysia made significant investments in operational licenses for retail operations in Hong Leong Vietnam Bank and Shinhan Vietnam Bank, respectively.

Looking purely from a potential perspective, Vietnam is certainly not lacking. Possessing one of the larger domestic markets in southeast Asia with a population exceeding eighty-six million and resources including coal and offshore oil and gas deposits, Vietnam is becoming increasingly a place to take note of, notwithstanding its eight percent economic growth over the past three years. Lately, the country has been moving from an agriculture-based economy toward more of an industrial direction as well, a well-established phase of to become a developed country.

Tata Steel (TISC) of India plans on investing \$5 billion in a new steel plant in a joint venture with Vietnam Cement Industries and Vietnam Steel Corporation in the Ha Tinh province; the project's first phase should be completed by 2011, given extensive delays due to competition and bureaucratic inefficiencies.

The Korean steel giant, POSCO, had already invested over \$1 billion for two rolling mills in the Phu My Industrial Park in Ba Ria-Vung Tau province by early 2008. Domestic steel companies have fared well given the tariff increase on imported steel billet and steel ingot in December of 2008, fueling growth in steel consumption and increasing steel holdings in various steel manufacturing companies to over three million tons.

Currently, there is not ETF for Vietnam, however a promising prospect to look to is PetroVietnam (PVN). With total revenues of \$16.5 billion in 2008, a 30% increase over 2007, PetroVietnam looks to exploration projects to increase crude production as its main Bach Ho oil field has been declining in output over the previous four years. PetroVietnam is also looking to international opportunities, with interests in "16 foreign oil and gas projects, with six in Asia, four in Africa and the rest in America." Notably, PVN entered a joint venture with the Venezuelan Petroleum Corporation (CVP), investing a reported \$11.4 billion to harness and refine heavy crude in the Orinoco heavy oil belt in Venezuela. "Once operational, the project will turn out up to 200,000 barrels a day, equivalent to 10 million tonnes of oil per year."

However, despite all this news of development, foreign investment, and growth, it is important to be aware of the many obstacles and concerns that have kept investors wary of Vietnam in the past. The widespread corruption and bureaucracy is, to say the least, unappealing. State-owned enterprises absorb close to half of the government's annual budget, lessening motivation for entrepreneurially minded people to undertake efforts. Due to Vietnam's struggles with inflation, smaller companies are hard-pressed to gain access to loans in order to expand. And given the current economic slowdown that has affected the flow of credit in the entire world, Vietnam may have to reckon with a temporary ebb of fresh money. So, there are certainly many factors to consider, but let it be known that progress is being made and that this is a country you will want to keep on your radar in the coming years.



## STOCK TWITS *By Alexander Muhr, University of Southern California*

If you pay any attention to the Internet, as virtually any college student does, then you've likely heard of a service called Twitter. Although by Internet standards the company is not that old—it has already been open for more than one year—the media has picked up on the phenomenon as well – as you might have seen on the ubiquitous 24-hour news channel.

To be honest, the first time I signed up for twitter I thought it was cool, but could not see any benefit: my account was pretty much nonexistent for the past year until I found out about StockTwits. This quirky name might turn some off, but it really does describe the incredible new power and depth that StockTwits gives to the individual investor (and arguably the professional money manager).



What is StockTwits?

“StockTwits is an open, community-powered investment idea and information service. You can think of it as Bloomberg for the little guy and gal. Eavesdrop on what traders and investors are talking about RIGHT NOW or contribute to the conversation and build your reputation and following as a savvy market wizard.”

Most of the information I get is through news websites (WSJ.com, etc.) or my Google Reader (for blogs and company filings I subscribe to), but no service gives me real-time access to the minds of investors. StockTwits does that, taking the Twitter infrastructure and tailoring it to the needs of the trader or investor.

Since many news services also have accounts on Twitter, most news is forwarded instantly to your account, so there is no need to keep checking back to a website. Impressively this does not only save time, but also creates instant conversation about news stories or particular trading ideas that crop up from the minds of “the crowd” – except with StockTwits there is a track record.

Right now the site has about 30,000 users since it was launched in October of last year, and has a very diverse mix of traders, bloggers, journalists, venture capitalists, hedge fund managers and many more.

One particular event that has evolved from the community is the “MacroTwits” hour every Sunday night. This event is lead by GregorMcDonald who – according to his website – focuses on energy topics. During the hour people field questions about Oil, Natural Gas, etc. and a discussion evolves that sometimes leads to talk ranging from US Treasuries, to the consumer, to much more. This is just a small example of what is talked about on StockTwits.

For me, the main benefit is to filter out noise from the news media and be able to “hear” different

opinions on various stocks and markets. I accomplish this by filtering my feed to just stocks or markets that I am interested in, even though most users are happy to have conversations about any topic.

If you sign up, you're most likely going to be “talking” to an experienced player that is willing to express their views on the market, which is virtually impossible outside of StockTwits unless you call them up directly. Using StockTwits in essence opens the door to the minds and conversations that market players have every day with themselves or with others.

And if you sign up, be sure to follow me – I'd be happy to give some pointers on usage and who else to follow: @amuhr.

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

Someone asked me this week – has society’s insanity increased or is it simply because our ‘information reach’ is so much further, faster? Factually 70% of our information is gained ‘peripherally’ (i.e. things that we’re not directly concentrating). Due to the downturn: the world is consumed in ‘focus’ and ‘getting by’ and not in any type of ‘peripheral’ knowledge gathering. Hence it’s this ‘peripheral’ knowledge that is giving us the illusion of increasing in speed. Now – having said that – it’s actually ‘both’. Because it now takes ‘catastrophic’ news to even ‘dent’ our behavior. We are in a time of information overload – and with much of the information being ‘catastrophic’ in nature. Where this impacts you and I – is that it often prevents us from putting all of the pieces of the puzzle together.

As this economic recession deepens, we will all see that the banks actually run the country, and how those 15 Goldman Sachs alumni (placed in the highest areas of Government and economic policy) are going to influence virtually everything. For example: Goldman Sachs, carrying billions in garbage toxic slime, lent over \$13 Billion to AIG (through the back door), SHORTED AIG stock – and then had the gall to produce \$1.8 Billion in profits for the first quarter? Why didn’t CNBC (or any major news network) notice this? How can Tim Geithner ask for \$2 Trillion more for a banking system that is recording “record” profits – because he knows that a ‘Depression’ is coming!

Factually:

- Another wave of Adjustable Rate Mortgages are set to reset, and that will cripple another 600k families.
- Last week, General Growth Properties filed the biggest real estate bankruptcy in history. This is Commercial Real Estate and as more retailers and businesses fold – commercial space will be left vacant – and the Real Estate holders can’t roll-over the debt because the banks won’t lend to them. This will easily eclipse the private real estate disaster that we’re presently experiencing.
- In the good old days we had \$680 billion dollars a year coming to “consumers” via home refinancing – well – we’re on track for 2009 to be \$36 Billion = 5%.
- By relaxing the Mark to Market standards so more business can Mark to “Fantasy”, companies will post earnings that let them look solvent for a while longer as they try and unload their toxic waste and pray against hope that they can roll over their existing debt with new financing.
- And no one is talking about the other hundreds of Trillions in Credit Default Swaps (CDS’s) that were written against anything and everything. That time bomb is still ticking and the fuse gets shorter every day.

This week in the Market:

The market is still clawing out gains, although you can feel the toppiness. Will the market roll over and crash downward – or will it continue to confound to the upside? Look at near-term behavior: In 2007, despite horrible economic news, people piled into the market because they couldn’t stand missing the run-up. Then, like clockwork it pulled the rug and we crashed for 7K points. Then, back around the beginning of March, 2009, everyone was so tired of losing money they stopped participating in their 401K, closed their brokerage accounts, and some even went short. Once again, when the maximum amount of people

had crossed-over, “boom” up we went in a tear only equaled once, and that was in the midst of the great depression.

We’ve run up hard – and by some accounts over 30% in just 6 weeks. About two weeks ago we started hearing the “sell” and “overbought” cries and this was just a bear market bounce and we’d be retesting the lows soon. Now the mindset has changed to more and more people are beginning to get the urge to “get back in” and make back their losses. This is a crucial time for the market, probably the most important time of the last 6 months. This coming week will bring us hundreds of earnings reports. If the market simply pauses and backfills a little, but holds it’s uptrend, there will be a stampede to “get back in”. We could rock higher for another 2K DOW points in a matter of just a few months.

You see, the FED knows that with \$13.2 trillion in hand outs and pledges, if the market were to roll over and crash again, it would show that people have lost all faith, the programs weren’t working, and they’d have no more ammunition left. So, it’s to the FED’s best interest to have their “Plunge Patrol Team” directly buy equities under the blanket of “unusual methods” to keep this market moving higher. The FED has already given out: TARPS, Mark to market changes, Geithner’s PPIP plan, and \$Billions to 9 banks so they can lower mortgage payments on defaulting homeowners. The FED can’t let that firepower slip away. On the other hand, the data still stinks. General Growth is bankrupt. Foreclosures are up 24%, and China’s growth rate came in below estimates.

Tips:

My view is that the odds still favor a move higher. Granted we need a pause (a quick slapdown), but it’s my guess that any pause gets bought right up and we soar even higher. Remember when we talked about seeing people sell Treasury Bonds – well the Treasury Bond ETF (TLT) is now at 101 and soon to dip below 100 – as investors are selling bonds they’re investing in stocks and in gold! Speaking of gold: As you all know the physical price of gold is set by the “paper” price of trading on the Comex. Well, gold has gone lower during this run-up however, more and more investors have been demanding delivery instead of cash settlement, and they don’t appear to have the gold on hand to fill the deliveries. It’s my guess there will be a short squeeze in the next month that sends gold soaring again because frankly I don’t believe the dealers have the gold that Comex declares they have. I think they’ve been borrowing to cover, and that cannot last forever.

Here are a couple trades for you to consider:

- FSYS over 15
- ORA and other ‘GeoThermal’ Companies
- UYG, XLF, UYM have made a 50% gain for us – and we may sell and buy in if there’s a pause
- FAS – we cashed in most of our 300% gain
- SLW – has backed off to 7.41 – over 100% gain – under 7 we’re gone – but of all the silver miner/aggregators – SLW is positioned the best
- GSI – a Chinese Steel Holding Company because the Chinese are desperately getting rid of ‘dollars’ buying up real resources, like copper, steel etc. GSI has the ability to make good on that. Be safe – and until next week, be careful.

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