



BULLS & BEARS

Volume 3 • Issue 30 • April 25 2010

HEADLINES

- Index of leading economic indicators says recovery to continue
- Goldman beats earnings estimates with \$5.59 per share
- Longest winning streak for U.S. equities since 2003
- New orders for durable goods fell 1.3% in March
- Financial reform talks continue

FINANCIAL MARKETS

DOW	11,204.28, +1.68%
NASDAQ	2,530.15, +1.97%
S&P 500	1,217.28, +2.11%
OIL	\$85.12, +\$2.53
GOLD	\$1,153.10, +\$19.20
10 YR	3.817%

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MARKET SUMMARY

Monday April 19, 2010

Stocks ended in positive territory after late session buying in financials moved the Dow Industrials Average and the broad market S&P500 up for the day. Technology stocks were among the day's weakest performers. The Conference Board reported that its index of leading economic indicators rose by 1.4% during March. Seven of the ten indicators that make up the index rose during march suggesting that the economic recovery should continue over the course of the next 6 months. The Dow Industrials Average finished up 0.7% to 11,093, the S&P500 finished up 0.5% to 1198 and NASDAQ finished down 0.1% to 2480.

Tuesday April 20, 2010

U.S. equities finished in the upper end of their trading range on Tuesday as the bulls continue to have their way in the market. Johnson & Johnson reported first quarter earnings of \$1.29 per share which was ahead of the \$1.26 that analysts had been expecting from the firm. Embattled financial juggernaut Goldman Sachs crushed analysts' earnings estimates when the firm reported \$5.59 in earnings per share against a consensus estimate of \$4.01 per share. The Dow Jones Industrials Average finished up 0.2% to finish at 11,117, the S&P500 finished up 0.8% to 1207 and NASDAQ finished up 0.8% to 2500.

Wednesday April 21, 2010

Major U.S. indices moved in a choppy range during Wednesday's session as traders paid close attention to congressional deliberation over a proposed banking tax. On the earnings front, Apple, Yahoo and Morgan Stanley all gave the market reason to rally by coming in ahead of their analyst consensus estimates for earnings. The Dow Jones Industrials Average finished up 0.07% to 11,125, the S&P500 finished up 0.1% to 1206 and NASDAQ finished up 0.2% to 2505.

Thursday April 22, 2010

Major market averages opened Thursday's trading session amid renewed fears over the Greek debt crisis. The European statistics agency released a report that indicated that Greece's budget deficit from 2009 was larger than anticipated. The Dow Industrials Average was down by more than 100 points early in the trading day before buyers stepped into buy the dip. The Dow Jones Industrials Average finished up 0.08% to 11,134, the S&P500 finished up 0.2% to 1209 and NASDAQ finished up 0.6% to 2519.

Friday April 23, 2010

Stocks were mixed during Friday's trading session, but up for the 8th consecutive week. This is the longest weekly winnings streak for U.S. equities since 2003. New orders for durable goods fell 1.3% in March that was the result of a significant decline in orders for commercial aircraft. Economists had been expecting an increase of 0.3%. The Dow Jones Industrials Average finished up 0.6% to 11,204, the S&P500 finished down 0.01% to 1208.60 and NASDAQ finished up 0.4% to 2530.

THE WEEK IN QUOTES

"A free market was never meant to be a free license to take whatever you can get, however you can get it. That is what happened too often in the years leading up to the crisis."

- President Obama, from the speech he gave on Wall Street in NYC on Thursday, calling for new rules governing the financial industry

"It's defying the law of gravity."

- Gene Munster, a Piper Jaffray analyst, on the record 8.8 million iPhone sales in the three months that ended on March 27

"For an industry that lost \$9.4 billion last year and was forecast to lose a further \$2.8 billion in 2010, this crisis is devastating"

- Giovanni Bisignani, director general of the International Air Transport Association, saying flight disruptions related to the eruption of Iceland's volcano have cost airlines \$1.7 billion

ANNOUNCEMENT

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GOLDMAN UNDER FIRE! *By Stephen McMannis, University of Pittsburgh*

Trading and investing involves understanding that for any transaction you conduct there is a counterpart making the opposite decision, it is impossible to buy without someone selling to you. Structured Credit is no different, except the deals are much larger. On April 16, 2010 the SEC filed a complaint against Goldman, Sachs & Company and employee Fabrice Tourre for misleading investors into a synthetic Collateralized Debt Obligation (CDO) transaction known as ABACUS 2007-AC1.

BACKGROUND OF THE DEAL

ABACUS 2007-AC1 was one of the over 20 synthetic CDO transactions that Goldman marketed to clients from 2004-2007. All of the Abacus deals were constructed in a similar manner using an SPV (Special Purpose Vehicle) to issue CLN's (Credit Linked Notes) on a reference portfolio consisting of RMBS (Residential Mortgage Backed Securities). Notably the performance of the CLN's was tied to a CDS (Credit Default Swap) on the same reference obligation. Later material will go more in depth as to how the particular products work, but in this Abacus deal, according to the SEC complaint prominent hedge fund Paulson & Company directly influenced the Portfolio Selection Agent's decision – in this case ACA Management, LLC., to include mortgage securities that were more likely to suffer losses. The SEC has gathered a significant amount of evidence including emails and phone calls between Goldman, ACA, and Paulson & Company proving this point. Yet, as these allegations will be disputed in court very soon it would serve more prudent to discuss all the parties involved.

PLAYERS

Goldman in this instance served as the initial mediator that brought all the separate parties together. This included investors like IKB - a German commercial bank, CDS protection buyers – mainly hedge funds under Paulson & Co., and even several trading desks within Goldman. Investors would look to buy CLN's on the reference portfolio that paid interest and returned principal at maturity, in the hope to gain loan portfolio exposure outside of making traditional options. This has been a very common practice for banks since the creation of the mortgage backed security in the 1970's.

During this time as investors were looking for places to allocate capital Paulson & Co. was searching for potential investments and saw the subprime U.S. residential mortgage market as being on the verge of collapse. Contrarian investing at its finest (and a bet that paid off in the billions) led the large fund to build short credit positions in CDS by buying protection on RMBS. This option was preferable because it is often very difficult to short bespoke, specific MBS; not the mention the high negative carry associated with the trade. At the same time, buying protection was available at extremely low cost considering CDO valuation models had very little historical data available and were skewed towards the recent outperformance of CDO tranches. Even in the ABACUS pitchbook, ACA asserted that their track record never included any notes within a CDO selection had been downgraded. This period was filled with euphoria and a broad overextension of credit that eventually led to strong shocks to the financial system.

Goldman, the last major player, had started to foresee some of the trouble for subprime markets according to several internal emails and memos, yet they were still reluctant to pass up revenue. They were involved in the initial transaction by first purchasing protection via swaps on all the A through D classes. At the same time they were responsible for providing the collateral for all the CLN and conducting a basis swap with the SPV (ABACUS). Though the only fee they claimed they received was from Paulson & Co. for \$15 million they also had the opportunity to hold all the short credit positions and at this time it is unknown if all were transferred through its prime brokerage to hedge funds or some kept on their books.

PRODUCTS

Financial engineering has led to a variety of innovations including the many discussed here, though in reality many are simple in concept. In its most basic form the synthetic Collateralized Debt Obligation is a modification and reapplication of the banking business model of borrowing short and lending long. Investors sell protection through a Credit Linked Note (where the investor buys a note, that money is then used to purchase AAA rated collateral - in most cases U.S. Treasuries. Collateral is then stored in the case of a credit event where it is used to pay for the CDS protection buyer in full. A credit default swap is no different in its foundations than an insurance policy where protection is bought or sold on the underlying entity.), where in return their

money is given to the Special Purpose Vehicle to both enter in swaps on their behalf and purchase collateral. ABACUS was created as an SPV and in the United States these are often formed as trusts; this ensures little counterparty risk and replicates a micro-clearing structure. SPV's are also able to issue debt which once again to repeat in this case are the CLN.

Quarterly payments are made by the protection buyers to the SPV which converts these payments into note coupons for investors. Since MBS are susceptible to prepayment risk, any return of principal on the reference obligation will result in the sequential amortization of CLN starting with the most senior tranche. Jumping back to CDO's it is key to understand that how subordination of losses affects the structure and composition. CDO's are built of tranches that have attachment and detachment points for losses (see picture). This enables investors to purchase a tranche that most replicates their investment needs. For example many insurance companies are typically involved in purchasing Supersenior debt that pays very little spread, but have the most subordination. However on the other end of spectrum, the first loss tranche or also referred to as the equity tranche can prove to be a valuable investment in the case that default correlation is very high (for traders) or realized default rates are low.

In the event or downgrade within a CDO the SPV passes the collateral to the protection buyer who is then able to sell it on the open market. At the same time, it returns the reference entity to the CLN investor who then attempts to recover its losses.

2007 DEFAULTS

Subprime mortgages collapsed just as Paulson had predicted, and within 6 months 83% of RMBS on which the CDO had been constructed had been downgraded. Within 9 months 99%, according to the SEC's research, had been downgraded. Investor losses amount to over \$1 Billion which equated to nearly equivalent gains for Paulson's hedge fund. What was interesting, and what investors like IKB had missed were that the tranches were rated at least A2 by Moody's, yet the subprime bonds were all Baa2. At the same time the junior tranches (D-B, see pitchbook), were progressively higher rated, yet individual tranche widths were narrow enough that in any serious set of credit events - all would be wiped out.

9 months later that was exactly the outcome as default correlation across the assets exploded resulting in fat tail for loss distribution. Losses affected even the Supersenior tranches which are short

default correlation, in the case of Goldman who held a \$90 million position on its books. In reality the only good position was buying protection, as any trade involving purchasing equity positions (effectively long default correlation) to profit off Mark to Market gains, would have most likely unprofitable.

IMPLICATIONS

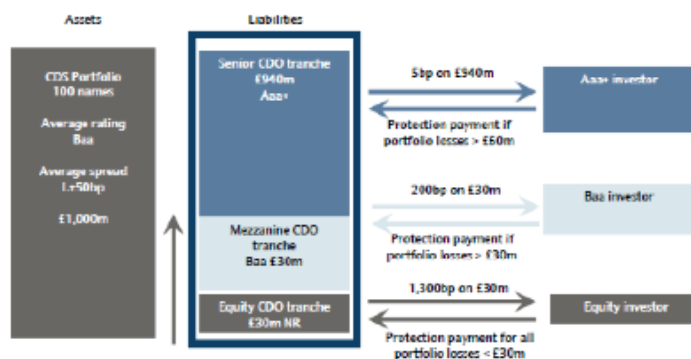
Paulson & Company was hailed for their massive profits betting on the subprime market crash from across the financial community. Little was known or spoken of at the time of how they orchestrated those gains so efficiently. Goldman according to their recent conference call, had (and is the main component of its defense) a Supersenior tranche on its books that had to be written down. However, this a relatively safe investments both in terms of subordination and length of existence (shortest amortization period). This has led to comments that claim the position was just a way to insure their innocence in the matter.

CONCLUSION

Despite claims by members of the financial community that Goldman's derivative trades were dangerous, they did nothing wrong either by offering their ABACUS products of their investment practices. In fact, the only unethical component was their procedure and that they according to SEC allegations intentionally misled their clients. In concept Paulson's investment position was no different than had you sold your house in 2007 at the peak, rented for 2 years, and bought back your own house for a massive discount.

Experts have claimed that the Goldman defense will reference other CDO transactions to claim that they in fact did not mislead clients, but were as in most transactions preserving the anonymity of the long and short parties. The next upcoming weeks will determine whether Goldman is in fact guilty of fraud and whether they or Paulson & Company are liable for investor losses. The overall lesson in my opinion is that it pays to know who and why is on the other side of any trade.

Figure 2: Example of a synthetic CDO



GWU STUDENTS TAKE ON THE CLIMATE CHANGE CHALLENGE *By Michelle Dunn, GWU*

DC entrepreneurs, consultants, policy experts, corporate officials and non-profit leaders came together at The George Washington University on April 8th 2010, to challenge the economic, political, and social status quo and offer a vision for a renewable and sustainable future. Approximately 200 students, alumni, and professionals from the DC metropolitan area attended the conference to engage in a lively discussion of the top issues facing business and the environment.

Gregory Kats, Senior Director, of Good Energies, kicked off the conference with providing a roadmap of new clean energies and lower carbon technologies that will deliver the greatest environmental and financial benefits. One of the most exciting areas of growth is in green buildings. Mr. Kats predicted that LEED certification would continue to become more rigorous and require either re-certification or re-evaluation of all new buildings after a fixed number of years. He predicted that half of all new building construction would be LEED certified by 2015. Mr. Kats explained; “the cost savings for green buildings are typically ten times larger than the cost premiums, and occupancy rates, rent and property values are all higher.” Making the case for green building -- not only is it economic sound, but it is a better long-term investment and a high growth job market.

The attendees were further enthused by the first panel: “Energy Revolution: Innovations for a Sustainable Planet” with noted leaders on the topic -- Alex Laskey, President of the O-Power; Chris Tynan, Manager at the Verdo Group; Claire Tomkins; Director of Research for the Carbon War Room; Jeff Curry, Director of Global Product Marketing for a Better Place moderated by Aaron Menkin President of GWU Energy Group and first year Global MBA. This group of DC Innovators discussed their company visions and presented best practices to capitalize on green opportunities in a dynamic marketplace. Alex Laskey engaged the audience with fun ways to look at energy by asking the audience what percentage of American’s believes that saving energy is important – most of the audience estimated about 70 percent, when in reality the number is 90 percent. He compared this statistic to the fact that only 76% of American’s love their mothers.

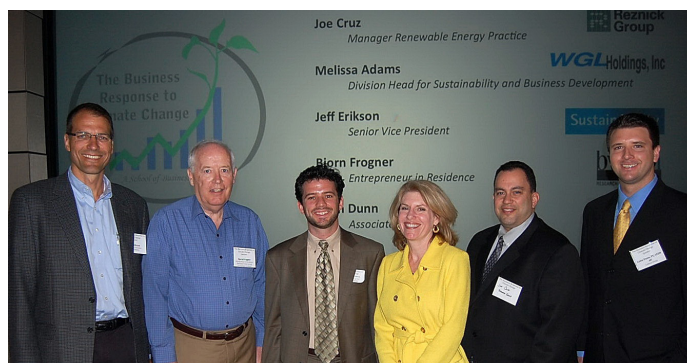
This lighthearted introduction to an important topic of changing consumer consumption and finding new energies and technologies intrigued most of the attendees. Each of the panelists emphasized that economics, consumer adoption/change in behavior, as well as technology are fundamental to a sustainable future.

The final panel of the day was titled “Navigating a Carbon Constrained Economy: Strategic Response to Climate Change.” The distinguished panelists included Joe Cruz,

Manager in the Renewable Energy Practice of the Reznick Group; Melissa Adams Division Head for Sustainability for Washington Gas; Jeff Erickson, Senior Vice President at SustainAbility; Brojn Frogner, Entrepreneur in Residence at Maryland Clean Energy Technology Incubator, Colin Dunn from the Cadmus Group moderated by Jeremy Domm Vice President of GWU’s Energy Club and a first year Global MBA moderating the panel. Each of the panelists addressed initiatives that reduce the environmental impact of business and presented new business areas created by penetrating clean technology, energy efficiency, and environmental markets. Each of the panelists described their backgrounds. Many came from traditional backgrounds working with conventional energies and industries to their present positions in developing business strategies, finding alternative sources of energy, and to make an overall commitment in reducing dependence on fossil fuels. One theme that was heavily emphasized was the need for talent, advocacy, and to make a commitment to create clean energies and a brighter economic future.

The conference ended with a networking reception that allowed students and other attendees, including the conference speakers and faculty, to continue the discussion on climate change and business opportunities.

Aaron Menkin, the conference organizer and President of GWU’s Energy Club, was overwhelmed with the success of the event and the support from students, faculty, business leaders, and the many university organizations. He further noted, “This was a group effort, I highly encourage other clubs at other universities to create events and conferences to continue the dialog on addressing the challenges of climate change.”



FANNIE AND FREDDIE: CONFIDENCE PROBLEMS *By Daniel Sholler, University of Pennsylvania*

STORY HIGHLIGHTS:

- Two of the biggest players in the mortgage crisis—the one that had a major hand in crippling the world economy—remain on taxpayer life support and soak the nation of more and more money each day.
- The recent protection is an excerpt from the historic push-and-pull relationship between the govt. and the mortgage giants.
- If the country is truly looking to prevent another economic meltdown, it should probably go to the source of the problem first.

At this point, most of us are tired of hearing the phrase “sub-prime mortgage crisis.” In fact, it probably makes many people downright sick. But the fact that neither of the proposed financial reform packages include language addressing the Fannie Mae (FNM) and Freddie Mac (FRE) debacle is troubling to both Wall Street and taxpayers alike. Two of the biggest players in the mortgage crisis—the one that had a major hand in crippling the world economy—remain on taxpayer life support and soak the nation of more and more money each day.

Going Unaddressed

Perhaps the most puzzling piece of the financial reform movement is the lack of attention to Fannie and Freddie. The corporations have eluded each of the issues that have been barber shop and grocery store topics of discussion, including high bonuses, repayment of government funds, and restrictions on bottom lines. But until public outcry is loud enough to be heard on Pennsylvania Ave., do not expect much in the way of action from the Obama Administration, the House of Representatives, or the Senate.

Let’s not forget that the Treasury bought eighty percent of the companies and that the Federal Reserve has provided substantial assistance in buying toxic assets. This and the recent protection of Fannie and Freddie is just an excerpt from the long, storied history of give-and-take, push-and-pull relationship between the government and the mortgage giants.

The key points in recent history to look to in the downturn of Fannie and Freddie and the ensuing dependence on the federal government came during the Clinton and Bush administrations. Each of these administrations pushed for homeownership. These initiatives came at a high risk, especially since the majority of the push was geared towards low-income and minority citizens. Regulation requiring such risk necessitated hedging measures—in particular,

higher market share—in order to provide these loans. In the years following the regulation, the crisis occurred and the rest is ugly, ugly history.

Building a Lack of Confidence

Fannie and Freddie’s short-term appeasement of shareholders placed them in a compromising situation once the crisis took hold. According to Ben Protes’s investigative report, over \$1 trillion in sub-prime and high-risk mortgages were bought by the companies prior to the downturn. Now, as the economy recovers, they are still far behind. They have paid under \$7 billion in funding back and continue to borrow, having used \$125 billion thus far. The Obama administration and Congress are in a difficult spot, as they try to keep credit



markets unclogged yet ensure that another spiral does not occur. But what the government is failing to do is regulate Fannie and Freddie effectively enough to tame the absurd spending practices and irresponsible actions of their executives. Bonuses were exorbitant last year—in excess of \$40 million—while Wall Street firms endured cutbacks on how much employees could be compensated.

While most of the nation is in agreement that the financial system is imperfect and probably needs some form of regulation overhaul, leaving out certain firms due to government relationships is unfair and sets a dangerous tone for future crises. In addition, the action the Administration is taking keeps investors on edge—that is, confidence in banks remains low. As mentioned above, this is not to say banks and boutique firms should get off easy or that Fannie and Freddie should be the sole targets of reform efforts. But if the country is truly looking to prevent another economic meltdown, it should probably go to the source of the problem first.

SUMMER 2010: TIPS TO SECURE A FULL-TIME OFFER *By Dylan Ozmore, Carnegie Mellon University*

- Take advantage of learning from young people (analysts/associates) who have the time to teach you and can relate more to you
- Be social, don't beg them to come out with you for drinks or dinner (they're busy enough and sacrifice enough social life), but if they ask you it should be priority number 1
- Obviously: don't ever get drunk at a work function or if you are out with fellow interns or employees
- Find the desk that fits you best – you only have the summer to do it!
- Impress the people who matter (MDs, etc.)
- Good questions to ask when you sit down with people:
 - o Their career path (where they went to school, why they chose the firm, etc.)
 - o Specifics about the desk
 - o What advice they have for you
 - o Anyone else they recommend sitting with or any other areas they recommend?
- Whenever I e-mail people to sit down, I always attach my resume (I was given this advice by a VP)
 - o Also e-mail people in the morning – it gets to the top of their inbox and if you e-mail at night they might be sleeping and their BlackBerry will go off
- Remember that firm culture varies extraordinarily from desk to desk within a firm
 - o Some desks make you get coffee and other desks will get coffee for you
- Know your product as well as possible
- Sit with people without being annoying, remember that knowing when to be away from the desk is just as important as knowing when to be there (an ED at MS told me that!)
- FILO – “First In, Last Out” but not to the point where you're getting so little sleep that you're not functioning and people can tell you're tired
- Mock trade if you can, or at the very least throw some investment ideas at your boss even if they're not in the product of your desk (though that is preferable)
- Do whatever your superiors tell you to
- See what other interns are doing and out do them
- Talk to interns at other firms and see what their experiences are like
- Be aggressive!
- Know EVERYBODY's name – use the directory, they usually have pictures along with names
- Network with professionals and other interns
- Sit with people at other desks, it will give you a better view of the different businesses the firm is involved in and it goes along with finding the best fit desk
- Make your team's lives easier!! (even if they don't ask) for example, putting together a summary of the day's market movements
- Sit with people – don't be scared of asking (especially over e-mail) to sit with somebody for a bit, when you do sit with them – be attentive and take NOTES. Even though you might never use the notes it makes it seem like you are being more attentive. After sitting with them send a thank you e-mail to them and explain what you got out of sitting with them
- Especially if they're not giving you work try to think of something that you can do for the team
- When they teach you things they expect you to know it, if you have problems learning it while they're teaching you then be sure to learn it afterwards whether by going online or asking other people
- Know the hierarchy at your firm so that for example if somebody tells you they are a Sr. VP you know what that means
- Take advantage of the internet to learn things! If you think a question might be stupid then first check the internet to see if you can look it up there
- Stay in touch with the people who interviewed you at the firm (they have a stake in your success! Because they gave the ok on hiring you). Young people are great to get to know because they have the time to teach you and can relate to your position. Also, the summer associates (MBAs) can also be a helpful resource because they typically have work experience and more contacts within the firm.
 - o Stay in touch means: send articles, ask intelligent questions or for advice, bounce investment ideas off them, keep them updated on major progress you have
- If you want a job hang around the desks that are hiring. They're very likely hiring if they have an intern on the desk
- Make friends with the other interns, especially if you're at a good firm. You'd be surprised how many of them will turn out to be very successful



Getting an offer is much more an art form than an exact science – you want to be social but not neglect your desk, you want to ask a lot of questions but not be annoying. The real challenge is figuring out what your boss expects. Use whatever resources you can to figure this out as soon as possible. Good luck.

APRIL 18 - 24 *By Stephen McMannis, University of Pittsburgh*

1. Healthcare Law's Unfinished Business: Cost Curbs

<http://finance.yahoo.com/news/Health-care-laws-unfinished-apf-3704361887.html?x=0&sec=topStories&pos=2&asset=&ccode=>

2. Using Options to Judge Future Volatility in Foreign Exchange

<http://www.investopedia.com/articles/optioninvestor/05/022305.asp?partner=ntu4>

3. A Look at Fund Manager Edouard Carmignac

http://www.bloomberg.com/apps/news?pid=newsarchive&sid=afK_OXZ2sPvk

4. Column by Author Andrew Ross Sorkin

<http://www.nytimes.com/2010/04/20/business/20sorkin.html>

5. Goldman SEC Case May Hinge on Meaning of 'Selected'

<http://www.businessweek.com/news/2010-04-19/goldman-sec-case-may-hinge-on-meaning-of-selected-update1-.html>



6. Citigroup, in Turnaround, Reports \$4.4 Billion Profit

<http://www.nytimes.com/2010/04/20/business/20citi.html?src=mv>

7. Obama Moves to Close Deal on Financial Reform

<http://www.msnbc.msn.com/id/36718600>

8. Goldman's Turre E-Mail Describes 'Frankenstein' Derivatives

<http://www.bloomberg.com/apps/news?pid=20601087&sid=aDgzfxGfUMg&pos=2>

9. For Greece, Restructuring Is No Longer Unthinkable

<http://www.nytimes.com/2010/04/26/business/global/26drachma.html?src=mv>

10. Fed Poised to Keep Low Rate: Coming Week

<http://www.thestreet.com/story/10735041/1/fed-poised-to-keep-low-rate-coming-week.html?kval=dontmiss>

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

Our Thoughts:
What is really going on inside those Black Trading Boxes?

A lot has changed in the last 12 years - making this a market controlled not by mass collective wisdom, but by computers, mathematical equations, dark pools, and black 'trading' boxes.

In the fourth quarter: total US corporate profits rose 30.6% year-over-year, a huge swing from the -25.1% trend a year ago. But almost the entire story was in the financial sector, where profits have soared an unprecedented 240%. Financial sector profits have accounted for 85% of the overall increase in corporate earnings. Total non-financial earnings are up a grand total of 5.2% year-over-year. Now is 5.2% overall growth, enough to justify where this market is? NO. And how are the banks doing it: (a) they're keeping two sets of books - one real and one "mark to model", and (b) the Fed allows them to borrow from the Fed at 0.50% and then loan back to the Government at 4% - and you've heard me go on about the rest of this list countless times.

But let's look at yesterday's action in the market for an example. The market opened weak - and we had a fairly sharp pull down loosing 105 DOW points quickly. As we got closer and closer to DOW 11K, you could feel the 'defense' - and then suddenly program trades / 'black boxes' kicked in and we were off to the races. Now, considering that black box trading now accounts for over 70% of all trades made, this is significant. What is Black Box Trading? It is very large computer algorithms - designed to buy up baskets of stocks when any of 10 to 500 parameters are met. The parameters vary from price levels, to interest rates, to volume levels, etc. When the computers sense these parameters, they automatically go out and buy up what ever has been programmed into them - normally very large baskets of stocks. Because many of these algorithms are based upon 'other activity' - you can potentially see where a couple dominos falling - could influence the entire group fairly easily. This is why a relatively small amount of cash tossed into the futures, can move stocks so extremely. The black boxes see the futures buying, figure out that they are going to go up, and correspondingly go out and buy their own baskets of stocks, pushing the market even higher. It's literally the tail wagging the dog. Before the widespread use of these incredibly powerful black boxes you could NOT have intra-day pops of 100 points on NO news - but today it controls 70% of the trading volume and therefore is the force behind our every day movement. This is why it doesn't really matter what the underlying economy is doing - but rather where the major players wish to push the market.

For me, I'll need to see a couple closes over DOW 11,200 to get me to toss in the towel and say "okay, we're going to go even higher", or I'll have to see two closes under DOW 11K, to tell me "okay, reality may have set in".

Factually: Employers took 1,628 mass layoff actions in March that resulted in the separation of 150,864 workers as measured by new filings for unemployment insurance benefits during the month. Each mass layoff action involved at least 50 people from a single employer. The interesting part here is that this number is an INCREASE of 58 (mass layoff actions) over the previous month. So 'factually' things are NOT improving in the job market.

Factually: What about GM paying back the TARP? Senator Charles Grassley of Iowa joins a chorus questioning GM's loan repay-

ment, saying it's an "elaborate TARP money shuffle" rather than the sign of health in the company. In a letter to Treasury Secretary - Tim Geithner, Senator Grassley said that the source of the funds for the \$4.7 billion repayment is not GM earnings, but rather a Treasury escrow account - and they literally borrowed from "Peter to pay Paul". Sen. Grassley wrote that GM's early repayment of the federal loan is aimed at diverting attention from another uncomfortable issue - the big break the car company would get on a proposed tax to recoup TARP losses. GM is expected to generate some of the biggest losses in the TARP program, but it won't have to pay any money under the so-called TARP tax the Obama administration wants to impose on large financial institutions. Treasury and GM officials don't dispute these facts. But where was CNBC in telling us the entire story?

Factually: Food Stamp use has risen 22.4% in ONE year.

Factually: Just Friday night, 7 more banks were closed (bringing the total to 57 for the year). These seven banks will cost the FDIC \$973.9M.



Factually: Call me old fashioned but I still can't figure out how borrowing more money gets you out of debt?

The Market
Always remember: "the market can remain irrational longer than you can remain solvent!" Either I'm about to be made to look silly, or we are in that last hurrah. On Friday, the market stumbled after the open and went red. Then the black boxes fired off and in a matter of minutes we went from 11,105 to 11,184 - and closed at 11,204 - breaking over their 200 day moving average. One of two things will happen here - either we just continue higher and higher in the face of all the ills and remain "irrational" or we roll over. I am still in the camp that says we're topping. We have seen the market advance for 8 weeks, seeing stocks fully priced and over-valued, and the market (by just about any metric) is overbought.

I'm hearing more and more traders talk about one last hurrah - a 'blow off top' kind of day. If that's the case - we should

see them rush in on Monday, and take us up - and that may flow into Tuesday and Wednesday. And then potentially we see the unexpected pull down - a reversal and drop of 100+ points - and that could be the first stair step lower.

Don't get me wrong - I've lived this movie before in 1999 - where the market simply "melted up" on nothing but hot air. It could do it here, especially with the amount of fraud, manipulation and Fed money they are playing with. Everyone knows the scam, everyone knows it's not sustainable. The question is only "when does the music stop?" Then again I could be all wet and next week we could be talking about what stocks to buy when the DOW is at 12,500 and rising.

Tips:
Let's assess where we are:
- I am long ODP at \$8.40 - and will sell it on Monday as they release earnings on Tuesday
- I am also long NTRI at \$18.47
- I am short the DIA's at \$110.94 - and am going to sit with this underwater for a bit here. Yes, that's somewhat suicide in a manipulated market, but I'm willing to take that gamble and risk a few bucks.
- I'm into the VXX at \$19.81 - which is a much longer term play.

If you'd like to view my actual stock trades - feel free to sign up as a twitter follower - "taylorpamm" is my nickname on Twitter - fyi.

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