BULLS & BEARS

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HEADLINES

- Fed reports that production increased by 0.9% during Jan.
- New home construction rose to 591,000 in Jan.
- Walgreens is purchasing NY-based Duane Reade for $1.08B
- Fed decided to raise discount rate and cut some emergency lending facilities

FINANCIAL MARKETS

DOW	10,402.35, +3.33%
NASDAQ	2,243.87, +4.49%
S&P 500	1,109.17, +3.29%
OIL	$79.81, +$6.92
GOLD	$1,121.30, +$38.30
10 YR	3.782%

THIS WEEKS ISSUE

MARKET SUMMARY

Monday February 15, 2010
Market's closed.

Tuesday February 16, 2010
U.S. rallied across the board during Tuesdays trading session with gains that were primarily fueled by commodities and financial stocks. The New York Federal Reserve reported that its Empire State index hit 24.9 in February, which is up from the report of 15.9 that was issued for January. The Dow Jones Industrials Average finished up 1.7% to 10,269, the S&P 500 finished up 2% to 1095 and NASDAQ finished up 1.4% to 2214.

Wednesday February 17, 2010
U.S. Stocks finished up broadly during Wednesday's session with average gains of roughly 0.5% on the major indexes. The Federal Reserve issued a report that showed that showed that the nations factories and mines boosted their production by 0.9% during January. Housing related stocks rallied after the Commerce department reported that new home construction rose to 591,000 in January. Economists had been expecting a rise to 580,000 units. On the mergers front, Walgreens announced that it would be purchasing New York based drug store operator Duane Reade for roughly $1.08 billion including the companies' outstanding debts. The Dow Jones Industrials Average finished the session up 0.4% to 10,309, the S&P 500 finished up 0.4% to 1100 and NASDAQ finished up 0.6% to 2226.

Thursday February 18, 2010
U.S. Stocks ended in the upper end of Thursdays trading range for 3rd consecutive session of gains. The Philadelphia Federal Reserve reported that its manufacturing index rose to 17.6 in February from a report of 15.2 in January. The technology was mixed throughout the course of the session that seemed to reflect the mixed earnings performance of tech firms. The Labor Department reported that the number of workers applying for first time unemployment benefits jumped by 31,000 to 473,000 last week. The consensus among economists was that initial claims would decrease. The Dow Industrials Average finished up 0.87% to 10,393, the S&P 500 finished up 0.7% to 1107 and NASDAQ finished higher by 0.7% to close at 2242.

Friday February 19, 2010
Stocks ended the Friday session slightly higher after trading lower at the open on the heels of the announcement Thursday night that the Fed decided to raise the discount rate, and remove some of the emergency lending support that had been in place as a result of the financial crisis of 2008. The Dow Jones Industrials Average finished up 0.09% to 10,402, the S&P 500 finished up 0.22% to 1109.17 and NASDAQ finished the session up 0.10% to 2243.87.

THE WEEK IN QUOTES

"There will be significant bankruptcies among developers and significant failures among community banks."
- Elizabeth Warren, chair of the Congressional Oversight Panel, on the vulnerability of commercial real estate

"Washington right now is broken."
- Joe Biden, U.S. vice-president, on the bitter partisan political climate in the capital

"There's no such thing as originality anyway, just authenticity."
- Helene Hegemann, 17, on her best-selling book that has been criticized for plagiarizing older, less familiar authors; despite the controversy, the book is a finalist in fiction at the Leipzig Book Fair in Germany

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DAVOS 2010: EUROZONE DESTABILIZATION *By Daniel Griffith, Carnegie Mellon University*

STORY HIGHLIGHTS:

- The forum focused on global growth, developing countries, and sustainable growth worldwide.
- The EU is putting pressure on the countries to reduce their deficit to 3% of GDP by 2012.
- The most troubling number discussed at Davos however was Spain's 42.9% unemployment rate for 16-24 year olds.

The World Economic Forum held its annual meeting two weeks ago, from January 27-31 in Davos-Klosters, Switzerland. The forum focused on global growth, developing countries, and sustainable growth worldwide. It served as an opportunity to voice concern, one of the predominant being potential civil unrest.

Following the realization of a credit crisis in Greece, and the currently destabilizing economies of what is referred to as PIIGS (Portugal, Ireland, Italy, Greece, and Spain), it is becoming clear that the domestic populations are far from pleased. As a result of the recent Greek crisis, the EU has placed strict guidelines in place for a domestic handling of the situation. They are putting pressure on the country to reduce their deficit to 3% of GDP by 2012, a move which is currently generating massive resistance from the working class. George Papandreou, the current Prime Minister, has imposed substantial pay cuts for all public sector employees making over €2,000 a month.

The cuts will begin at €500 net per month, per worker. The government is also considering raising the retirement age, and cutting jobs. In Greece, tax officials staged a 48 hour strike on February 4, nearly 14,000 workers refused to work, and blocked entrances to the economy and finance ministries in Athens. ADEDY (Civil Servant's Confederation), a public sector union, is planning strikes on the 10th and 17th of this month (OLME, the high school teacher's union, will be joining). For the last three weeks, farmers have been blocking the main highway between Athens and Salonika with tractors. They are protesting the lack of investment in farming technology, seeing as the government has pulled nearly all funds from the agriculture sector.

Spain has also been hit hard by the recent economic crisis, and protests have already been planned for February 23rd, when the government will vote to increase the pensionable age from 65 to 67. The two national labor unions, the UGT and CCOO, are currently meeting with other unions around Spain to coordinate larger protests, as Spain modifies its domestic policy, to deal with their impending debt crisis. Spain has seen tremendous economic decline in the last year, with its current debt-GDP ratio having doubled to 55%. The national deficit is 11.4%, highest in the euro zone (behind Latvia), and the national unemployment is 18.8% (average is 9.5% in the euro zone). The most troubling number discussed at Davos however was Spain's 42.9% unemployment rate for 16-24 year olds. Officials are concerned about potential economic growth, and the current young working class is far from able to support sustained government spending (such as pensions). This staggering number is evidence of potential civil outburst, something government officials are doing their best to avoid. However, Spain has not been able to create more jobs, and the upcoming pension age increase will only further hurt young adults from finding work.

According to the Eurostat Press Office, unemployment numbers throughout the EU have been steadily increasing over the last four business quarters, with the unemployment for those under 25 increasing at significantly higher rates. The average unemployment rate in the euro area (EU16) for 2009 was 8.2%, however when looking at only ages 16-25 the number jumps to 18.3%. These numbers, combined with the impending EU/IMF bailout of Greece (potentially not the only nation to require a bailout) a putting additional stresses on the government, as a recent poll for Germany's Bild am Sonntag newspaper showed, 53% of Germans would prefer expelling Greece from the euro zone, and 67% opposed any sort of internal EU bailout. This is just the tip of the iceberg, financially and socially.

Governments are reforming their economic policies, but meeting staunch resistance from domestic labor forces. The EU has made their economic regulations clear (with euro-zone nations needing to meet 3% debt-GDP), but EU requirements, as they begin to be enacted, only show the world how fragile these countries have become. Greece's current CDS spread and bond yields are based purely on speculation: with BlackRock Inc. claiming everything will be resolved without any loose ends, and Société Générale boldly assuming the Euro will break up within the next year.

One of the primary problems with the EU, as Société Générale notes, is that it is a broad economic pact, which is difficult to apply to such a broad range of economies. France and Germany see very stable economic trends, while countries like Greece and Spain borrowed heavily upon gaining admittance to the currency, and now the debt has come due. Over the next few years, we will see if the Union is strong enough to survive economic misconduct, and avoid a Lehman-like collapse with Greece being the catalyst.

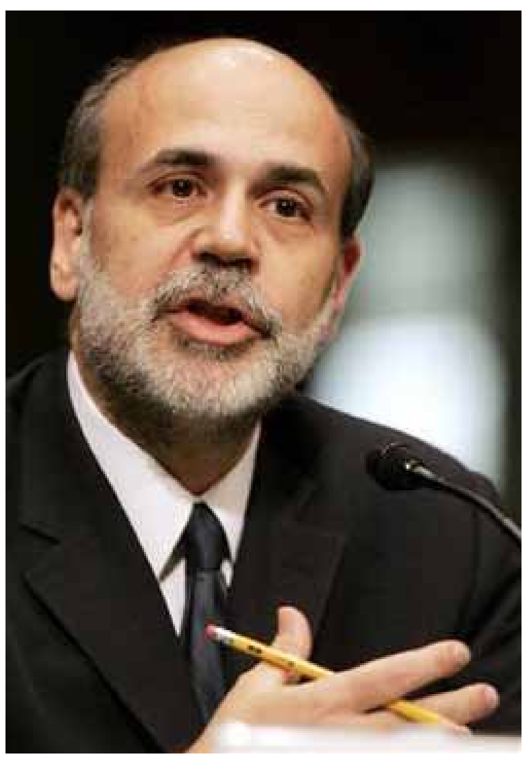
THE FED TAKES CENTER STAGE *By Stephen McMannis, University of Pittsburgh*

STORY HIGHLIGHTS:

- Assets on the Fed's balance sheet soared to a record high of $2.29 trillion.
- On Friday, the knee jerk reaction across all assets was erased with equities posting further gains past Thursday's highs.
- Yields will rise across the curve; expect some initially flattening amidst a general rise to pre-crisis levels.

This past week the Federal Reserve became the central focus of financial markets not only across the United States, but the entire world. Traders found themselves trying to deal with a multitude of new information from the Fed, including continued balance sheet expansion, Federal Open Market Committee minutes, and a change in the Discount Window official lending rate.

With the Fed's release of their weekly H.4.1 report they kept the trend alive by once again increasing assets on their balance sheet to a record high of $2.29 Trillion. At the same time MBS and Agency paper holdings continued to expand, though the Fed is nearing the end of its planned purchases. Within the next the month the trading desks at the Fed will, assuming no further liquidity injections, stop all purchases. Returning to the report, a more in depth look once again showed that bank excess reserves held at the Fed also continued to expand to another record high of $1.14 Trillion. This has been an interesting dynamic to follow considering any meaningful and expansive recovery should see reserve balances declining.



Wednesday's FOMC minutes showed that the Fed was all too aware of this very issue and several members on the committee spoke about how to both shrink the balance sheet while at the same time reduce excess reserves. The management of these excess reserves is a critical component into managing the Fed Funds rate; though currently set at between 0- .25% is actually managed to around .15%. Banks are playing a waiting game with the Fed; not willing to expose lending capital by creating assets and loans until the Fed first raises rates. In fact the correlation between Fed Funds futures and reserve balances is very high; as the fed lowers rates, balances expand.

Across bond, equity, and currency markets investors have also been waiting for those very same interest rate increases and have even been pricing in eventual moves. Treasury yield curve steepening trades continue to be popular as fund's buy Treasury-bills and sell Treasury Notes. So, what was the market's reaction to the first effective rise in the Discount Window rate? The knee jerk reaction across markets was to buy dollars, sell equities, and sell treasuries. Notably, when the announcement was made Fed Chairman Ben Bernanke immediately reaffirmed the central bank's stance on monetary policy. He stated ""These changes are intended as a further normalization of the Federal Reserve's lending facilities," and "The modifications are not expected to lead to tighter financial conditions for households and businesses and do not signal any change in the outlook for the economy or for monetary policy." . With two sentences the central bank president stayed firm on the stance that rates will continue to remain low. However, Discount Window lending is relatively unimportant and is often a last resort, which is heavily scrutinized by institutions due to the negative stigma that comes with it. It serves as a very small piece of monetary policy and the central bank wanted to assure market participants that this increase did not translate into any reason to change in general rates.

On Friday, the knee jerk reaction across all assets was erased with equities posting further gains past Thursday's highs. Eurodollar, 10 year Treasury Notes and Bond futures also reversed all previous losses on high volume, giving a bullish sign for next week possibly. However, as time goes on interest will inevitable rise- politicians and heads of state persistently worry about asset bubbles- and will not let loose monetary policy go unchecked. The question is: what does this mean for assets, especially without an intervening Fed?

Yields will rise across the curve; expect some initially flattening amidst a general rise to pre-crisis levels. Equities will have downside potential as investors pull money out of stock markets and look to grab fresh yields in bonds. Also working against equities will be a strong dollar; (dollar will gain in value as international funds flow in to seek higher yields) which to foreign investors makes US stocks more expensive in their native currency. A huge problem for the Treasury that will result is the massive cost of refinancing its debt in the years to come at these higher premiums. Over the past month, demand has come down for end of the curve (10, 20, and 30 year) maturities with weaker auctions and less participation by direct bidders- which generally is foreign central banks.

If you're looking to trade this fundamentally a great option that has multiple aspects working in your favor is buying the USD/JPY currency pair. Before hitting a 15-year low the pair was an attractive sell thanks to a small percentage carry trade in which it was cheaper to borrow dollars and buy yen assets. Yet, as that has reversed so has the pair, and with the Bank of Japan's expansion of liquidity programs and a persistent commitment to fight deflation the yen should continue to be weak. Buying any dips has become attractive, especially considering the strong historical positive correlation between US Treasury yields and the pair; the pair above 100.00 before year end is a legitimate possibility.

Going back to the Fed, this week has been full of what could be the very start of fundamental changes in monetary policy, and can be seen as a test of the waters. They showed their hand multiple times and were able track the impacts before actually making serious announcements. Over the next several quarters the Fed will once again be a key focus as they try to reduce the balance sheet, cut excess reserves, and try to control interest rates in an organized manner. Any change in Bernanke's tone will be a major catalyst, and once it does, expect the Federal Reserve to take center stage again.

SOLAR BRIGHT SPOTS *By Daniel Sholler, University of Pennsylvania*

STORY HIGHLIGHTS:

- Earnings reports from JA Solar (JASO) changed a lot of minds about solar stocks.
- Economic recovery in the United States will largely depend on development of renewable resources.
- Solar stocks are great because of the U.S. government's commitment to renewable energy's potential.

Assessing portfolio composition amidst economic changes is vital to the success of investment clubs and portfolio managers alike.

Becoming heavily invested in one industry obviously has its benefits and drawbacks, but ensuring that the former outweighs the latter relies upon an investor's ability to reevaluate the progression of the industry as frequently and thoroughly as possible.

Early last week, many were abandoning ship with solar stocks. However, earnings reports from JA Solar (JASO) changed a lot of minds. Even prior to the numbers being released, I felt that clean technology is still a sector to remain confident in; clearly, though, some readjusting must occur given recent news.

Early Earnings Reports

Initial earnings reports from Evergreen Solar (ESLR) caused a bit of unrest amongst analysts, but I don't think these shortfalls give an accurate outlook on the solar sector. JA Solar posted downright stunning numbers last week, showing promise for an industry that has fallen under heavy criticism. JA Solar is a model corporation for renewable resource development.

Economic recovery in the United States will largely depend on development of renewable resources. While the solar industry's fate is still in question among many investors, I'd take advantage. JA Solar's numbers will make it difficult to "buy low," but going deeper into solar technologies with stocks like Trina Solar (TSL) is a move many should consider.

Government Investment to Continue

The main reason I'm sticking with solar stocks is the U.S. government's commitment to renewable energy's potential. Rhone Resch, president of the Solar Energy Industries Association, stated that an expected 45,000 new jobs would be created in the industry if tax incentives and government initiatives held up in 2010. Wind and solar would be at the forefront of the changes.

I tend to believe in the potential of the renewable energies sector. In a rough economic climate, this industry has been one of the lone bright spots. In recent months, several economists have doubted the U.S. economic growth rates and have cited the lack of innovative technology as the primary reason.

Government commitment to developing these renewable resources, as well as parallel efforts in countries like China, will keep the solar and other sectors afloat during recovery. In addition, investors will see promise in the industry later this year as it continues to create jobs amidst a lagging unemployment picture.

U. OF TEXAS GRADUATE FINANCE ASSOCIATION *By Dylan Ozmore, Carnegie Mellon University*

An Interview with Brian Shin, Vice President of the University of Texas Graduate Finance Association.

1. What are the goals of the GFA and can you tell me how the organization got started?

Goals of the GFA are divided primarily into two functions, academics and careers. In academics, we supplement the McCombs Finance curriculum by providing continuing education preparation. For careers, we provide preview for each areas of finance (I-banking, private equity, corporate finance, etc), run training sessions, organize interview preps, and provide numerous networking opportunities to our members.

As far as how the organization started, I do not have any insight into the history.

2. What type of events does the GFA run during the year?

In August, we have a kick-off meeting to welcome all 1st and 2nd years to McCombs. We provide more background about the organization and make sure that everyone who is interested in the field of finance has an opportunity to join.

In September, we run an event called Function Week where 2nd year students with investment bank, private equity, asset management, corporate finance, and other finance background run information sessions for 1st year students. They go over their experience, details of the job, and what they need to do in school to prepare for those positions. It basically gives more insight to 1st year students from the perspective of 2nd year students.

In October (March in Spring semester), we run Curriculum Overview to help students learn more about finance courses being offered for the upcoming semester.

In November, we run the Finance Challenge Competition. Judges are McCombs Finance faculties and working professionals from some of the largest companies in the nation. Students are formed into teams and they are given a case to analyze and to put together to present before the judges. It allows students to showcase their skills before recruiters and also allow for networking opportunities.

In March, we hold a mixer with undergraduate students at McCombs to talk about our experience.

In April, we represent the GFA at the Preview Weekend where all admitted students for the upcoming year come and visit the school.

Throughout the semester, we hold Lunch with Professors as well.

3. Brian, can you tell me about yourself? How did you get involved with the organization and become Vice President?

My undergraduate degree is in Finance from McCombs as well. I worked at Samsung Austin Semiconductor for four years before coming back to McCombs for an MBA. I knew I was going to continue to do finance, so I just wanted to meet people with similar background and interests. GFA is the largest organization in McCombs, and I was very excited for the opportunity.

As far as being elected, I submitted my platform in November and they held an election for all positions. Each GFA members voted, and I was fortunate to be voted into VP of Finance Operations position.

4. In your opinion, has the value of the MBA changed given this current crisis?

I think so. I think the Program Office is working hard with the recruiters to better suit the MBA students to think and act like managers. There seems to be more emphasis in strategy and management as well as ethics.

5. Are we out of this crisis yet and if not, what will it take to get us out?

I think we are slowly moving out of the crisis. There are still some companies that are impacted by the crisis, but the recruiting numbers are up and companies are back on campus to hire for internship and full-time.

6. Where can students go to get more information about your organization or to reach out to you?

Students can get more information by visiting our website at http://www.mccombs.utexas.edu/students/gfa/

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

Our Thoughts:
A girl phoned me the other day and said: "Come on over, there's nobody home." I went over – and there was Nobody home. ... Rodney Dangerfield

Conspiracy Theory: It didn't take long to realize that the true 'global warming' agenda – and that was to tax people and have more control over lives. He who rules the energy, rules the people. Now that the entire scam has been exposed, from the leaked emails where the scientists hid data and "made up" theories, to scientists saying we haven't warmed at all since 1995 and are probably cooling, to high profile global warming advocates quitting in disgrace.

I haven't spoken to my wife in years. I didn't want to interrupt her. ... Rodney Dangerfield

Last week in a fifteen minute time we had:
- the Head of the Greek Debt Office replaced by a former Goldman Sachs employee. That makes 18 x-Goldman people placed in government positions of authority around the world.
- a Pfizer – Merck researcher admits to faking dozens of research studies for over 13 years.
- a School give laptops to kids – and spies on them via webcam – an invasion of privacy like no other.
- the UN Climate Chief Yvo De Boer resigns
- the world's biggest coal company brings U.S. government to court for climate fraud,
- 1.8M homes are about to flood the foreclosure market – that banks have been hiding in shadow inventory – this should really hit housing prices
- and on CNBC – Larry Levin – announced that "the market isn't free, but controlled by government interventions."

I told my dentist my teeth are going yellow - He told me to wear a brown tie. ... Rodney Dangerfield

And what about the famed Trilateral Commission – "which is international and is intended to be the vehicle for multinational consolidation of the commercial and banking interests by seizing control of governments." Who is on this commission you ask? Larry Summers (former Secretary of the treasury), Timothy Geithner (Current Treasury Secretary, was head of the NY Federal Reserve), Maurice R. Greenberg, (Chairman, CEO, American International Group (AIG) - who we bailed out and they funneled at least $13B back to Goldman), and Robert D. Hormats, (Vice Chairman, Goldman Sachs International). These are the guys that really pull the strings. So when you ask yourself "How could the bankers wreck the system and then get tens of billions in bonuses a year later?" Just look at the roster – it makes it all so very simple to understand. Your only other choice is to think that all this was on giant mistake, every fail safe failed, a monumental amount of good intentions simply "goofed up" and it was all by chance.

Now onto the market:
I remember the time I was kidnapped and they sent a piece of my finger to my father. He said he wanted more proof. ... Rodney Dangerfield

A very interesting week, eh? Gold was beginning to look pretty good. Gold had put in a correction and was just starting to make some gains that looked impressive. And just as it was starting to move, the IMG decided that it was going to sell 191 tons of Gold. Isn't it odd how they didn't announce the sale until Gold had stopped falling and was starting to march higher? And what about those gigantic short positions held by three major institutions – do you think that announcement helped them out? And when that news really didn't have the desired effect - out of nowhere Bernanke comes out on a Thursday night and says he's going to up the discount rate from fifty to seventy five basis points. That "should" have the effect of strengthening the dollar and knocking gold for a loop. Is this really a coincidence? Well interestingly gold shook off the IMF and the Bernanke rate hike and ended Friday UP $9.

I came from a real tough neighborhood. I put my hand in some cement and felt another hand. ... Rodney Dangerfield

Now, when the Fed boosted the discount rate by 25 basis points (a quarter percent) – what does that mean? First, the Fed has been draining liquidity from the system for a while now. They know the pressure is on them from every angle as their own balance sheet has ballooned to unimaginable proportions, and people are giving them a ton of flack over the bailouts and bonuses – so they are trying to make it look like they are reigning in the system a bit. So, is this the first step towards a true hike in interest rates - technically yes, but practically NO. This move will only affect about $30B in funds, and the Fed knows quite well that there is NO WAY they can hike the true money policy rates – which would effectively erase any and all benefits they may see from the stimulus. This was symbolic in nature, a way to strengthen the dollar a bit after China actually SOLD treasuries last month and frightened the heck out of them. The Fed HAD to do something to try and show the world that they are still in charge and they have some sort of credibility.

I told my wife the truth. I told her I was seeing a psychiatrist. Then she told me the truth: that she was seeing a psychiatrist, two plumbers, and a bartender. ... Rodney Dangerfield

Maybe we got lucky on Friday, but sure enough after a couple dips in the am, we came back to level and ended the day "flat" with the DOW up 9 points. Okay, so where do we go from here? It's our guess that we are in a bounce period and it could take us to the 10,600 level. Our feeling is that this bounce has a bit more legs and you should milk it for what you can get.

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