



BULLS & BEARS

Volume 3 • Issue 22 • February 28 2010

HEADLINES

- Case-Shiller home price index rose 0.3% from Nov. to Dec.
- Consumer confidence fell to 46 in Feb. from 57 in Jan.
- Bernanke says low rates are still warranted at this point
- Moody's and S&P reported that a credit downgrade is imminent for Greece

FINANCIAL MARKETS

DOW	10,352.26, -0.48%
NASDAQ	2,238.26, -0.25%
S&P 500	1,104.49, -0.42%
OIL	\$79.66, -\$0.15
GOLD	\$1,118.30, -\$3.00
10 YR	3.595%

THIS WEEKS ISSUE

The Healthcare Debate	2
The Recession (Part 1)	3
Successful Interviewing	4
This Week in Barron's	5

MARKET SUMMARY

Monday February 22, 2010

Stocks moved in a narrow trading range during Monday's session after cautious guidance from a number of companies that reported better than expected earnings. Broad indexes moved lower in the middle of the session after President Obama revealed his redesigned healthcare reform proposal that gives Department of Health and Human Services authority over rate increases by private insurance companies. Despite the release of the plan, Healthcare stocks rallied as investors seemingly cast their votes that the plan will not Congressional approval. The Dow Jones Industrials Average finished down 0.18% to 10,383.38, the S&P500 finished down 0.1% to 1108.01 and NASDAQ finished down 0.1% to 2242.

Tuesday February 23, 2010

The Conference Board reported that its consumer confidence index fell to 46 in February from 57 in January. The unexpected decline in consumer confidence spurred selling in equities and commodities and fueled a dollar rally. The Case-Shiller home price index which tracks housing prices in 20 major metropolitan U.S. markets rose 0.3% from November to December. The Dow Jones Industrials Average finished down 1% to 10,282, the S&P500 finished down 1.2% to 1095 and NASDAQ finished down 1.28% to 2213.

Wednesday February 24, 2010

U.S. stocks ended their 2 day losing streak on Wednesday with a broad based rally in equities. Buying began in the morning as Federal Reserve Chairman Ben Bernanke told congress that low interest rates were still warranted at this point in the economic recovery cycle. In his testimony, Bernanke warned that the return of organic economic growth would be slow, as would the reduction in the unemployment rate. The Commerce Department reported that existing home sales fell 11.2% to 309,000 annual units; that is the lowest report since record keeping began in 1963. Despite the seemingly dismal economic news, the Dow Jones Industrials Average closed up 0.9% to 10,374, the S&P500 closed up 0.9% to 1105 and NASDAQ closed up 1% to 2236.

Thursday February 25, 2010

Major U.S. averages finished Thursday's session slightly lower, but well off of the lows of the day. Selling started after Moody's and S&P reported that a credit downgrade is imminent for Greece in the next few months unless Athens is able to successfully pass fiscal controls. Orders for U.S. durable goods rose by 3% in January to \$175.7 billion. The sharp increase in volume was due to higher demand for civilian aircraft. The Dow Jones Industrials Average finished down 0.5% to 10,321, the S&P500 finished down 0.2% to 1103 and NASDAQ finished down 0.1% to 2234.

Friday February 26, 2010

Major U.S. averages ended the Friday session marginally higher after churning around in a trading range throughout the majority of the session. Trading volume was lighter than usual as traders opted to stay home and avoid the winter storms that have returned to the east coast. The National Association of Realtors reported that existing home sales dropped 7.2% in January to 5.05 million units. On a positive note, The Commerce Department revised 4th quarter 2009 GDP up to 5.9% from 5.7%. The Dow Jones Industrial average finished the month up 2.6% to 10,325, the S&P500 finished the month up 2.9% to 1104 and NASDAQ finished the month up 4.2% to 2238.

THE WEEK IN QUOTES

"People tend to be anxious about big, rapidly changing, nontransparent things — China is all three."

- David Lampton, a professor at the Johns Hopkins School, on why Americans are increasingly concerned about China's growing influence on the world stage

"I regret that this has resulted in the safety issues described in the recalls we face today, and I am deeply sorry for any accidents that Toyota drivers have experienced."

- Akio Toyoda, Toyota CEO, apologizing for the focus on "growth" that he says led to the recall of 8.5 million cars

"We cannot preach temperance from a bar stool."

- Ed Markey, Democratic Representative, saying the U.S. needs to approve a curb on carbon emissions to influence global climate negotiations

ANNOUNCEMENT

Click [here](#) to subscribe directly!
(It's free)

Check out our website!
www.bullsbearspress.com

Excel Best Practices and Financial Modeling
Self – study courses now available!

Reduced Price & Free Shipping Thru March 1

 TRAINING THE STREETSM

Click Here
To Find
Out More!

DELVING INTO THE HEALTHCARE DEBATE *By Daniel Sholler, University of Pennsylvania***STORY HIGHLIGHTS:**

- The role of risk rating is an often-overlooked aspect of the ongoing healthcare debate among the general public.
- The government-run insurer would not need to make a profit and could therefore charge lower premiums, crowding out private insurers and investment.
- A major fear of the public option is that a government-run insurance agency would pay lower rates to healthcare providers.

The role of risk rating is an often-overlooked aspect of the ongoing healthcare debate among the general public. Mention “healthcare” and “risk” in the same sentence at any middle-class American barber shop or in line at the grocery store and you’re likely to spark a conversation about preexisting conditions and insurers dropping risky clients.

But perhaps the most important definition of risk in this debate, especially in proposals for a taxpayer-backed system, involves the valuation of insurance corporations. A great deal of conservative opposition to a public option is due to the market cornering that could ensue if an “Uncle Sam Insurance Company” is introduced in the market. According to some, vying against private insurers with a capital base of taxpayer money would result in unfair competition and the eventual downfall of a percentage of insurers.

The other key argument in the conservative opposition to a public option also involves capital. The government-run insurer would not need to make a profit and could therefore charge lower premiums, crowding out private insurers and investment. Even if this were avoided by mandating that prices of medical services be lowered, this would lead to hospital closures nationwide.

A key comparison to this situation exists in the financial sector and, depending on interpretation, could be used to prove or disprove conservative theory. However, I believe the evidence points to the latter rather than the former. The usage and downfall of Fannie Mae and Freddie Mac as government-based, low-rate banks is often blamed for the collapse of other banks in the sector. Taxpayer backing for these banks allowed low rates to be charged, much like a taxpayer base would levy a much lower risk rating upon a public option insurance agency. What conservative theorists don’t take into account, though, is that banks and in-

surance agencies are rated much differently and that premiums for the public option could be benchmarked to other factors.

Risk rating is based off of insurance companies’ ability to pay for a calculated and estimated projection of claims by its clients. A measure of an insurance company’s risk incorporates patient health and the cost of care, so I believe the overall effect of instituting a public option would actually add to the profits of private insurers. It is unlikely that people with insurance through employers, which comprises 62.2% of all insurance among the non-elderly, would abandon this coverage in favor of a public option. But to compete, private insurers would also be incentivized to promote healthy living among clients to minimize risk rating. This in essence would lower the cost of insuring clients, which would lower premiums and maintain the clientele base and profits.

A major fear of the public option is that a government-run insurance agency would pay lower rates to healthcare providers. While this may be true, it is unlikely that this will be as substantial as widely conceived. The government will not pay Medicare rates for non-Medicare patients.

It is unknown what form the healthcare bill will take (if any) before it is passed. The prospects of a public option are dwindling, but it should be reconsidered at all levels of government. In any case, a plan needs to be instituted that affords coverage to lower and middle income Americans. Many favor a tax credit system. However, this incentivizes insurers to charge higher copayment and coinsurance. While this is all good and well for encouraging healthier living and lower spending on healthcare, plans with high copayments and coinsurance are unlikely to attract a large clientele base.



THE RECESSION – A COMPREHENSIVE ANALYSIS (PART I) *By Daniel Griffith, Carnegie Mellon University*

This is part 1 of a 4 part series covering the recession, its causes, and potential future. This is the first in-depth description of the financial crisis Bulls & Bears has provided.

To truly understand how the country is currently facing the worst economic situation since the Great Depression, we must go back to the late 1990s. The most recent boom began around 1998, when investors decided that U.S. real estate was a very safe, appreciable investment (as opposed to Europe, where investment was hindered by the Russian debt crisis). The housing market has still not fully recovered from its dip in the early 1990s, so investors saw the sector was on its way up (and was cheap at the time), and intended to take full advantage. During this increasing interest in real estate, Wall Street firms were making it easier for homeowners to obtain loans. Consolidation of banks shifted the mortgage business from a more local environment, to a global one. Large investment firms and banks could receive funding from anywhere in the world, providing liquidity to a potential debtor.

With the increased cash reserves and investment potential, large banks lowered mortgage interest rates to compete nationally. The one catch with this new opportunity was that investors demanded high returns, so Wall Street turned to the new structures of subprime mortgages. These mortgages, since they were issued to people who could not as easily afford a house, came at higher interest rates (even if interest rates were initially lower), and would supply investors with higher returns. However, this was all based on the assumption that nothing would ever happen to stall or stop housing prices from rising over the term of the mortgage (and that wages would never stop increasing). Then, to exacerbate the situation, the mortgages were packaged and turned into Mortgage Backed Securities (MBS), Collateralized Mortgage Obligations (CMO), and Collateralized Debt Obligations (CDOs), which could then be sold to different groups of investors.

These securitizations all operated in a similar manner. Institutions constructed tranching bond offerings, consisting of different maturity dates, interest rates, and asset cash flows; all of which could be purchased by tranche, allowing different levels of risk, and return. CDOs were a high octane version of a tranching bond, where junior tranches (of MBS and other non-securitized offerings such as mezzanine loans), i.e. the high risk portions of bonds were packaged together and rated by the rating agencies. So through the magic of the rating agencies' black boxes within a portfolio of high risk junior tranches of securities you could have investment grade tranches within a CDO. Of course demand for these CDOs fell rapidly with the onset of the credit crisis and many banks, notably CitiBank were left holding billions of dollars of this paper. However,

until the crisis the use of CDOs increased mortgage market liquidity, giving different levels of investors more options.

These investors were compounding their risk, but magnifying their returns by leveraging their investments. Any given organization or individual could invest in a CDO with a small percentage of their money. For example, if an investor buys \$100 Million in CDOs with \$1 Million of liquidity (the remaining \$99 Million provided through debt), if the value of the CDO increase by 1% to \$101 Billion, then the investor has doubled their money. However, the reverse is just as possible (if the CDO depreciates by 1%, the investor has lost their principal investment). This risky investment trend also fueled the rapid decline in financial firms for as the value of the CDOs decreased the banks providing the debt made margin calls and defaulted many of the CDO investors. As fears regarding CDOs and MBSs became more prevalent, assumptions began to rule the market. If consumers perceived an institution did not have

the required assets to back up a potential CDO loss, they would not invest. As a result, financial institutions tightened their spending, significantly reducing market liquidity. And as the subprime mortgages began to fail, investors began asking for their money back, and lenders refused to offer credit. This initial crunch led to Bear Stearns demise.



Now, before you go blaming Wall Street for all of America's troubles, it's important to remember two mortgage giants who contributed to the situation. Fannie Mae and Freddie Mac, who combined held \$6 trillion in real estate mortgages (about 50% of U.S. mortgages) at their height, were the first organizations to be bailed out. These were GSEs (Government Sponsored Enterprise), so all the loans they sold were backed by the government, meaning they did not require nearly as much capital as traditional banks. As a result, Fannie and Freddie knew they wouldn't suffer any consequences if/when things turned south. The one guideline these GSEs had to fol-

low however wasn't heeded. In 1999, the Clinton administration pushed for increased lending, and the easiest way was through Fannie and Freddie. Lending restrictions were eased; however investors remained to expect the same returns as they had previously. This credit increase, combined with the call for profits forced the GSEs to significantly increase lending, setting the trend for securitization markets. Government regulations restricted Fannie Mae and Freddie Mac from investing in mortgages that didn't meet certain down payment and credit requirements (which essentially takes subprime mortgages off their radar), however as mortgages changed, so did Fannie and Freddie (even though government regulations remained as they were). Between 2005-2008, of Fannie Mae and Freddie Mac's acquisitions, 58% and 67%, respectively, were subprime. This caused the two largest financial GSEs to cost the government over \$200 Billion in bailout funding by the end of 2010.

SUCCESSFUL INTERVIEWING FOR ANY JOB *By Dylan Ozmore, Carnegie Mellon University*

STORY HIGHLIGHTS:

- You should not just be yourself in an interview, but your best self.
- Two main points: (1) find out what it takes to be successful and (2) do what it takes to be successful.
- Dive head first into the interview preparation process.

You can classify the ability to be successful in interviews as a skill. Most people don't think about it that way. The common approach is to go into the interview and be yourself. I'm not arguing against that, but you should go in and be your BEST self. Being your best self is the skill part of this. I compare an interview to the Olympic Trials. You have one shot at it - so be on your game. If you screw up or aren't up to par, you're not going to be asked back for a second round or be given an offer. The end.

The difficult tasks are making sure your best self is good enough to secure the position and that you are consistently performing at your best each interview. There is one secret ingredient to achieve both these tasks

- PREPARATION.

Surprisingly, most people don't bother to prepare. This really doesn't make sense to me. Getting the best internship or job can result in potentially millions of dollars over the long run and a better position in general. Those who are motivated to prepare will gain a large advantage over those who choose not to.

Think about it as if you were an athlete. If you asked almost anybody they could probably tell you how to become the best basketball player (that you have the ability to). They'd advise you to start practicing as soon and as much as possible and to learn how successful basketball players became so great. Preparing for an interview (and almost anything else in life!) is no different. Yes, it's that easy in my opinion.



All my advice boils down to two points:

1. Find out what it takes to be successful
2. Do what it takes to be successful as soon and as frequently as possible

Talk to students or professionals who have internships/jobs at the firms you want to work for. Ask them questions about how they prepared and what advice they have for you. Start this process as early as possible.

The earlier you start the further the lead you'll have over your competition. If you don't know students or professionals in the field then go online. There are countless sources where this information is available.

Dive head first into this process. Many people ask, "what if I'm not 100% sure this specific job or industry is for me?" It doesn't matter. A vast majority of students waver around unsure of what they

want to do when they graduate. I'm not saying you have to know, but if you hesitate you're losing time that you could be working towards being really great at something. If you jump into it then at least you have the chance at being great, otherwise when the time finally comes it will be too late and the students that did prepare will already be leagues ahead of you. Sometime during the process you may realize that maybe what you originally picked actually isn't for you. Then switch over to what you do want to do. The unfortunate truth is that being hesitant to dive into an area will just make certain that you will not be great at anything. Choose an area of interest and then go for it. If you stick it out, you'll be glad that you started early.

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

Our Thoughts:

I lost my job. No, I didn't really lose my job. I know where my job is. It's just, when I go there, there's this new guy doing it ... Bobcat Goldthwait

Let's Just Suppose...

Indulge me here for a moment. What if: What if the global sovereign debt problems balloon and take down more nations? What if the next "Lehman" hits? Then of course we had that "mistake" by CitiCorp when they released an email to clients telling them that Citi has the right to refuse to give you your money for 7 days. Yes – CitiCorp is denying you access to your money for 7 days if they "warrant" it as necessary. What if this is a foreshadowing of things to come? What the heck do you do about it?

We know Gold has been important for over 6000 years, and silver for longer than gold. Will the 'market' always exist – unfortunately it's man-made. So for today, let's just allow our minds to wander to the dark side for an instant. If we plunge into a depression – there are many elements that will make this one even more severe than the last.

Back in the 30's, our population did not live in cities – but rather in rural areas and loose townships where you could hunt for food and grow (and can) your own. Today's society is wholly and completely at the mercy of the "system". If the local grocery store was bare, what exactly would we eat? And what about power and water? The issue here is that Europe has lived thru this poverty, destruction, death and pain – at least twice in the past 100 years – and they don't want to see it again. So the idea of sovereign wealth funds going under is real to many Europeans.

Now what if the 'dollars' we carry in our pockets became worthless because of devaluation and inflation, you would need 'real money' to swap for food and goods. Through out history there have been very few elements that have seamlessly acted as money: diamonds, gold and silver. Gold 'in the past 10 years' may have priced itself out of the 'exchange-money' arena – for example: if the dollar devalues – the Fed has done all it can – and we're not in a mess. Gold has gone to \$4,000 per ounce. What if you want to purchase milk, bread, and meat. Would you cut an ounce of gold in tenths – or hundredths – not likely. So you may want to think about silver.

You can still buy "bags" of pre 1964 dimes, quarters and half dollars that are made of silver. You can still buy an ounce of silver for \$18. Therefore, if we were in a 'world of hurt', I'd sure rather trade someone two one ounce silver rounds for some meat and potatoes, than attempt to cut one-hundredth of an ounce of gold.

So for 'ease of use' Silver wins over Gold in a catastrophe.

The next reason I like Silver is because Silver is so darned cheap right now. I have every reason to believe that the decades of silver manipulation is slowly coming to an end, and this latest dip in silver might be the ultimate "bottom" we see for many years.

Finally, Silver is compelling because without economic implorations or depressions – Gold will indeed come down. Because other than being used as money and in jewelry, gold doesn't have a tremendous amount of industrial uses. Silver (however) is used in everything from medical, to 3 D movie screens, to electrical components, to cell phone towers, to – the list is virtually endless. If silver was allowed to trade based on its true worth/value versus getting stomped on via huge short positions at major institutions, silver would be higher than it is today - anyway.

If the world melts down - Silver will go higher and it will make for wonderful "money". If the world doesn't melt down – Silver will remain relatively stable if not gain in value due to demand. So from where I sit (up here in the cheap seats) Silver is a win/win situation. If you buy silver coin, I tend to think you come out of it smelling like a rose either way.

The Market:

America is one of the finest countries anyone ever stole... Bobcat Goldthwait

Because of absolutely horrid economic reports, the market struggled a lot this week. The initial jobless claims rose to 497K. New home sales hit the lowest number ever registered. Greece and half of the European Continent is awash in debt. Our treasury sales are acting bizarre – for example: on Wednesday, \$30+ Billion went into Treasuries that

have virtually no return – a return of 0.005%. So, for a month, there are a whole lot of people more interested in just getting their money back, than making anything on it. Isn't that odd?

What happens now? Well next Friday is the all important "jobs" report. The first Friday of the month brings the non-farm payroll report and allows us to find direction in this economy. If that report is poor, the chances of a move higher are slim, but if the report has been 'doctored', we could finally get the last leg of our bounce and possibly threaten the recent highs.

Monday is the first trading day of the new month, and new months usually bring in new money - therefore, you can almost buy into the idea that we'll have an up day on Monday and possibly into Tuesday. Wednesday could bring us some slack as they await Friday's report. I personally will be "leaning long" for the front part of the week, then lightening up for the second part.



SUBSCRIBING UNIVERSITIES

Arizona State University	Princeton University
Babson College	Rice University
Bond University	Rutgers University
Boston University	Simon Fraser University
Brown University	Singapore Management University
California Institute of Technology	Stanford University
Cambridge University	Texas A&M University
Carnegie Mellon University	Tufts University
Colby College	University of Adelaide
Columbia University	University of British Columbia
Cornell University	University of California Berkeley
Dartmouth College	University of California Davis
Davidson College	University of California San Diego
Duke University	University of Chicago
Georgetown University	University of Illinois
Georgia Institute of Technology	University of Melbourne
Harvard University	University of Michigan
Haverford College	University of Minnesota
Indiana University	University of New South Wales
Indian Institute of Management Ahmedabad	University of North Carolina
Indian Institute of Management Calcutta	University of Pennsylvania
Indian Institute of Management Kozhikode	University of Pittsburgh
Indian Institute of Management Lucknow	University of Southern California
Israel Institute of Technology	University of Sydney
Istanbul Technical University	University of Texas
Lindenwood University	University of Virginia
McGill University	University of Waterloo
Miami University	University of Wollongong
Nanyan Tech University	Utah State University
National University of Singapore	Virginia Tech
New York University	Wheaton College
Northwestern University	William & Mary
Oxford University	Yale University

*Bulls & Bears 2009-2010 Team**President & Founder*

*Dylan Ozmore
Krishan Wanchoo*

Editor-In-Chief

Daniel Sholler

Internal Writers

*Siddharth Arora
Daniel Griffith
Arnav Guleria
Balraj Hansra*

*Brian Meier
Wyatt Ozmore
Cara Repasky
Soubhagya Sahoo*

*Anuranjan Sharma
Ruslan Skomorohov
Rob Spence
Robert Sun*