



# BULLS & BEARS

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## HEADLINES

- EU finance officials and IMF support Greece with billions
- PALM is up for sale
- Better-than-expected earnings from JPMorgan
- U.S. retail sales rose by 1.6% in March, fueled by automobiles
- SEC files securities fraud charges against Goldman Sachs

## FINANCIAL MARKETS

DOW	11,018.66, +0.19%
NASDAQ	2,481.26, +1.11%
S&P 500	1,192.13, -0.19%
OIL	\$82.59, -\$2.33
GOLD	\$1,133.90, -\$27.20
10 YR	3.770%

## THIS WEEKS ISSUE

State of the Banking Industry	2
Natural Gas: A Local Industry	3
Club Focus: GWU Energy Group	4
Catch of the Week	5
This Week in Barrons	6

## MARKET SUMMARY

Monday April 12, 2010

Stocks posted slim gains during Monday's session. The Dow Jones Industrials average closed back above the 11,000 milestone for the first time since 2008. European finance officials agreed to support the Greek government with \$40.5 billion in loans to manage the burden of the country's debt crisis. The IMF also contributed \$13.5 billion in loans that carry interest rates below the current market rates. Smartphone manufacturer PALM has reportedly hired investment bankers to investigate the potential sale of the company. The Dow Jones Industrials Average finished up 0.1% to 11,006, the S&P500 finished up 0.2% to 1196 and NASDAQ finished up 0.2% to 2458.

Tuesday April 13, 2010

U.S. stocks ended in the upper end of Tuesday's trading range. The broad market traded on light volume in anticipation of the earnings results out of Intel after the closing bell. Alcoa kicked off earnings season as the first Dow 30 company to issue its first quarter results. The company reported a smaller than expected loss compared with the same quarter a year ago, but its earnings fell short of current quarter analyst estimates. The Dow Jones Industrials Average finished up 0.1% to 11,020, the S&P500 finished up 0.07% to 1197 and NASDAQ finished up 0.3% to 2466.

Wednesday April 14, 2010

The bulls were in complete control during Wednesday's trading session as better than expected earnings from JP Morgan, and economic data that continues to suggest that the economy is improving gave investors a reason to bid up shares across the board. Financials were among the day's best performers on the heels of the earnings release from JP Morgan. Retail sales rose by 1.6% in March, fueled by new automobile and clothing sales. The Dow Jones Industrials Average finished up 0.9% to 11,123, the S&P500 finished up 1.1% to 1211 and NASDAQ finished up 1.6% to 2505.

Thursday April 15, 2010

U.S. stocks spent the majority of Thursday's session around the unchanged line as investors seemed hesitant to bid shares higher with the broad market averages trading at 15 month highs. The Labor Department reported that the number of people filing for first time jobless benefits rose to 484,000 last week, marking the highest level since February. The positive economic datapoint of the day came from the Philadelphia Federal Reserve's manufacturing index which rose to 31.86 in April from the March report of 22.86. The Dow Jones Industrials Average finished up 0.2% to 11,145, the S&P500 finished up 0.1% to 1212 and NASDAQ finished up 0.4% to 2516.

Friday April 16, 2010

The broad market indices opened lower on Friday despite positive earnings releases from Google, Bank of America and General Electric. Sellers entered the market in large numbers after the SEC announced that it was filing securities fraud charges against Goldman Sachs in connection with mortgage bonds that the firm marketed to investors in 2007. Financial stocks were hit the hardest by the news, shares of Goldman Sachs sold off as much as 18% intraday. The Dow Jones Industrials Average finished down 1.13% to 11,018, the S&P500 finished down 1.61% to 1192 and NASDAQ finished down 1.37% to 2481.

## THE WEEK IN QUOTES

*"Goldman has a fight in front of it."*  
- Matt McCormick, an analyst with the firm Bahl & Gaynor, on the Securities and Exchange Commission civil suit accusing Goldman Sachs of fraud.

*"Maybe I don't want smaller government. I guess I want smaller government and my Social Security."*  
- Jodine White, a 62-year-old Tea Party member; despite a push for limited government, many Tea Party supporters want to continue Social Security and Medicare.

*"The economy is a little bit too hot."*  
- Ben Simpfendorfer, an economist at the Royal Bank of Scotland in Hong Kong, speculating that China's economy is at risk of overheating after growing by 11.9% year-on-year during the first three months of 2010.

## ANNOUNCEMENT

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**THE STATE OF THE BANKING INDUSTRY** *By Sean Vidolin, Rutgers University***STORY HIGHLIGHTS:**

- It is heavily disputed whether or not a rally of this magnitude is truly representative of the state of the banking industry.
- Relying so heavily on trading to bolster profits, these impressive numbers may be short lived
- It is not until the housing market improves, unemployment falls back to its normal levels, and loan losses start consistently falling that we will see a strong, reliable return to profitability in the industry.

As the financial markets have begun to approach the pre-Lehman levels of 2008, it has come into constant question amongst analysts over whether or not the huge run up we've experienced since last March is sustainable or not. In a rally that saw the S&P 500 rally from the high 600's in March of 2009 to just over 1200 in the past couple days, it is heavily disputed whether or not a rally of this magnitude is truly representative of the state of the banking industry. Recent earnings from JPMorgan suggest that this rally was deserved, as they posted a better than expected 55% rise in their bottom line.

But some analysts argue that the earnings, boosted heavily from profitable trading, does not truly reflect the state of the industry, which will continue to experience losses in the backbone segments of commercial banking. We have yet to see a sustainable recovery to the housing market and loan losses are expected by some to continue to rise well into 2011. And with the industry facing huge scrutiny concerning the ethics of their practices with Goldman Sachs and Co. facing a huge SEC lawsuit, it's becoming increasingly harder to determine which direction the industry is heading. I will present you with the details of the contrasting views; but your guess is as good as mine when it comes to interpreting the future of the banking industry.



This past Thursday, Bank of America reported a decline in loan losses for the month of March to 12.54% from 13.51% in February. The charge off rate is the percentage of loans that a company has determined as not being repaid, usually after six months of nonpayment. Despite the monthly decrease, this percentage is still significantly higher than the pre crisis numbers. Loan losses over the past few years have been a huge problem for banks, who have seen reduced earnings as high unemployment has forced write downs for loans issued that can no longer be repaid by the debtors. Despite the Obama administrations attempts at bolstering loan modification programs to prevent foreclosures, there is still large concern over whether or not we will see a double dip in housing prices. The data accumulated from the housing market over the past few months of recovery has been far too inconsistent to determine whether or not the market is significantly improving. Without a better housing market, banks will continue having to write off bad loans and will struggle to rebuild the core of their businesses.

What's troubling about JPMorgan's numbers was not the top or bottom line numbers, which both outperformed even the highest of analysts' estimates, but the underlying skepticism in these core operations numbers like loan losses. Boasting huge profits from proprietary trading may be impressive, but its sustainability comes into question as the Obama administration continues to impose stricter regulations on banks' trading practices. Additionally, while JPMorgan posts huge profits from trading, we need to understand that they have some of the best traders in the world under their employment; other banks may not be able to duplicate these numbers.

Relying so heavily on trading to bolster profits, these impressive numbers may be short lived as the current administration begins restricting the trading of such high risk derivatives like the collateralized debt obligations (CDOs) and credit default swaps (CDS) that have allowed banks to profit so much in their operations. This past Friday, the Securities Exchange Commission (SEC) announced a lawsuit against Goldman Sachs and one of its top executives for misleading the public into buying poorly assembled CDOs that the firm itself was betting against. Goldman has been accused of working in tandem with acclaimed hedge fund owner John Paulson in

manipulating the construction of CDOs littered with bad home loans that they pawned off on investors as they took opposite positions betting against them. As Paulson's hedge fund pulled in over \$15 billion in profits, individual investor losses amounted to over a billion dollars after being misled by their brokers into believing they were making strong investments.

As the next few weeks in earnings approach, don't be surprised to see better than expected numbers from the banks. But take a closer look at what the profits are stemming from. If it's trading, you may have reasons to remain skeptical of the magnificent gains in stock prices over the past year. Maybe these profits are sustainable, maybe they are not. What we can be sure of, however, is that a full recovery requires more than profitable trading. It is not until the housing market improves, unemployment falls back to its normal levels, and loan losses start consistently falling that we will see a strong, reliable return to profitability in the industry.



## NATURAL GAS: A LOCAL INDUSTRY *By Daniel Griffith, Carnegie Mellon University*

### STORY HIGHLIGHTS:

- It is becoming more and more apparent the nation is in dire need of a rapidly diminishing resource: energy.
- Jan. 2008, Penn State professor Terry Engelder estimated the Marcellus Shale deposits to hold 170 TCF of mineable natural gas.
- As the recession started to set in, natural gas drilling began to grow-offering alternatives to those seeking employment, and providing domestic energy solutions in an effort to curb dependence on imports.

*A brief description of the growing Natural Gas industry in the Pennsylvania/Appalachian area and what implications it has for possible employment and the local economy.*

With the recent approval of offshore drilling around the country (mainly in the South Atlantic- off the coast of Virginia and Florida, as well as the Gulf Coast), it is becoming more and more apparent the nation is in dire need of a rapidly diminishing resource: energy. With that in mind, I look to the local economy, more specifically the Marcellus Shale deposit in the Northeast U.S. (spanning from West Virginia to upstate New York), currently being mined throughout Pennsylvania- and a major economic driver for the Pittsburgh region.

Most associate drilling for oil and gas as highly destructive procedures, which quickly degrade the environment and essentially decimate any region which succumbs to the pressure of gas corporations to drill on their land. We will start by examining the possibilities of the available resources:

In January 2008, Penn State University professor Terry Engelder estimated the Marcellus Shale deposits to hold 170 TCF (Trillion cubic feet) of mineable natural gas. To put this number in perspective, according to the U.S. Energy Information Administration (USEIA) in 2009 a total of 20.9 Trillion cubic feet of natural gas was delivered to consumers (with 31 Million for vehicle fuel, 4.7 Billion for private residences, and 3.1 Billion for commercial use- not including power plants). According to these numbers, if the entire supply is mineable, enough gas could be recovered to satisfy the total national consumption for roughly 8 years. However, after preliminary drilling results, Engelder updated his results in November 2008 claiming the total mineable region of Marcellus Shale contained 363 TCF of recoverable gas (roughly twice the original estimate). In this announcement he claimed the entire deposit contained roughly 4,359 TCF of gas – assuming a 30% recovery rate (taking possible future mining technology developments into account) this would provide the U.S. with 1,307 TCF natural gas (3.6x the current mineable quantity).

On a more local level, Marcellus Shale has been providing gas companies with profits since drilling began. CNX (NYSE: CNX) gas corporation, a subsidiary of Consol formed for research and development regarding Marcellus shale, has just completed a new well in the region (named GH2BCV) which has been producing gas for roughly a month (with an average of 4.9 MMcfd natural gas). This is just one example of the sev-

eral wells CNX has constructed since late 2008. One of the main reasons companies have only recently started drilling for Marcellus shale is the low rate of returns. Natural gas (the primary derivative of Marcellus shale) currently costs \$11.59/mcf, which provides producers with positive returns, however once the prices dip below around \$7.00, the companies are no longer seeing profits, and it is no longer economically feasible to produce.

A lot of controversy has risen lately regarding the environmental effects of drilling, and harvesting natural resources. The process utilized by all companies mining Marcellus is known as horizontal hydraulic fracturing. This is comprised of drilling one path vertically downward, curving the path in any direction, 360 degrees, pumping salt water into the drilled hole-fracturing the shale which releases the gas. This process does minimal destruction to the surface, with the most damage being done by the setting up of the drill platform. However, shortly after the drill is finished, it can be removed and replaced by a well head, allowing foliage to grow back. In addition, what to do with wastewater from the drilling procedure has come under question. As of January 17, 2010, companies mining the shale have subjected themselves to regulation established by the State legislature (working with PennEnvironment). Using these guidelines, the wastewater is expected to be used as gray water after extensive treatment (only increasing price the price of natural gas by \$0.25/barrel).



CNX is not the only company vying for a position to continue drilling for natural gas in the Appalachian region, Statoil (NYSE: STO, a Norwegian petroleum producer) on March 26 2010, purchased 59,000 acres of the Marcellus region in order to expanding their drilling operations. The company expects to pump 50,000 barrels of oil equivalent per day by mid 2012. Chesapeake Oil (NYSE: CHK) recently announced that its 60 wells combined are producing 100 Million cubic feet a day. This currently expanding industry is providing more jobs in the region, seeing as the earliest wells were started in 2008. According to the report issued by Penn State University, drilling for natural gas can create as many as 107,000 jobs in PA alone in 2010. In addition, more employment would arise from industries such as communications developing after mining (as many of these jobs are expected to be construction as drilling). As the recession started to set in, natural gas drilling began to grow-offering alternatives to those seeking employment, and providing domestic energy solutions in an effort to curb dependence on imports.

GEORGE WASHINGTON U. MBA ENERGY GROUP *By Dylan Ozmore, Carnegie Mellon University*

*An Interview with Aaron Menkin, President of the George Washington University MBA Energy Group*

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

The GWU Energy Group enhances the networking and educational opportunities for students and the GW community interested in the investment, development and regulation of the energy and sustainable development industries. With a focus on the Renewable Energy, Cleantech and Green Building markets, the group meets regularly to develop skills, share experiences, contacts, and coordinate speakers/events. The ultimate goal of the group is to maximize GWSB's standing as a leading knowledge center and talent pool in energy and sustainable development.

Learning of the great interest of GW MBA's in the energy and sustainable development industries through contact with the then MBA Association President, I was inspired to form an organization that brought the speakers and programs to campus that would prepare myself and my classmates for careers in the field. Before arriving on campus this fall, I had prepared the organization's Statement of Purpose, filed necessary papers with the student government and expedited the process of budget approval. I have spent the last year recruiting members, producing programming and coordinating the Business Response to Climate Change Conference.

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

**Energy and Brew**

A monthly speaker series in which we ask a GW student to arrange a presentation on an area that they have done research on or have experience in to improve the collective awareness and education of the group.

**Dinner with the Professionals**

A speaker series where group members bring in local professionals to speak about specific industry issues or their career/company, over dinner.

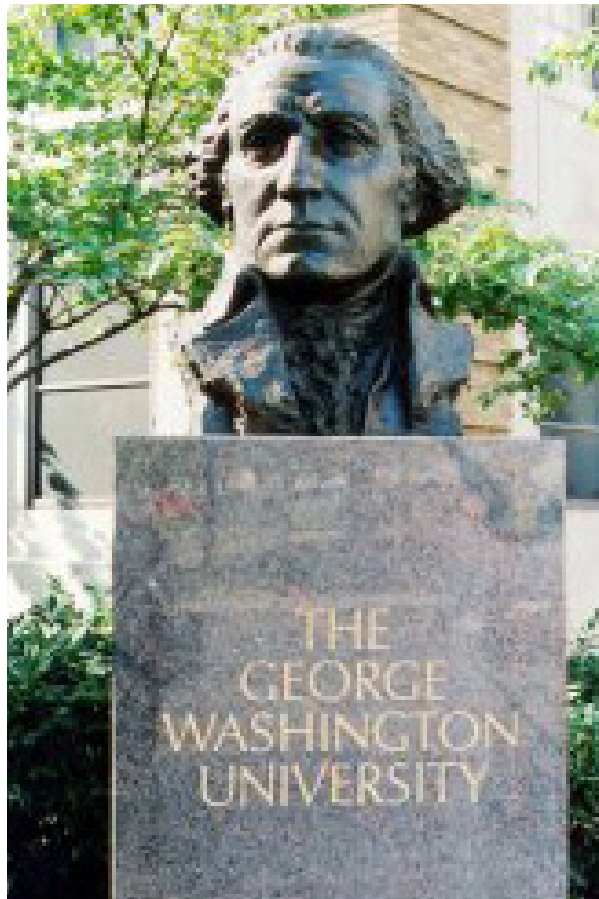
**Keynote Event – The Business Response to Climate Change**  
DC entrepreneurs, consultants, policy experts, corporate officials and non-profit leaders came together at The George Washington University on April 8th 2010, to challenge the economic, political, and social status quo to offer a vision for a

renewable and sustainable future.

3. Aaron, can you tell me about yourself?

I am driven to improve the environment through business innovation.

Currently a first year student in GW's full-time Global MBA program, I concentrate my studies on real estate and energy markets as well as relevant analytical techniques and marketing strategies. I am the President and Founder of the GWU Energy Group as well as the President of GW's Real Estate Investment and Development Organization.



Before starting the program, I worked for AECOM and the US Renewables Group in the energy and development markets as both an Analyst and Marketing Coordinator. I have prepared real estate and infrastructure development recommendations for teams of planners, engineers, architects, municipal officials and developers on over 20 projects in both domestic and international markets. I am a LEED Accredited Professional and have devoted my career to financing and marketing sustainable development solutions that contribute to the bottom line.

4. What does the job market look like in Washington, DC? (finance and sustainability/clean energies)

I am very happy with the job prospects within the DC Energy and Sustainability Industries. There are a great combination of investors, utilities, consultants, industry organizations, start-ups, government departments and non-profits to explore my interest and advance my career after graduation. DC's relative stability during the recent economic recession speaks to the

strength of its local economy. With aging energy infrastructure, higher fuel costs and pending carbon legislation, there only promises to be more opportunities and challenges in the coming months and years in this city.

5. Where can students go to get more information about your organization or to reach out to you? (and another associated organizations)

<http://gwmbaa.com/mba-student-orgs/energy-club/>  
amenkin@gwu.edu

APRIL 11 - 17 *By Stephen McMannis, University of Pittsburgh*

1. **A Great Resource for Trader Mentoring and Actual Trading Videos.**

<http://www.stocktwits.com/>

2. **Interesting Look at Income Distribution Across the U.S.**

<http://www.zerohedge.com/article/visualizing-americas-tax-inequality-wealthiest-11000-people-and-why-obamas-campaign-promises>

3. **Market Wizards - the interviews are some of the best material for developing as a new trader**

[http://www.amazon.com/gp/product/1592802974/ref=oss\\_product](http://www.amazon.com/gp/product/1592802974/ref=oss_product)

4. **Wealthy investors beginning to place their faith back into hedge funds.**

<http://www.nytimes.com/2010/04/17/your-money/17wealth.html?src=me&ref=your-money>

5. **One of the best blogs on the Street, hands down.**

<http://www.smbtraining.com/blog/>



### **\*Key Events for the Week\***

Canadian Interest Rate Decision - Tuesday 9:00 EST

Great Britain Jobless Claims Change - Wednesday 4:30 AM EST

United States Existing Home Sales - Thursday 10:00 AM EST

Great Britain GDP - Friday 4:30 AM EST

Canadian Retail Sales - Friday 8:30 AM EST

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

## OUR THOUGHTS

### I just Don't Trust This Market

Everyday I get asked the same question - "Why are you so glum, the numbers point to recovery". Everyone cites several recessions where in it took a long time before people bought into the idea of a recovery. What's different this time - JOBS. On Friday the CEO Report told us that 22% of all polled companies plan to lay off more people. The general public may not know how this economy works but they see: foreclosures, inflation, gas approaching \$3 bucks, taxes rising, houses on the market for 24 months, a lot of bad things. And what is different this time around - it's the Internet!

## THE MARKET

The Market has wanted DOW 11K for months - but it's tough when the bulk of the American population doesn't have the means to invest, and most of the foreigners are trying to get money OUT of the US(S) Titanic not put money in. So, for the past 3 weeks we've been running in place. Consider this: 8 million people are out of work and 3 times that are "under-employed" - with the remainder being very scared of touching the stove - AGAIN. So, Friday (after an incredibly boring session) they circled the wagons and late in the afternoon, pushed and pushed and broke through DOW 11K - to end the day at 10,997.

Okay - now what? This week is the official start to "earnings season" and yes we're going to hear some tremendous earnings. Uncle Sam has spent trillions to keep things moving and companies have cut employees and expenses to the bone. But my guess however is that we are still in a topping phase. It takes a long time to roll over after a year of the biggest financial

stimulus and Wall Street push in our history, but roll over we will.

Was Friday the top? I don't think so. I think we still have a climactic "blow off top" coming. I could easily see us gain 150 - 200 points, and then start a long process of stair stepping downward - lose 300, bounce for 200, lose 400, bounce for 300 and so on. After all, history shows us that "stocks" often rise up into their earnings, but interestingly the "market" doesn't have to follow along.

So we will lean long into the stocks that are going to release earnings - usually taking a position 3 to 5 days before the report will reward you - but we never hold over through a report, we always sell out the day ahead.



## TIPS

I would be a lot more optimistic if:

- Uncle Sam wasn't spending the upwards of \$24 trillion in stimulus,
- Banks were marking assets to market, instead of to "model" which the FASB has allowed them to do,
- Taxes were about to go down instead of up,
- There were NOT 7 million

homes in a "shadow inventory",  
 - Good paying jobs were abundant, and  
 - Companies reported GAAP earnings instead of proforma.

Therefore, I've traded very little this past week and have only two positions open:

- MS purchased at 30.27 - with a stop in at 30.30
- LTD purchased at 26.02 - with a stop in at 25.99

I'll be trading stocks (approximately) 5 days prior to their earnings reports - and then selling the day before their earnings release - as these next several weeks unfold.

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