

**Market Update – January 25, 2009**

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## **Part 1: The Bailout**

**U.S. financial losses from the credit crisis may reach \$3.6 trillion**, suggesting the banking system is “effectively insolvent,” said New York University Professor Nouriel Roubini, who predicted last year’s economic crisis. He argued that half of these institutional losses will be incurred by banks and broker dealers and they started with only \$1.4 trillion of capital. It’s funny...people are referring to Roubini as “Dr. Doom” and similar names. But he’s been right so far. He says this is a systemic banking crisis.

**Framing the bank issue.** We can probably all agree on the following two assumptions:

- A. we will not (can not) let the banking system fail
- B. the banking system needs more capital (to replace all of the capital that was destroyed)

**Assuming you agree with these assumptions, we are left with two issues:**

- A. who should provide the capital: taxpayers or debtholders
- B. how should this capital be provided

**Who Should Provide the Capital?** Several commentators have been pushing the idea that we can easily solve the banking crisis by:

- A. forcing the banks to write down their bad assets
- B. having the government temporarily take control of these institutions (the gov’t can take control of insolvent banks)
- C. wiping out the shareholders
- D. converting debt into bankruptcy so that the bank can start over

**There are many arguments in favor of converting the debt to equity:**

- A. the shareholders and debtholders took the risk (and had the upside) – why should they receive interest payments for all these years and then you and I recapitalize the banks when there is a problem
- B. this is exactly what is supposed to happen when problems arise – we see this in corporate bankruptcies all the time
- C. this solves the moral hazard issue – debtholders will learn that they must properly assess risk (and won’t be bailed out by the government)

**Unfortunately, there are problems with converting the debt to equity:**

- A. it would create widespread fear in the credit markets and result in higher interest rates (this would be Lehman all over again)
- B. this conversion would mean that the debt defaulted and would trigger credit default swaps; we have no idea of who has written these swaps (think of credit default swaps as insurance against bonds defaulting) and who would incur catastrophic losses

As a result, I don’t expect this type of conversion. You and I will contribute the capital.

**So lets look at some of the remaining ideas:**

- A. the government can inject capital in the form of preferred stock – we’ve tried this with limited success
- B. nationalize the banks – as if that’s been successful with AIG, Fannie and Freddie
- C. provide government guarantees on bank holdings – we’ve seen this with Citi and Bank of America (could a bank have a more accurate name?) – this simply protects the debtholders
- D. create a bank that buys and holds the bad assets (an “aggregator” bank) – this was the original Paulson plan which we all decided wouldn’t work, but now this is the popular plan

**Don’t forget the problems with the “aggregator” bank:**

- A. if the gov’t pays fair market value, these banks are going to have further writedowns
- B. if the gov’t pays more than fair market value, we are just transferring wealth from taxpayers to creditors (and shareholders)
- C. it’s impossible to determine which securities to buy – can you imagine the political pressure that will exist (see below)
- D. there is virtually no limit to the bad assets on the books
- E. this is based on the false assumption that the markets are suffering from a temporary dislocation and that the market will stabilize and prices will return to normalcy

**You didn’t really believe that TARP was going to be free from politics, did you?**

OneUnited Bank in Boston received a \$12 million injection from TARP. Bailout money was only supposed to go to healthy banks to jumpstart lending. This bank was under attack from its regulators for allegations of poor lending practices and executive pay abuses, including owning a Porsche for its executives use. Representative Barney Frank went to bat and wrote the bank into the TARP bill. He also spoke to regulators urging them to be considered for a cash injection. How do you feel about using taxpayer money for this?

**What’s all this talk about “the Swedish model?” (I love Swedish models.)** The idea is to:

1. write down the bank’s assets
2. recapitalize the bank

**The Lehman problem:** it wasn’t wiping out debtholders and shareholders. It was allowing the company to go bankrupt which also impacted clients and counterparties. If Lehman had been put into conservatorship (like AIG), clients and counterparties could have relied on Lehman and debtholders could have absorbed losses as incurred (this is not happening with AIG).

**Forced lending does not work.** Some people want the government to force banks to lend more. The problem with forced lending is that it could lead to bad loans. In three years, we don't want to hear, "you made us do these loans and now they're not working out, so we need more bailout money."

**Would you lend money now?** One of the problems with the lack of lending is that we have no idea as to how bad the recession will be. Would you want to loan money to a small business? How about to someone who runs one? How about to someone employed by one? Is it much different if we start talking about large companies?

## **Part 2: Bank of America (BAC) and Merrill Lynch (ML)**

**Repeat of last week...Ken Lewis is going to be under fire.** Ken Lewis did one of the greatest value destroying deals of all time. He bought ML over a weekend (in September) for a deal that was valued at close to \$50 billion at announcement. (The deal was valued at a lower level later b/c BAC's stock price dropped.) BAC's stock has dropped 83% since the ML deal was announced. ML had a terrible Q4 (\$15.31 billion loss). BAC's spokesman said "the facts are that their fourth quarter was way beyond anything they said would happen." BAC was surprised to find out that Merrill had losses that were more than just related to subprime securities. There were write-downs of commercial property and leveraged loans and losses tied to credit cards. This is why you don't do a deal in two days. It's called due diligence.

Supposedly, BAC's board supports Ken Lewis. I'm not sure of the justification. The Board is meeting this week. If they don't fire him, they need to set a retirement date.

**I'm a dumbass. You're fired.** Ken Lewis (BAC) fired John Thain (ML). Supposedly, he was angry about:

1. ML's Q4 loss (\$15.31 billion)
2. Thain left for vacation in Vail after losses surfaced
3. Thain's lobbying for a multimillion dollar bonus
4. Thain accelerated bonus payments at ML so they could be collected before the end of the year (and before ML became part of BAC – at which point these bonuses wouldn't have happened)

Of course, the truth is that Lewis wasn't going to fire himself or blame himself for this moronic deal.

**The lawsuits are starting.** BAC's Dec. 5 vote to buy ML was based on an Oct. 31 proxy statement that hadn't been revised to account for ML's poor performance in the fourth quarter of 2008, according to a complaint filed this week in federal court in New York. Ken Lewis had to have some idea of what was going on. It was not BAC's shareholders' job to bail out ML. (That's what we have taxpayers for.)

**An FBR analyst argued that BAC is grossly undercapitalized:**

Tangible Assets: \$2.4 trillion

Common Equity: \$62 billion

**I see a record coming...**when AIG was kicked out of the DJIA last September, it became the shortest-serving member of the index, having only been added in 2004. Still that's over four years. Bank of America (BAC) was added to the Dow in early 2008, and today the stock trades for about 1/10th of where it was. Is this our idea of a blue chip?

**Thain's reputation is in the toilet...a very, very nice toilet.** Thain's reputation was further injured this week when it was disclosed that he spent \$1.22 million to renovate his office after arriving at ML. He spent \$800,000 to hire celebrity designer Michael Smith, who is currently redesigning the White House for the Obama family for just \$100,000. Do men actually care about this crap? I don't know what bothers me more – the fact that he wasted \$1.22MM of shareholder money or the fact that this is what he wasted it on.

Some of what he bought: \$87,000 for an area rug in his conference room and another area rug for \$44,000; a "mahogany pedestal table" for \$25,000; a "19th Century Credenza" in his office for \$68,000; a sofa for \$15,000; four pairs curtains for \$28,000; a pair of guest chairs for \$87,000; a "George IV Desk" for \$18,000; 6 wall sconces for \$2,700; six chairs in his private dining room for \$37,000; a mirror in his private dining room for \$5,000; a chandelier in the private dining room for \$13,000; fabric for a "Roman Shade" for \$11,000; a "custom coffee table" for \$16,000; something called a "commode on legs" for \$35,000; a "Regency Chairs" for \$24,000; "40 yards of farbric for wall panels," for \$5,000 and a "parchment waste can" for \$1,400. He also spent \$100 on a nice flower dress from Macy's. (Okay, I added the last item, but he should give it some thought.)

**Heads I win, tails you lose.** Compensation and benefits at Merrill totaled \$15 billion for the year the just ended, down just 6% from the year earlier, despite net losses of \$27 billion (for the year). Those employees are really aligned with shareholders.

**Taxpayers were very generous with bonuses this year.** The \$15 billion that ML paid in compensation this year was paid by you. The US taxpayers just contributed \$20 billion to BAC. Would they have needed this if ML hadn't paid bonuses? Or how about the \$10 billion that ML took in from the government?

**ML and Thain deserved the bonus.** They sold a worthless firm to BAC and regained some value for shareholders. Of course, any ML shareholders that didn't sell immediately after announcement are probably not happy any more.

### Part 3: Other Bank News

**Take State Street south.** State Street reported fourth-quarter earnings of approximately \$1 per share. But, they disclosed that they have approximately \$9.1 billion of unrealized losses in their investment portfolio and conduits (which issue commercial paper).

**C and BAC travel south on State Street.** On Tuesday, Citigroup dropped 20%, Bank of America dropped 29% in State Street dropped 59%. There were fears that we would have to nationalize these institutions.

**BAC bounced a little when it was reported that Ken Lewis bought \$1MM of stock.** Of course, Ken Lewis spent \$50 billion on a company (ML) that lost \$15 billion this quarter and required a \$20 billion capital infusion from the government plus a \$100 billion guarantee of crappy assets. I'm supposed to believe that Ken Lewis' purchase of BAC's stock is a positive signal? He's a real value investor, isn't he?

**I just can't stop showing you up.** After the news was released that Ken Lewis bought \$1.2MM worth of BAC stock, Jamie Dimon announced that he purchased 500,000 shares of JPM worth about \$11 million. What he should have said in his press release was that if he had used \$11MM to buy BAC stock, he could have bought 2 million shares!

**Credit card expectations are worsening.** CapitalOne lost \$1.42 billion and said 7.08% of its credit card and auto loans are in default, up from 5.85% in the third quarter. The bank said it expects the ratio of loan losses to credit card loans to increase to 8.1% this quarter. In the past three months, the bank's outlook for 2009 loan losses has risen 20% -- this is a great sign of the deteriorating economy. Capital one expects the unemployment rate to rise to 8.7% over the next 12 months. Personally, I'll take "the over" on that bet.

Capital One said that the number of its U.S. cardholders has dropped by 3.6 million, to 37.4 million, since the end of 2007.

Credit-card companies have reported that a growing number of consumers are falling behind on their payments. Charge-offs, or accounts that are sent to collections, rose 44% in 2008 from the year earlier, according to research by Standard & Poor's. Accounts that were more than 30 days late were up 20% from a year before.

## Part 4: Economic News

**New home construction fell sharply in December and a drop-off in permits for future projects suggests the declines will continue.** Privately owned housing starts sank 15.5% in December from the previous month to a seasonally adjusted annual rate of 550,000 units – the slowest pace since monthly records began in 1959. This unit rate is 45% below December 2007's pace.

Permits granted for privately owned housing units also sank in December, falling 10.7% to a seasonally adjusted annual rate of 549,000 permits, another historic low. While a lot of housing permits are never used, it surprises me to hear that housing permits are anywhere above zero.

**Commercial real estate delinquencies are increasing.** Commercial mortgage backed securities loan delinquencies increased again in December to .88%.

**The employment situation continues to worsen.** Jobless claims rose last week by a seasonally adjusted 62,000 to 589,000, matching the highest level seen in a quarter-century.

**We're shedding pounds.** The British pound is having trouble because the UK has a deepening recession and they are paying for a massive bank bailout and attempting to assist struggling homeowners. They are ramping up government spending even as they rely on financing from overseas investors. They have slashed interest rates. Jim Rogers, chairman of Singapore-based Rogers Holdings, said the "U.K. is finished" and investors should sell the currency. I sure am glad that the U.S. isn't in a similar position...

**China is slowing.** In Q4 of 2008, China's GDP expanded just 6.8% from a year earlier. China calculates their GDP growth in a different way than we do. Some commentators have noted that if they calculated it the same way as the US does, they would have reported 0% growth. The US takes the quarterly change and annualizes it (with a seasonal adjustment). China uses the year over year change – so their 6.8% quarterly growth actually reflects growth from Q1 – Q3. This slow growth in China is an absolute disaster for them.

**A great experiment.** Toll Brothers, a builder of luxury homes, began offering some buyers of new homes a 3.99% 30 year fixed-rate mortgage. The average rate on such mortgages now is 5.27%. This is their response to "I'll buy when interest rates come down." My gut feeling is that while some people can't get credit, most people are afraid to buy because of the fear of failing home prices (not rates that are too high).

### **Buffett made some interesting comments on Nightly Business Report:**

1. **On Obama** -- Well I think if you think that he can turn things around in a month or three months or six months and there's going to be some magical transformation since he took office on the 20th that can't happen and wouldn't happen.
2. **How bad is it now** – Well the most important thing to fix right now is the economy. We have a business slowdown particularly after October 1st it was sort of on a glide path downward up until roughly October 1st and then it went into a real nosedive. In fact in September I said we were in an economic Pearl Harbor and I've never used that phrase before.
3. **The bailout** – Well the trade-off... the trade-off basically is that you risk setting in motion forces that will be very hard to stop in terms of inflation down the road and you are creating an imbalance between revenues and expenses in the government that is a lot easier to create than it will be to correct later on, but those are problems worth taking on, but you don't get a free lunch.

### **Part 5: Credit Markets**

**Spain downgraded.** Spain's debt was downgraded from AAA to AA+ by Standard & Poor's. By 2010 Spain's government debt will be 53% of GDP. In Italy, that number will be 98% and in Greece that number will be 110%. Greece's debt had been downgraded from A to A- the prior week.

**Moody's downgraded State Street's debt.** If State Street was forced to realize the \$9.1 billion of losses (mentioned earlier), it would face reductions in capital levels that would put it under pressure to raise money in a difficult environment. The debt was moved from double Aa3 to A1 and maintains a negative outlook.

## Part 6: Auto Industry

**Fiat, Fiasco and other F Words.** Fiat and Chrysler are teaming up. Think of the Detroit Lions and Chicago Cubs combining – different sports, but both used to losing. First, lets think about the basics of this deal:

- A. Fiat puts in no cash and gets a 35% stake in Chrysler.
- B. If Fiat improves Chrysler's operations within 12 months, they can increase their ownership to 55% for a tiny amount (\$25MM).
- C. Fiat will cover the costs of retooling a Chrysler plant to produce one or more Fiat models to be sold in the US. They will also provide engine and transmission technology to help Chrysler introduced new, fuel-efficient small cars.
- D. The idea is to give each company economies of scale and geographical reach. Last year, Chrysler sold 2 million cars and Fiat sold 2.5 million vehicles.
- E. Chrysler needs to show that it can remain a viable business by March in order to keep its \$4 billion in emergency loans and to qualify for \$3 billion in additional government aid.
- F. The deal with Fiat is contingent upon Chrysler getting the additional government aid.

### Now think about a few issues:

- A. Fiat was on the brink of collapse in 2004.
- B. Chrysler is excellent at playing well with others. Just ask the people at Daimler...
- C. As further evidence of how well Chrysler plays with others, they already have a deal with Nissan (where Nissan would make compact cars for Chrysler). These cars would compete with Fiat. The last time I saw one desperate party try to make deals with so many different people I was in a singles bar and it was 15 minutes before closing (and I was looking in the mirror).
- D. First they had Daimler technology, now Fiat technology. I want to own a Chrysler...
- E. If I sold you a 10% interest in my house for \$40K, you could figure that my house was worth \$400,000. So lets do some math. If I sell you 35% of my company for zero, what does that mean my company is worth?

**A few days later...Fiat reported a 71% plunge in fourth-quarter earnings, a drop in sales and a big jump in debt.** (Hopefully they can share this "know how" with Chrysler.) The company has been in discussions with banks about borrowing \$6.46 billion because of the downturn in business. They sound like a strong partner. This reminds me of when Morgan Stanley wanted to team up with Wachovia. Or better yet, Bank of America teamed up with Countrywide and Merrill Lynch.

**Did Chrysler's Vice-Chairman misspeak?** Chrysler execs are traveling the country to ask dealers to order new cars and trucks. The company's vice-chairman said "our company is scrappy." I think that he meant it was crappy. (My children have trouble with "s" and "c", so I'm pretty confident this is what he meant.) Chrysler is offering bonuses to dealers who agreed to buy more inventory. Is this the plan? Lets get the dealers to buy more inventory that they can't sell? Now that I see they have a strong, viable plan like this, personally I'm ready to give them more money.

**Toyota surpasses GM.** GM reported an 11% drop in 2008 vehicle sales, relinquishing its crown as the world's biggest automaker to Toyota after 77 years. (GM's North American sales dropped 21%. European sales dropped 6.5%.) GM sold 8.35 million cars worldwide and Toyota sold 8.97 million. Toyota's annual sales only dropped 4%.

**How many jobs are connected to motor vehicle sales?**

1. The motor vehicle and parts manufacturing industries employed 703,900 people at the end of November.
  - a. These industries had lost 116,500 jobs since November 2007, a 14% decline.
  - b. The big three carmakers employ about 201,000 workers.
  - c. There are 113,000 working in the US for foreign automakers.
  - d. Industry accounts for 13% of US manufacturing jobs.
2. Auto dealers account for 1.1 million more jobs.

**The shift to small cars hurts.** The big three make decent money on trucks but very little in cars. As a result, they were crushed when truck sales dropped off with \$4 gas.

**Can they figure out how to make money on smaller, more fuel-efficient vehicles?** GM says it can break even if US sales are between 12.5 million and 13 million cars. Yet GM, Ford and Chrysler each lost money in 2007, when US auto sales topped 16 million cars and light trucks. The problem is costs. UAW employees make about \$71 an hour. GM has 96,000 active US employees +497,000 retired workers. Including the dependents of retired workers who are covered by GM, the automaker provides health care for almost 1,000,000 people. A lot of that \$71 per hour is money that is being used to pay retired and laid off employees. In 2008, GM spent \$4.8 billion on health care. That added about \$1500 to the cost of every car and truck it produced. Toyota only has 300 retired workers in the US.

There is nothing that's going to remedy this problem other than eliminating these health benefits and allowing the automakers to lay off employees and not pay them.

**Our whole system is broke.** GM spent \$3.3 million on lobbying in the fourth quarter of 2008. During this period, the government gave \$10.4 billion to GM. I think that this lobbying may reflect the only profitable project that GM has ever done. In all of 2008, GM spent \$13.1 million on lobbying, down from \$14.3 million in 2007. Ford and Chrysler (combined) spent a little bit more.

## Part 7: News from Other Industries

### Some tech companies beat expectations:

- A. IBM – issued a bullish forecast for the future; while revenue is shrinking, their product mix is shifting towards high profit software and services
- B. Apple posted strong sales (+5.8%) and profit for the holiday season (people love the Mac and the iPhone). But, they announced that the government is examining how the company disclosed Steve Jobs' health issues.
- C. Google reported strong advertising sales lifted quarterly revenue 18%.

**At the same time, there were plenty of bad tech earnings.** Microsoft posted an unexpected 11% drop in quarterly profit and disclosed plans to slash 5,000 jobs. Nokia's earnings dropped precipitously. Intel said it would close several factories, displacing thousands of workers.

### Oh no! We got approval! (The polymer is about to hit the fan.)

Dow's merger agreement with Rohm & Haas requires the deal to close within two business days of securing final regulatory approvals. This means the deadline is Tuesday. If you believe the deal is going to close at the negotiated price, you could buy Rohm & Haas today and earn 16% in just a few days. Of course, if the deal doesn't happen or the price is reduced, look out below...

Earlier this week, Rohm & Haas said it was already shedding 5.7% of its workforce, or 900 positions, as it closes plants and reduces expenses. As mentioned a few weeks ago, I believe that this is just the tip of the iceberg if the Dow deal goes through. If you want to understand what happens when one company overpays for another, go read about BAC and ML.

**Airlines are cutting capacity.** Domestic demand for American airlines is down 2.5% and international bookings were down 8%. They plan to cut capacity by 6.5% this year. They cut capacity by 8% in 2008. United said it plans to reduce capacity by as much as 9.5% this year. They reduced capacity 4.2% last year.

**Should GE have a AAA rating?** General Electric met its lowered fourth-quarter earnings with a big boost from a tax benefit. Investors are worried that they will lose their AAA rating.

**NY Times gets some financing and it tells a real story.** If you want to understand what a bad position the newspaper industry is in, looked at a deal that was announced this week. Carlos Slim, a Mexican billionaire is going to invest \$250 million in the New York Times. He's going to receive \$250MM of Senior Unsecured Notes paying 14% interest plus warrants on 16MM shares of Class A common stock (which equates to just over 10% of the company). The Times could've stayed local and received similar terms from a friend of mine in New York named Fats and his "family".

## **Part 8: Politics**

**So much for bipartisanship.** I was somewhat surprised by the “bipartisan” nature of Obama’s coronation / inauguration speech. If you didn’t have the opportunity to hear it, he basically said, “let’s all agree that the last eight years were a disaster.” I’m not so sure that we needed to beat Bush over the head with these problems. He had already agreed to board a plane and go to Midland. Isn’t that enough punishment?

**You let me down Mr. President.** My biggest disappointment with President Obama so far is that he didn’t appoint Eliot Spitzer to some sort of position. My main interest is that I would have loved to have seen who he would’ve brought to one of the inaugural balls. (Only one year ago, people were talking about Spitzer for President in the future. It would have been great to see an inaugural ball with a pole in the middle of the room.)

**Skepticism over the stimulus plan.** The nonpartisan Congressional Budget Office projected that less than half of the \$355 billion that President Obama wants to spend on highways, bridges and other job creating investments is likely to be used before the end of fiscal 2010. Republicans want tax cuts – see the IMF paper I summarized if you want to think about whether that will work...

**Roubini warns against a coordinated government effort:**

“Why is this dangerous? At the G-20 summit a few weeks ago, world leaders pledged to address the crisis by coordinating their economic policy responses. That’s not going to happen, because politicians design stimulus packages with political motives -- to satisfy the needs of their constituents -- not to address imbalances in the global economy. This is as true in Washington as in Beijing.”

**Tim Geithner will eventually be confirmed as Treasury Secretary.** Some people feel that he should not be confirmed because of his tax issue. Others blame him for allowing Lehman to fail as well as his part in all of the other plans.

## **Part 9: Other Assorted Stories**

**Retention bonuses are absurd.** Let the compensation absurdity begin. In October, Scotts Miracle-Gro approved a one-time retention award of \$1 million each in cash or stock for six top officers. They did this because all of their outstanding stock options were underwater. God forbid we aren't able to retain these executives who've created all this success for us. I'm hoping that someone will give me a retention bonus so that I stay in the market. I thought options were supposed to align management with shareholders.

**Lets keep stealing from shareholders.** There was a really interesting Wall Street Journal article describing yet another way that companies are stealing from shareholders in order to give money to top executives. Some firms allow top executives to cash out their retirement in a lump sum payment. The question is how much they are owed. This requires discounting the expected cash flows. Some companies are using an Internal Revenue Service discount rate that is used for federally regulated plans. This rate is basically a risk free rate. (Discounting cash flows at a low rate means that the present value is higher.) In reality, you should be discounting cash flows at a rate consistent with the cash flows' riskiness. The riskiness of these cash flows is tied to the risk of the company because the executive is an unsecured creditor. There is a tremendous difference in discounting these cash flows at 3% versus 6%. For many companies, today's rate would 6% or higher.

**We have options!** Nasdaq OMX Group said it will launch options trading on its three-week old Government Relief Index, which tracks the performance of companies bailed out by U.S. taxpayers. This is awesome – derivatives based on companies that are receiving bailouts. Maybe some of these banks can sell puts on the index. If the index increases in value, they keep the premium. If the index goes down, the bank loses money and the government will have to bail them out again. There's no downside.

**Jeremy Siegel spoke to a class at Wharton recently where he explained the calamity of the banks securitize-and-hold strategy:**

Financial firms bought, held and insured large quantities of risky, mortgage-related assets on borrowed money. The irony is that these financial giants had little need to hold these securities; they were already making enormous profits simply from creating, bundling and selling them. "During dot-com IPOs of the early 1990s, the firms that underwrote the stock offerings did not hold on to those stocks," Siegel says. "They flipped them. But in the case of mortgage-backed securities, the financial firms decided these were good assets to hold. That was their fatal flaw."

**Rumor is that Madoff has pancreatic cancer.** I have no idea if it's true, but I'll say this:

1. it's consistent with him confessing
2. the rumors about Steve Jobs' health were correct

**People are wrong in arguing that the credit default swap market is useless.** It's the best way to take a bearish position in the debt market. It's easier than shorting bonds. In addition, it gives us pricing information. In addition, we want short sellers to have a way to profit – they bring useful information to the market. With that said, selling these swaps is like selling insurance. We require insurers to have capital so that we are confident they can fulfill their requirements. The CDS market should be no different.

**Be careful of returns that are too steady.** Morningstar surveyed 1684 hedge funds over a five-year period ending with the third quarter of 2008. It found 34 of them never had a down quarter. It turns out that seven of these firms were connected to Madoff.