BULLS & BEARS

Volume I • Issue 18 • March 23 2008

TOP STORIES

- Visa IPO prices at record $17.9 Billion
- Goldman: $1.5 billion net is half of last year's
- Freddie, Fannie may get some slack as the government eases capital requirements
- Bear Stearns to be acquired by JP Morgan for $2 a share
- Fed slashes rates by 75 basis points, market rallies

MARKETS

DOW	12361.32 +3.93
NASDAQ	2258.11 +2.06
S&P	1329.51 +2.39%
OIL	$101.84
GOLD	$916.35
EURO	$1.5452

THIS WEEKS ISSUE

MARKET SUMMARY

Monday 03/17/08
The situation looked grim as the opening bell approached, as the market digested an announcement that investment bank JP Morgan would agree to purchase Bear Stearns at a fire-sale price of $2 a share. This news set off significant selling overseas and prompted speculation as to which investment bank would be the next to be hit by subprime woes. Lehman suffered a downgrade from Moody's while Citigroup announced an initiative to add new executives who would report directly to its CEO. The Fed, in an attempt to soften the bearish mood, issued an emergency 25 basis point cut ahead of this weeks committee meeting, but this did little to soothe the Dow which closed at a very modest gain of 21 points. Oil surprisingly plummeted allowing some temporary relief, despite a weakening dollar and expectations of further Fed rate cuts.

Tuesday 03/18/08
Following yesterdays bailout of Bear Stearns investors once again braced themselves for the worst. The markets soon changed course, however, with stronger-than expected earnings reports from investment banks Goldman Sachs and Lehman Brothes, and a surge in Visa stock as the company made its debut on the the New York Stock Exchange. The news helped financial stocks recover much of the previous day's losses, and the rally continued into the Fed's open-market committee decision to cut rates by 75 basis points. The cut, despite being lower than some anticipated, failed to stop the positive momentum as the Dow surged to a 420 point gain, with all 30 of the Dow's components moving higher. The dollar finally bounced back as it regained some ground against the Euro and Yen, while oil jumped by $3.

Wednesday 03/19/08
The successful launch of Visa's IPO together with the strong momentum from yesterday's rally started the market out on a positive note. Unfortunately rumors soon surfaced of further potential write-downs at another prominent investment bank, which sent the Dow to a triple digit loss. Fannie Mae and Freddie Mac saw their capital requirements lowered, a move that may result in $200 billion in excessive liquidity for the struggling firms, while Apple began looking into bundling music packages with its iPods and iPhones. In the wake of yesterdays smaller-than-expected rate cut, and a recovering dollar, gold and oil futures tumbled experiencing some of their worst one-day drops in years.

Thursday 03/20/08
Following Tuesday's out-sized rally and Wednesday's massive sell-off, it was unclear which direction the market would pick ahead of the open. Fortunately, thanks to stronger-than-expected earnings from Nike and a only modest decline in the manufacturing index, the bulls took an early lead. A continuing pullback in energy prices contributed to the momentum as oil briefly slipped under the $100 mark. Retail and financial stocks, meanwhile, also surged higher ahead of the holiday weekend. The Dow closed 261 points higher toping its 10-day moving average for the first time in 2008.

Friday 03/21/08
Good Friday - U.S. Markets Closed

THE WEEK IN QUOTES

"One thing is for certain, we're in challenging times."
-President George W. Bush, after the Fed approved a $30 billion loan for the takeover of Bear Stearns and announced a new lending tool for investment firms

"We'll be lucky to make it out of this without something that looks like a recession"
-Michael Darda, chief economist at MKM Partners, on the credit crisis and the U.S. economic outlook

"When you're looking into the abyss, you don't quibble over details."
-Sen Charles Schumer, on the deal for JPMorgan Chase to buy Bear Stearns, leaving the Federal Reserve responsible for $30 billion of Bear's hard-to-trade securities

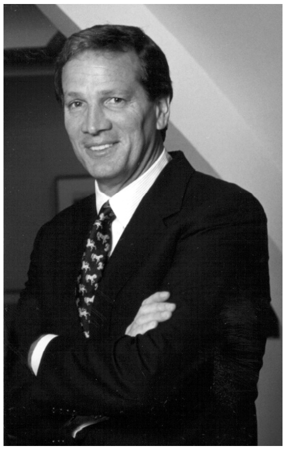
WORD OF THE WEEK

P/E Ratio: Price-Earnings Ratio

A valuation ratio of a company's current share price compared to its per-share earnings. Calculated as: Market Value per Share / Earnings per Share.

In general, a high P/E suggests that investors are expecting higher earnings growth in the future compared to companies with a lower P/E.

BEAR STEARN'S CEOS *By Rohith Salim*



Allan Schwartz

James E Cayne

Allan Schwartz is the current President and Chief Executive Officer of The Bear Stearns Companies, Inc. which until recently, was one of the leading worldwide investment banking, securities trading and brokerage firms. After joining Bear Stearns, he became the executive vice president and head of the Investment Banking Division in 1985.

He succeeded 74 year old James E Cayne in January 8, 2008. However, it was a well known fact that he was already embraced as the next CEO for quite some time. In 2007, he earned a salary of $250,000 along with a hefty bonus of $16.2 million.

However, warm and fuzzy feelings are no longer felt for Allan Schwartz in what remains at Bear Stearns. The employees in particular expressed great displeasure for letting JP Morgan "steal" the firm. Most of them face an extremely uncertain job market. As for Schwartz, CNBC news reports that JP Morgan Chase would probably retain him as Vice Chairman to utilize his investment banking savvy.

Schwartz was a star pitcher for Duke University in the 1970s and was drafted by the Cincinnati Reds but could never play a game for the club after sustaining an elbow injury. He then made a name for himself as a broker selling stock to institutions at several small brokerage houses before he joined Bear Stearns in 1976. As an investment banker, he was able to meld his sales skills with his company knowledge making him an advisor for top corporate executives like Michael Eisner of Walt Disney and the Dolan family at Cablevision.

Seventy four year old James E Cayne was the CEO of Bear Stearns from 1993 to January 2008 when he was succeeded by Allan Schwartz. In 2007, he earned a salary of $250,000 along with a bonus of $17.1 million.

In 2005, Forbes magazine ranked him as among the 400 richest Americans with an estimated net worth of $900 million. However, due to the liquidity crisis that Bear Stearns faced, his holdings in the company declined from $993 million to less than $200 million. In the last week, his net worth, mostly tied up in shares of Bear Stearns dropped to less than $15 million after the company came to agreement with competitor JP Morgan for a full buyout at $2 per share – roughly $236 million for the entire firm. This decisively removed him from the wealthiest individuals in the nation.

Cayne grew up in New York City where his father worked as a patent attorney. His first job was a traveling salesman selling copiers in the Midwest. Later, he made a living selling scrap iron and municipal bonds. 1n 1969, he was playing bridge when fellow bridge-player Alan Greenberg hired him as a stockbroker at Bear Stearns. Since then he has been with the company, being hired as President in 1985, CEO in 1993, and the Chairman of the Board in 2001.

However, over the last few years, his uncaring attitude towards the company has became one of the main reasons behind the fall of Bear Stearns. In March 2008, Cayne was reportedly at a bridge tournament when Bear Stearns underwent an irrecoverable liquidity crisis, which culminated in the firm's sale to J.P. Morgan Chase for $2 a share on March 16, 2008. Similarly, in July 2007 Cayne was at a bridge tournament when Bear Stearns' hedge funds collapsed. His addiction to playing bridge has often been cited as one of the reasons for the fall of Bear Stearns.

BEAR STEARNS: THE RISE & FALL *By Mehnt Bhatia*

Bear Stearns is a leading investment bank, also dealing in securities trading and brokerage. It was created in 1923 by Joseph Bear, Robert Stearns and Harold Mayer as an equity trading house. Over the years, it has become one of the most resilient and successful investment companies. Its shares have been constantly on the rise. At the dawn of 2007, Bear Stearns' total capital was approximately $67 billion. It had survived more than eight decades of bear markets and market crashes, making it one of the most enduring investment firms.

In 1929, only six years after its initiation, the New York Stock Exchange crashed. Although the company did face a few problems, it generally held strong due to the capital it had accumulated. In fact, while other firms scrambled to cut corners, Bear Stearns offered its employees stable salaries and generous bonuses. In 1975, when New York City was on the verge of bankruptcy, Bear Stearns took a huge risk by investing $10 million in city securities, an investment that paid off heavily. These are just a few examples of how the aggressive investment strategies of this firm have many times proven lucrative.

After maintaining its momentum through the Great Depression and numerous recessions, Bear Stearns recently finally fell prey to the mortgage crisis. Its downfall commenced in June 2007. Two of Bear Stearns' prized hedge funds, unhealthily stuffed with subprime mortgages, collapsed under market pressure, inflicting $3.2 billion in damage to the Wall Street firm. A month later, the company informed investors that the two funds had almost no value, spurring the rise of many rumors which the company's executives struggled to dismiss. Then, at the end of 2007, for the first time in 85 years of business, it recorded a quarterly loss. Within a month, the company cut over 500 jobs. Bear Stearns began to reveal signs of weakness.

This year alone, its share value plummeted by a staggering 66%, and much of this damage occurred quite recently. At the point of its sharpest decline last week, JPMorgan and the New York Federal Reserve rushed to rescue Bear Stearns; however, even the 28-day emergency financial package that was offered to Bear Stearns by the Fed was ineffective. Consequently, JPMorgan chose to buy out the company for $2 a share, a share once priced at $170, ultimately valuating the company at a mere $236 million and marking an official end to Bear Stearns.

The merger, however, has brought up suspicions. Questions concerning the exclusive involvement of fellow firm JPMorgan and the government's role in the relationship between these two companies have caught the attention of mainstream investors and bystanders alike. For example, there have been doubts about whether the Fed asked Bear Stearns if it preferred a quick sale or a bankruptcy filing. In light of these questions and others, the US Senate Finance committee is currently reviewing the sale and analyzing the implications that this entire endeavor may have on taxpayers.

Regardless, the 85 year life of Bear Stearns has come to an end, reminding economies worldwide that no financial empire is too large to fall. The demise of Bear Stearns has shaken U.S. financial markets and sent shivers down the backs of Wall Street executives. The brewing anxiety within the financial world has already contributed to and will continue to fuel an inevitable recession. What most concerns experts about the months to come is the potential fate of other major players in the industry. The story of Bear Stearns might simply be the beginning.

ASIAN MARKETS DECOUPLING FROM THE US MARKET? *By Il Suk Lyu*

The Asian markets have been characterized by potential for high return. For instance, the Hong Kong stock market rose 144% and the Indian market rose 391% over the past five years. In contrast, the S&P 500 Index rose only 56% during the same period. The Asian markets have also been described to be highly dependent on the U.S. market because the growth of many Asian countries has been largely driven by their exports to the U.S.

However, Asian countries' dependence on the U.S. market seems to be diminishing over time. In the U.S. recession in 2001, the export growth in emerging market countries plummeted. In contrast, in the current U.S. recession, the emerging market's export growth is robust 19.9%. In terms of real GDP growth, China grew 11.4% and India grew 9.60% in 2007 despite recent slowdown in the U.S. The reason why Asian economies are functioning normally in spite of the current U.S. recession is that Asian countries are no longer exporting only to the United States.

Since 2001, trade within Asia has surged while the share of exports from Asia to the U.S. has fallen. This change was caused by the increasing importance of Asia in the world economy. In 2007, the nominal GDP of Asia was 28% of the world's nominal GDP. In terms of real GDP, Asia is now the continent with the greatest share in the world economy.

Asia's increasing importance can also be observed in PC and mobile phone markets. In 2001, the size of Asian PC markets (excluding Japan) was 1/2 of U.S. PC market; now Asian markets are slightly smaller than the U.S. market. In 2001, the U.S. and Europe took more than a half of the mobile phone handsets produced worldwide; now they take less than 1/3 of the handsets produced in the world. The vast majority of handsets these days are sold into the emerging markets.

Based on these observations, we can predict the extent of influence of recent slowdown in the U.S. on Asian countries. While the U.S. recession will have some impact on Asia, the influence of the recession will be limited. Jonathan Garner of Morgan Stanley is expecting mild deceleration of growth in Asia.

An Overview of the Asian Markets:

The four most important indices of the Asian stock markets are Nikkei (Japan), Hang Seng (Hong Kong), KOSPI (South Korea), and BSE Sensex (India). Hang Seng Index reflects the performance of markets of both Hong Kong and mainland China because numerous mainland China-based companies are listed on the Hong Kong Stock Exchange. Over the past five years, Nikkei 225 rose 57%, Hang Seng Index rose 144%, KOSPI Composite Index rose 207%, and BSE Sensex rose 391%. Of course, investors should always keep in mind that high return is usually accompanied by high risk.

For individual investors interested in Asian stock markets, it is advisable to invest in mutual funds. Considering the high risk that accompanies the high return, it will be wise to set up rules before starting to invest in Asian markets. For instance, it can be a good idea to sell your mutual fund once the return turns negative.

THE FALL OF ENRON *By Emily Anderson*

Enron. Once, the name meant one of the strongest, most powerful energy producing companies. Now people see the name and think only of one of the greatest business scandals the world has ever seen. It started with greed and ended with the loss of billions of dollars--dollars that employees as well as many other people had reserved for their retirement, dollars they had worked their whole life earning, and dollars that were gone in the blink of an eye.

What happened? Enron did not start off having its main goal be to trick people out of their money. It was founded on the simple principle of delivering energy to make a profit. It grew fast and was considered a promising company, and it lived up to that name. It pursued natural gas trading and became a financial power and market maker in electrical power, coal, steel paper and pulp, water, and even broadband fiber optic.

Enron was able to take a huge leap when, after much lobbying and some help from our current president, it was able to deregulate much of the gas industry. This increased supply, but also volatility, which led Jeff Skilling, the former CEO, to create somewhat of a "gas bank" that allowed people to buy and sell futures of the gas, giving Enron a portion of the profit after every interaction. This bank was a huge success, and after some time, Enron began selling off their "heavy assets" to concentrate more on the financial aspect, until their gas financial transactions were over twenty times their pipeline capacity. After the success of the gas model, Enron worked to expand this system to other areas such as electricity.

With all of these complex trading and business models, Enron stretched accounting to its limit. They employed a type of accounting known as mark-to-market accounting, which allowed them to use future revenue as if it was real cash that they already had in their pocket. This practice made sense when they were dealing with so many future contracts, but was bound to collapse when they started to spend money they did not actually have.

Enron used these future contracts to help bluff the accounting, and it worked. The stock price of Enron kept going up, but as Enron's actual profits started to decrease due to bad investments, they actually used these rising stock prices to pay people with stock and stock futures instead of real money! The problem with that is, of course, that stock prices need to keep on rising, otherwise the entire thing collapses. Enron used tax havens as well as the future contracts to help keep the stock prices going up, despite more failed ventures. Unfortunately, people began to notice the failed ventures and wondered how Enron kept reporting gains.

Enron's response: "Thank God for California." California was one of the first states to totally deregulate electricity. With no government interference, Enron was able to take control of almost all of the electricity in California. Anyone with basic economic skills can tell you that there are two main ways to raise the price of a good. You can either raise the demand or decrease the supply. Luckily for Enron, they were in total control of the supply, and with just one short phone call, would be able to decrease the supply and watch the energy prices go up as consumers started to panic. So began the start of many blackouts in California.

It is easy to see that Enron started out as a strong company, but after a few bad decisions with respect to using assets and in trying to hide these bad decisions, Enron became a business built on a deck of cards. A deck of cards that soon began to tumble. Once suspicions started to leak out and no one was able to answer the many questions asked about Enron's accounting, the stock began to plummet. Once the prices started to fall, everything started to come apart and, in less than a week, a stock that at one point sold at $83.13 went down to $0.50. In addition, many of the key players, including Ken Lay and Jeff Skilling, embraced the fall with their company, along with Enron's accounting firm, Arthur Andersen.

After the Enron scandal, California re-regulated its energy markets and the government started to crack down on fraudulent accounting principles. The scandal was a lesson to people of what can happen if they are not careful. Unfortunately, this business fraud continues today even after the lessons learned from Enron, and everyday we hear about new companies that have tried and failed to make money out of nothing.

WHAT DID YOU LEARN IN YOUR MIDDLE SCHOOL P/E CLASS? *By Danny Kisch*

As I was perusing my daily dose of financial news and various statistics, my eyes fell upon, quite possibly, one of the most troublesome pieces of information I have ever seen. No it was not another analyst's evaluation of our economy's looming threat of recession, nor was it the now triple-digit price of oil. Instead, and almost surprisingly, my sudden anxiety had been caused by the latest figures on financial illiteracy.

In a survey conducted by the Harvard Business School, Dartmouth College professors, and TNS, and cited in a recent article from CNNMoney.com, 1,000 individuals were asked basic questions about the debt they carried and how long they estimated that debt to double. While only 35.9% of respondents could accurately tell when the debt they owed on their credit cards would double, 31.9% over-estimated the time frame, and a whopping 18.2% had no idea how to respond.

Though I don't expect the average person to carry around a pocket calculator to compute the amount of debt they owe at a moment's notice, when 1 in 5 Americans do not have a solid grasp of their own financial situation let alone the debt they owe, you know that there is a disaster waiting to happen.

By itself, this information might seem harmless, but it becomes significantly more disquieting given the current state of the economy and the declining value of the dollar. With the far-reaching effects of the sub-prime mortgage bubble combined with a credit-crisis in full swing, aside from an economic miracle, there is little to look forward to in terms of the mitigation of consumer debt.

Or is there?

As Senior Economist and Manager of the Federal Reserve Bank of St. Louis, William R. Emmons, described in his paper on financial literacy, "The primary obstacle to widespread financial literacy is the underdevelopment... of the basic technical and emotional skills needed in financial decision-making... and in particular, math and economics training."

The key to becoming a more financially literate country lies in establishing the fundamentals of economics and finance in the minds of children at an early age. Too long has our public education system suffered from a deficiency in teaching the practical knowledge that every person needs to know (but might not know), whether it be financial literacy or how to properly care for your car.

It is about time for academic curricula nation-wide to incorporate a new P/E class that focuses on P/E ratios, ROIs, banking, investing, and how to achieve the financial independence that everyone wants to experience.

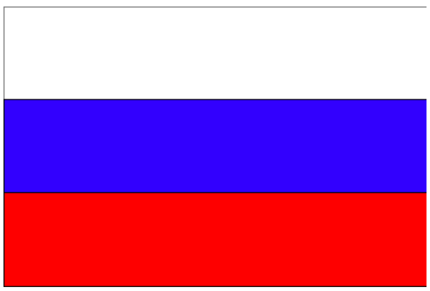
What this country needs is a massive overhaul in education so that we can empower the average investor to take control of his or her financial situation.

Get ready Warren Buffett, because the entire United States of America is eager and waiting to show that they too can become a homegrown success.

Top 5 Emerging Markets: The BRIMC Thesis *By Stuti Bhageria*

BRIMC is a new term used to refer to Brazil, Russia, India, Mexico and China. The term derived from the Goldman Sachs investment bank thesis called BRIC. It predicts China and India, respectively, to be the dominant global suppliers of manufactured goods and services while Brazil and Russia would become similarly dominant as suppliers of raw materials. BRIMC is the future.

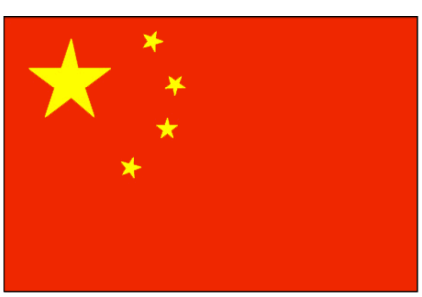
BRAZIL – Brazil has the ninth largest economy in the world by purchasing power parity (PPP). The country has a diversified middle-income economy with wide variations in development levels and mature manufacturing, mining and agriculture sectors. Technology and services also play an important role and are growing rapidly. The industry specializes in automobiles, arms, steel, metal, petro chemicals, electronics and processed foods. Brazil's GDP (PPP and Nominal) is the highest of Latin America with large and developed agricultural, mining, manufacturing, and service sectors, as well as a large labor pool. As Brazil heads to the future, one of their most pressing issues will be the class gap between the rich and poor and the globalization of finances as well as race and identity.



RUSSIA - Since the turn of the century, rising oil prices, increased foreign investment, higher domestic consumption and greater political stability have bolstered economic growth in Russia. In 2007, Russia's GDP was $2.076 trillion, the 7th highest in the world, with GDP rising 8.1% from the previous year. Growth was primarily driven by non-traded services and goods for the domestic market, as opposed to oil or mineral extraction and exports. Russia has the world's largest natural gas reserves, the second largest coal reserves and the eighth largest oil reserves. A principal factor in Russia's growth has been the combination of strong growth in productivity, real wages, and consumption. It is the world's leading natural gas exporter and the second leading oil exporter. Oil, natural gas, metals, and timber account for more than 80% of Russian exports abroad. During the last 5 years, poverty has declined steadily and the middle class has continued to expand.

INDIA - India is the world's twelfth largest economy at market exchange rates and the third largest in purchasing power. Economic reforms have transformed it into the second fastest growing large economy; though it still suffers from high levels of poverty, illiteracy, and environmental degradation. India has capitalized on its large pool of educated, English-speaking people, and trained professionals to become an important outsourcing destination for multinational corporations and a popular destination for medical tourism. India has also become a major exporter of software as well as financial, research, and technological services. India's population continues to rise (it will do so for perhaps twenty years after China's population has started to decline) and this rise in the labor supply, together with stronger labor productivity and the benefits from huge investment in national infrastructure, will provide the basis for the strong growth of potential GDP. As India grows, the hope is that national savings will expand sufficiently to help finance fresh investment.

MEXICO- Mexico is the 12th largest economy in the world by purchasing power parity. The economy is strongly linked to those of its North American Free Trade Agreement (NAFTA) partners. Mexico has a free market economy, and is firmly established as an upper middle-income country. After the 1994 economic debacle, Mexico has made an impressive recovery, building a modern and diversified economy. Recent administrations have also improved infrastructure and opened competition in seaports, railroads, telecommunications, electricity generation, natural gas distribution and airports. Oil is Mexico's largest source of foreign income. Along with Chile, Mexico has the highest rating of long-term sovereign credit in Latin America. Poverty in Mexico is further reduced by remittances from Mexican citizens working in the United States of America, which reaches US$20 billion dollars per year and is the second largest source of foreign income after oil exports.



CHINA - Because of its vast population, large research and development investments, China is often considered as an emerging superpower. It has the world's fourth largest economy and second largest purchasing power parity. Since 1978, China's market-based economic reforms have helped lift over 400 million Chinese out of poverty, bringing down the poverty rate from 53% of population in 1981 to 8% by 2001. The two most important sectors of the economy have traditionally been agriculture and industry, which together employ more than 70 percent of the labor force and produce more than 60 percent of GDP. China's national output has almost doubled in the five years since it joined the World Trade Organization in 2001, although at $2,000 on a per capita basis it remains a fraction of America's $42,000. Surplus cash is finding its way into the country's over-heated stock exchanges. Shares in Shanghai rose by more than 100pc last year.

BOND UNIVERSITY

COLUMBIA UNIVERSITY

INDIANA UNIVERSITY

UNIVERSITY OF BRITISH COLUMBIA

UNIVERSITY OF NORTH CAROLINA

BROWNUNIVERSITY

DUKE UNIVERSITY

MCGILL UNIVERSITY

UNIVERSITYOFCALIFOR-NIA AT BERKELEY

UNIVERSITY OF PENNSYLVANIA

CALIFORNIAINSTITUTEOF TECHNOLOGY

GEORGETOWN UNIVERSITY

NORTHWESTERN UNIVERSITY

UNIVERSITY OF CHICAGO

UNIVERSITY OF SOUTHERNCALIFORNIA

CAMBRIDGE UNIVERSITY

HARVARD UNIVERSITY

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UNIVERSITY OF MELBOURNE

UNIVERSITY OF SYDNEY

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