BULLS & BEARS

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TOP STORIES

- Clear Channel warns buyout deal may not close
- Oil jumps $5 on Iraq bombing, weak inventories
- Ford sells Jaguar, Land Rover for $2.3 billion to Tata Motors
- XM and Sirius merger approved by the Department of Justice
- JP Morgan quintuples offer for Bear Stearns
- Motorola plans to split company amid pressure from investors

MARKETS

DOW	12216.40, -1.2%
NASDAQ	2261.18, +0.1%
S&P 500	1315.22, -1.1%
10 YR	100 15/32, yield 3.44%
OIL	$105.62
EURO	$1.5796

THIS WEEKS ISSUE

MARKET SUMMARY

Monday 03/24/08
Following last Thursday's unexpected triple-digit Dow rally, stocks picked up right where they left off, led by the financials. The market caught an early lift after reports hit the Street that J.P. Morgan Chase revised its buyout bid for Bear Stearns from $2 to $10 per share. A number of positive earnings reports from retailers, meanwhile, helped to push stocks even higher. A stronger-than-expected report on existing home sales gave the US dollar a boost, while crude and gold posted modest declines.

Tuesday 03/25/08
Equities continued their positive momentum following the Department of Justice's approval of the proposed merger between Sirius and XM Satellite Radio. A number of news reports, however, caused somewhat of a reversal. Weekly chain-store sales, the Case-Shiller home price index, U.S. home prices, and news on consumer confidence all hit the street. The final piece of information proved the most damaging as the Conference Board reported that U.S. consumer confidence dropped in March, hitting a 35-year low. The market immediately dropped to a triple-digit loss following the report, but rebounded to positive territory by the close.

Wednesday 03/26/08
A barrage of weaker-than-expected economic data, together with some negative analyst commentary on American banks, sent stocks sharply lower right form the open. The Commerce Department kicked things off by reporting an unexpected decline in February durable-goods orders, and then added that new home sales fell to a 13-year low. Financial stocks continued to sell-off after Oppenheimer slashed its profit forecasts on U.S. banks by an average of 84%. A report that U.S. crude stockpiles were unchanged over the past week, meanwhile, sent crude prices surging.

Thursday 03/27/08
Oracle reported quarterly revenue below analyst expectations, sending tech stocks stumbling. The news worsened for the sector as Google realized a second straight month of disappointing growth. In addition, data showed that the U.S. economy slowed substantially during the fourth quarter, with Gross Domestic Product growing by the slowest rate since 2002. Finally, the Labor Department announced that initial jobless claims fell by 9,000 a week a week ago. The onslaught of economic news sent the Dow to its second straight triple-digit loss.

Friday 03/28/08
Stocks started out in mildly positive territory, but some unimpressive economic data and a profit warning from J.C. Penney yet again sent markets lower. The blue chips struggled to establish a foothold around the breakeven mark at midday, but succumbed to selling pressure as the closing bell approached. Crude and Gold shed 2% on continuing dollar strength, and consumer spending woes.

THE WEEK IN QUOTES

"Falling prices are a double-edged sword"
-David Seiders, National Association of Home Builders' chief economist, as new home sales fell to their lowest level in 13 years even as housing prices declined

"It's sort of like, heads you win, tails the Fed picks up the pieces."
-Josh Lerner, Harvard finance professor, on financial firms that consistently make high-risk investments

"These are signs that housing's problems are being addressed, but I wouldn't break out the champagne yet"
-Paul Kariel, Northern Trust's chief economist, after a record plunge in home prices led to a 2.9% increase in home sales

ANNOUNCEMENT

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GENIUSES OF LTCM *By Timothy Raschuk*

John William Meriwether

John William Meriwether, one of the most well-known American financial executives on Wall Street, was born in 1947 in Chicago, Illinois and is seen by many as the pioneer of fixed income arbitrage. Meriwether earned an undergraduate business degree from Northwestern University and an MBA from the University of Chicago Graduate School of Business.

After graduation, Meriwether moved to New York City, where he worked as a bond trader at Salomon Brothers. Meriwether rose to become the head of the domestic fixed income arbitrage group in the early eighties and the vice-chairman of the company in 1988. In 1991, after Salomon was caught in a Treasury securities trading scandal, Meriwether paid a $50,000 civil penalty and left the company.

He went on to found Long-Term Capital Management together with Nobel Pirze Winner's Myron Scholes and Robert Merton. The Greenwich hedge fund would notoriously collapse in 1998 following the East Asian and Russian financial crises.

Meriwether now runs JWM Partners, a hedge fund with approximately $2.6 billion under management. As of March 19th, 2008, the JWM Partners fixed income hedge fund was down by 24% year to date.

Myron Samuel Scholes

Myron Samuel Scholes is one of the authors of the famous Black-Scholes equation. In 1997 he was awarded the Nobel Prize in Economics for "a new method to determine the value of derivatives". The model provided the fundamental conceptual framework for valuing options, and is often referred to as the Black-Scholes model, a model now utilized for trillions of dollars in derivative trades every year.

Scholes was born in 1941 in a prosperous city in Canada. Through his family, he became interested in economics early, and opened an account for investing in the stock market while he was still in high school. After receiving his B.A. from McMaster, he moved to the University of Chicago where he earned his MBA in 1964, and Ph.D. a few years later. After finishing his dissertation, Scholes took a teaching position at the MIT Sloan School of Management. It is at this point Scholes began his groundbreaking research in asset pricing. In 1990 Scholes decided to more directly involve himself in the financial markets and took a position with Salomon Brothers as a special consultant. He eventually became a managing director within the firm, and co-head of the company's fixed-income derivatives group. In 1994, Scholes joined several colleagues, including John Meriwether, the former head of bond trading at Salomon Brothers, and co-founded a hedge fund called Long-Term Capital Management. The billion-dollar fund did extremely well in its first few years, with annualized returns of over 40%. Despite this early success, however, the highly leveraged fund lost $4.6 billion in 1997 following the East Asia and Russian financial crisis, and was eventually shut down.

Scholes is currently the chairman of Platinum Grove Asset Management, which manages $4.5 billion and has an average annual return of 9.4 percent. He also serves on the board of various organizations, such as the Chicago Mercantile Exchange and Dimensional Fund Advisors, a pioneer of passive investing which manages $100 billion.

JAPANESE EXPORTS RISE *By Il Suk Lyu*

Japanese exporters are facing adverse economic circumstances these days. The Yen is at a 12-year high against the dollar, and Japan's second-biggest trading partner, the U.S., is still suffering from the subprime-fueled funk. However, February 2008 data shows that Japan's performance is above expectation; Japan's overall exports last month rose 8.7% from a year earlier. Exports toward China rose 14.9%, those to the EU rose 7.2%, and those to the Middle East rose 14.6 %. Especially, Japanese exports of vehicles, machinery, and steel to Asia surged.

In contrast, Japanese exports to the United States fell 6%, dropping for the sixth straight month. Exports of cars dropped 8.9%, while sales of motorbikes fell 16.6% and shipments of construction and mining equipment were down 28.1%.

These better-than-expected figures are a relief for the Japanese economy, whose growth has been traditionally driven by exports. These figures also raise question whether Japan is decoupling from its dependence on the United States. Whereas Japanese economy is slowly decoupling from the U.S., U.S. demand for Japanese goods is still very important to Japanese exporters.

Experts point out that falling exports to the United States are being compensated by increasing exports to Asia and the EU for now, but Asian and European demand cannot completely cover dropping U.S. demand. Paul Donovan of UBS warns that domestic demand in Europe and the U.S. is decreasing. Since Europe, the U.S. and Japan constitute approximately 70% of the world economy, decreasing domestic demand in these advanced economies is alarming to Japanese exporters. Donovan believes that emerging market countries' domestic demand cannot entirely compensate for falling U.S. demand.

Ian Scott and Paul Danis of Lehman Brothers argue that the overall outlook for the Japanese economy is not so auspicious. They believe that high yen is the biggest obstacle to Japanese companies.

A Japanese government survey in January showed that 106 yen to the dollar was the average rate at which 356 exporters said they could run a profit. The current exchange rate is approximately 99 yen/dollar. At Toyota, every one yen appreciation against the dollar shaves $350 million off its operating earnings. While Japan's export-driven growth strategy is what made the Japanese economy the second-largest in the world, it has made the country quite dependent on foreign economies' performances and fluctuations in exchange rates.

THE COLLAPSE OF LTCM *By Rohith Salim*

Long-Term Capital Management (LTCM) was a hedge fund founded in 1994 by John Meriwether, the former vice-chairman and head of bond trading at Salomon Brothers.

He assembled an all-star team of traders and academics to create a fund that would profit from the combination of the academics' quantitative models and the traders' market judgments and execution capabilities.

His board included David Mullins, a former vice-chairman of the Federal Reserve Board, and Myron Scholes and Robert C. Merton, both of whom shared the 1997 Nobel Memorial Prize in Economics. These credentials encouraged the founding investors, such as the former Bear Sterns President James Cayne, to pay the minimum investment of $10 million apiece.

In 1994 the firm had an initial equity capitalization of $1.3 billion. For the next two years the fund earned returns close to 40% of the investment. This return was earned through four main types of trades: convergence of U.S., Japanese, and European sovereign bonds, convergence among European sovereign bonds, convergence between the on-the-run and off-the-run U.S. government bonds, and lastly through long positions in emerging market sovereigns, hedged back to dollars. As these differences were tiny, the fund had to take large and highly leveraged positions in order to make a significant profit.

However, at the end of 1997, the fund only achieved a 27% return. Meriwether was forced to return about $2.7 billion of the fund's capital back to the investors because he believed the investment opportunities were not large or attractive enough. Despite this setback, LTCM's control had amounted to $100 billion, with a net asset value of $4 billion by the beginning of 1998. Furthermore, its swaps position was valued at $1.25 trillion, equal to 5% of the entire global market.

In May and June of 1998, returns from the fund were -6.42% and -10.14% respectively, reducing LTCM's capital by $461 million. The major downturn of LTCM happened because of the Russian Financial Crises in August and September of 1998, when the Russian Government defaulted on its government bonds. This resulted in investors getting out of any remotely risky market and into the most secure instruments within the already "risk free" government bond market. This led to an enormous liquidity crisis, dealing a huge blow to LTCM's portfolio. By September 1, 1998, LTCM's equity dropped to $2.3 billion and to $600 Million by September 22, 1998. By the fourth quarter of 1998, the damage from LTCM's near demise was widespread.

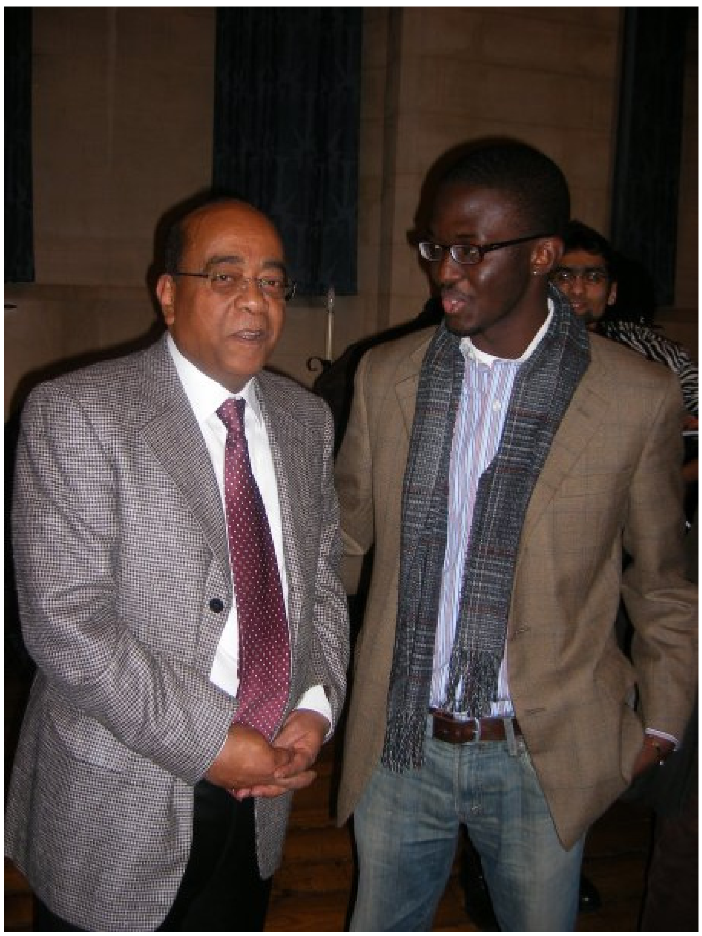
Long Term Capital Management was the biggest disaster of its kind. The main lesson to be learned from this disaster is that one can take liquidity bets, but one cannot leverage them much. In essence, LTCM fell victim to a flight to liquidity.

The investors who lost a lot of their capital in LTCM included LTCM partners ($1.1 billion), Liechtenstein Global Trust ($30 million), Bank of Italy ($100 million), Credit Suisse ($55 million), and UBS ($690 million), among many others.

Is Africa a Breadbasket or a Basket Case? *By Atta Addo*

[Photo insert: the author with self-made African billionaire, entrepreneur and philanthropist, Dr. Mo Ibrahim. Feb 2008]

In an era when 'doing good in Africa' is exploited by attention-seeking celebrities and politicians, you may be forgiven if you didn't know that in the latest edition of Forbes Magazine's list of the world's billionaires, two self-made native sub-Saharan African businessmen, a Nigerian and a South African made it to the list for the first time in more than twenty years of Forbes world richest rankings. Including Egyptian and South African family business dynasties quickly pushes the number of Africa's dollar billionaires closer to ten.



Not bad for a continent with 34 of the 50 UN estimated least developed countries. In many African countries, annual per capita income hovers around 200 USD, with a significant majority of the population living on much less than a dollar a day. According to estimates by Jeffery Sachs, Africa's share of global income has dropped consistently over the last century. In 1820, a European worker earned roughly trice what an average African worker did. Fast forward to the 21st century, an average European now earns twenty times what an average African does. In light of such daunting stats how have numerous businesses managed to thrive in Africa and the continent managed to add its modest 2 cents to the list of world billionaires?

Part of the answer can be deciphered from the occupations and locales of Africa's billionaires. These men from Nigeria, South Africa and Egypt (in order of increasing combined net by nation) have been involved in commodities trade, manufacturing, telecommunications, construction, mining and lumber, retail, insurance and hotel service. Africa's booming population and high fertility rate, along with increased liberalization have created growing domestic markets for other sectors like manufacturing, construction, telecommunication, retail, banking, insurance and hotel services. This transformation has been supported by increasingly sophisticated indigenous financial markets which can allow the kind of IPOs that recently helped Nigeria's Aliko Dangote net his estimated 3.3 billion USD.

There is strong expectation among bullish Africa investment analysts and investors that South Africa and Nigeria will lead Africa's rapid growth and penetration into the global economy. What is needed is greater global investor awareness and confidence about Africa's potential as a business destination. As Mo Ibrahim, a billionaire who made his money in the African telecom industry lamented in an interview with Forbes, "There are 15 times more analysts covering Indian companies than covering African companies, and 11 times more analysts covering Chinese companies than African companies. Can someone please switch on the light and enhance our knowledge of this place a little bit?"

Article Continued on Next Page

Risk

Like for any emerging market, risk of investing in Africa remains high in many instances but as argued by Kim Jaycox, CEO of the largest fund investing in Africa, perceived risk far exceeds actual risk. Africa Open for Business, an influential documentary featuring business people on the African continent, strongly makes the point in all ten cases of entrepreneurs interviewed.

And corruption? Mo Ibrahim answers it well, "I'm a little bit puzzled and annoyed when my friends in the West start to lecture me about corruption in Africa. Who are the partners in corruption? Are the Africans corrupting each other? I don't think so." While corruption is certainly a problem in Africa it is important to bear in mind that the same may be true anywhere and there are many firms and investors who have made it without following the bandwagon.

As with the telecoms example, while profits may level off in some sectors, the shear market size of over 900 million potential consumers can result in high overall profits (Between 1999-2004, cell phone use in Africa grew by 58% per annum and only 35% in Asia, the next largest market. This growth is however leveling of). The UN trade agency, UNCTAD and the Overseas Private Investment Corporation (OPIC) estimate that Africa offers the highest return on direct foreign investment in the world, more than any other region.

Africa's strategic position has grown with regard to oil. In a few decades the continent may provide more petroleum to the US than the Middle East currently does. Both Indian and Chinese firms are getting in on the action in Africa often sweeping the stakes before European and American firms move in.

Development

Trade or aid? The debate has raged among Africa development experts for decades. What appears evident is that most African nations will fail to reach the 2001 UN Millennium Development Goals, especially the goal of halving poverty, without massive capital investment in the domestic private and public sectors. Aid will not do it. "Aid is like a painkiller, it may stop the symptoms but will not cure the disease" says Mo Ibrahim, whose Mo Ibrahim Foundation offers a 5 million USD annual prize to promote good leadership in Africa. "For me, it's about putting my money where my mouth is" he says.

Apart from the direct social impact many investors in Africa strive to make, new jobs, technology and skill transfers and several positive transformations result from business investments in Africa. Africa's need for investments with a triple bottom line mission appears endless; businesses that are committed to making economic, environmental and social impact on the continent are highly needed.

Gold Rush?

For a continent that has provided setting for the slave trade, most brutal colonial expeditions in history and several cycles of blood-fueled mineral and resource plunder, is there cause for alarm over a mad investment rush? Maybe, maybe not. While the dealings of some businesses and investors in Africa are far from ethical it is also true that others have made substantial and lasting impact.

Income inequalities within and across African nations is grotesque and a majority of people on the continent will not benefit from the spoils, period. But the alternatives to strong private sector involvement in business and investment are almost always worse. For Africa to start thinking about equitably sharing its pie it must first have a pie and that is why the question of equitable distribution, though important, may be secondary to economic growth and capital accumulation.

As with any investment decision, doing ones own prior research is key. Whatever you decide it helps to remember that despite what the media would lead you to believe, Africa can excel and more than ever before it is open for business.

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