**Top Stories**

- Service sector signals recession with sharply lower ISM reading
- Stocks sell off on Fed warning and growing inflation concerns
- Oil soars on OPEC meeting, cold weather, and a possible supply cut
- Rio Tinto rejects sweetened $147.4 billion bid from BHP Billiton
- Delta, Northwest merger talks advance

**Market Summary**

**Monday 02/04/08**

The Dow started off the week with a quick dive into negative territory. Financial, homebuilder, and tech stocks all took a hit today after recovering to their high’s last week. There were, however, a few underdogs that bucked the trend and turned higher. Yahoo continued to rise in the wake of Microsoft’s unsolicited buyout bid, Palm surged higher on an analyst upgrade, and Bank Rate managed to shake off a previous downgrade to reach a new 52-week high. By the end of the day the Dow managed to regain some of its losses, but still closed with a triple-digit loss.

**Tuesday 02/05/08**

The Institute for Supply Management decided to surprise investors today by reporting that the non-manufacturing index dropped to 41.9% in January after reaching 54.4% in December. The ISM reading would mark the first contraction in the services sector in nearly 5 years. The report, which typically doesn’t show such dramatic swings, sparked a broad-based wave of selling that was only exacerbated by the possibility of a number of bond insurer downgrades. The financials tumbled on concerns of a global credit crisis and recession in the US. The DOW dropped 370 points with the Nasdaq and S&P also closing sharply lower.

**Wednesday 02/06/08**

The equities markets initially rebounded after yesterday’s sharp decline thanks to Disney’s higher-than-expected earnings report and BHP Billiton’s revised $147.4 billion buyout offer for Rio Tinto. Time Warner, meanwhile, reported a 41% decline in net income sending its stock lower. Comments asserting the increasing risk of inflation by Philadelphia Fed President Plosser, turned markets around to the downside. All three of the major indexes closed in the red, with a lower forecast from Cisco after-the-bell only exacerbating the situation.

**Thursday 02/07/08**

Cisco earnings put an early downside bias on things, while Pepsi and Level 3 Communications attempted to turn the mood around with their positive earnings reports. Interestingly enough both tech and Cisco would eventually close higher. A rumor surfaced on possible merger talks between Delta and Northwest pushing airlines up. Passage of an economic stimulus plan by the senate helped lift stocks and encourage buying. Despite a weak .5% increase in same-store-sales, retailers led Thursday’s recovery. The Dow, Nasdaq, and S&P all had modest gains.

**Friday 02/08/08**

Before the open investors had plenty of reasons to feel bullish. Activision reported solid earnings last night, Coca-Cola scored an upgrade; and McDonald’s turned in better-than-expected January sales. Once again, though, economic worries overshadowed the bullish news. The Commerce Department reported that wholesale inventories rose 1.1% in December, the largest gain since August 2006. Sales, meanwhile, slumped 0.7%, the steepest decline in 11 months. While tech continued its bounce, the broader market declined on recession worries, renewed concerns of more write-downs to come, and rising oil prices, due to the possibility of OPEC further cutting output.

**Today’s Issue:**

- Jerome Kerviel profile
- “Microhoo” article
- Disney stock analysis

**The Week in Quotes**

“We have to remember that every dollar being spent on the stimulus package is being borrowed from our children. And our children’s children.”

_Sen. Judd Gregg_, who voted against an emergency economic plan that would send taxpayers rebates and add billions to the deficit

“It’s sort of a little poetic justice, in that the people that brewed this toxic Kool-Aid found themselves drinking a lot of it in the end.”

_Billionaire investor Warren Buffet_, on the complex investments engineered by American banks now causing these same banks to fail

“I have a suspicion that this was inevitable.”

_Yves-Marie Laulan_, former Société Générale chief economist, blaming the bank’s culture of risk for allowing a young trader to rack up $7.2 billion in losses

“That’s what recessions do. They come upon you all of a sudden. When you look back at history, you’re struck by how even-keel it is until the bottom just falls out.”

_Economist Bob Brusca_ of FAO Economics, who believes the U.S. entered a recession in January

“Could Microsoft now attempt to exert the same sort of inappropriate and illegal influence over the Internet that it did with the PC?”

_David Drummond_, Google senior vice president, on Microsoft’s proposed $44.6 billion takeover of Yahoo
Jerome Kerviel—The French Rogue Trader

Jerome Kerviel, born in 1977 graduated from a French University in 2000 with his Master's degree in Finance specializing in organization and control of financial markets, joined the bank Societe Generale, the second largest bank in France, as a developer working on the middle office systems that control how much a trader can risk. He is currently a French trader who has been charged of breach of trust and accessing of computers illegally with respect to equity index futures trading. He has been charged for losses of the company along the lines of 7.1 billion dollars. These losses represent the largest fraud ever by a single trader. He has been accused of being a rogue trader, that is, one who is an authorized employee who makes unauthorized trades on behalf of the Employer. He created fictitious accounts to take risky positions in stock markets, and as they fell, lost huge amounts of money. It is rumored that it was due to this one person that the stock markets across Europe have taken a dip.

In the past there have been multiple rogue traders as well, such as Yasuo Hamanaka of Sumitomo Corporation, Nick Leeson of Barings Bank and so on. However none of these individuals were able to carry the unauthorized trades up to the magnitude for which Jerome has been charged. In light of this, the employer, Societe Generale has also come under fire from the Finance Minister of France, who attributes the possibility of this scandal to faulty inner controls. The bank claims that Kerviel's knowledge of SocGen(Societe Generale), coupled with his use of forgery and deception enabled him to escape detection by risk controls.

His fraud, has also gotten four other employees fired, who were apparently supervising him while he placed fraudulent positions of $72.5 billion. Although these fraudulent trades had alerted institutions such as Eurex derivatives Exchange, Kerviel simply produced a fake document to his superiors to avoid trouble. In recent times there has been speculations that Jerome wasn't alone in this. Moussa Bakir, also an employee of Societe Generale has been charged of being a partner-in-crime. These allegations have led to Jerome being held in custody for further questioning. However, Jerome seems to be pretty confident of his own innocence and has been quoted saying “I have full confidence in my lawyer.”

Apart from this there is a completely different and fascinating turn to the story. The ministers of finance and central bankers suspect that SocGen is merely using Kerviel's losses to cover up bigger problems being faced by them. The bank wrote off almost $3 billion dollars as bad debts linked to the American subprime crisis. In finance, appearances are found to count much more than facts themselves. Thus, SocGen decided that it would be much better for it to publicize its bad management on the trading floor rather than to incur a hit from the subprime global meltdown. It wasn't a coincidence that Kerviel was accused in the middle of the collapse of the Global Market. This has made some traders feel insecure as they could be the next ones taking the fall.

To sum up, all these events have put SocGen under the risk of a hostile takeover.
When asked to write a paper, find a recipe, look up a fact, or find a picture the most common response is “no problem, I’ll just google it.” Google it. A few years ago that would have meant nothing to someone hearing the conversation. Today, however, “googling” something is a perfectly legitimate way to find the answer to a question. Unfortunately for the competitors of this massively successful company, just trying to keep up with a company that has its own phrase is proving more and more difficult, and is driving them to extremes.

Steve Ballmer the CEO of Microsoft Corporation (MSFT) has gone to one of those extremes and made a $44.6 billion dollar offer to buy out the corporation Yahoo (YHOO), an offer that was recently declined. At a premium of over 60% of the share price, Mr. Ballmer showed that he meant business, and made it very hard for the Yahoo board to turn him down, at least without provoking the fury of their shareholders; all of whom would be able to choose to take US$31 in cash or 0.9509 of a Microsoft share for each Yahoo share if the merger went through. Yahoo has, once before, turned down an offer from Microsoft, stating that they had potential and were developing new operating strategies and were undergoing organizational restructuring. These factors, however, have long been in motion and there has been no dramatic upswing for Yahoo in their stock price or their profit level.

While this is an immense deal for Microsoft, many wonder if it is simply an act of desperation, an act, perhaps, too extreme to be considered entirely plausible. When it comes down to it, there is one company far ahead of the competition, and that is Google, and all of the other companies, Microsoft included, are just trying to keep up. Google, last December captured 56% of all US web queries where Microsoft and Yahoo together barely got 32%. This is a huge gap and many people wonder what exactly Yahoo and Microsoft can bring together in order to find a way to diminish this gap.

Some stockholders support the merger, claiming that combining Microsoft and Yahoo’s strengths would make an even stronger company. It makes sense that combining Microsoft, a company strong in Latin America and Europe with Yahoo, which is strong in Asia, would be a good idea. Microsoft can also benefit from the forward thinking engineers at Yahoo. Microsoft is filled with talented people, but they are based on increasingly dated experiences. MSN is an old-school online service that cannot compare to companies such as Google, and Yahoo can bring Microsoft up to date. While a combined Microsoft and Yahoo would not equal the market share and search ad revenues of Google, it does provide Microsoft will a much-needed market share boost that will make its online platform more credible to advertisers and thus will raise ad revenues. Yahoo also brings to the deal its ingrained vision for cloud computing, a business model Microsoft has not fully embraced due to the success of the PC.

Yahoo seems to think, however, that Microsoft undervalues Yahoo, and they want Microsoft to increase its offer by over $12 billion. This is a large jump, and the large sum alarms many of the shareholders. Microsoft's stock price has already slid 12 percent since the company announced its Yahoo bid, reflecting concerns about the deal bogging down amid potential management distractions, sagging employee morale and other headaches that frequently arise when two big companies are combined. As the Yahoo board intends to reject the $44.6 billion bid, the ever-hungry Microsoft may try other means; a hostile takeover, by taking its offer directly to the shareholders and hoping for a majority consensus.
Doing Your Homework

The worst mistake one can make is taking the advice of TV personalities, such as Mad Money’s Jim Cramer, without doing one’s own research into the recommendations. This series aims to assess on Jim Cramer recommendation per week by using Jim Cramer’s 6-step Mad Money Stock Worksheet to analyze a stock’s potential as a good investment.

This week we will research Walt Disney (DIS), which Jim Cramer recommended to buy.

Step 1- Find out how the company makes its money.

The best way to do this is by looking at the company’s SEC filings, specifically the annual and quarterly reports. This year revenues for the year increased 5%, or $1.8 billion, to $35.5 billion; net income increased 39%, or $1.3 billion, to $4.7 billion; and diluted earnings per share increased 37% to $2.25. Disney reports, “At our operating segments, earnings growth was primarily due to higher affiliate and advertising revenues at our cable businesses, improved home entertainment performance driven by the success of Disney/Pixar's Cars and Pirates of the Caribbean: Dead Man's Chest, strong sales of ABC Studios productions, increased guest spending and theme park attendance at Walt Disney World and Disneyland Resort Paris and lower costs for sports programming due to fewer hours at the ABC Television Network.” With revenue also increasing the year before by 8%, and net income increasing by 33%, Disney has realized consistent growth leading me to conclude that these are high quality earnings.

Step 2- What sector does the company belong to, and how has that sector performed?

Sector performance is best judged by observing performance over the last three months, six months, and twelve months. Also pay attention to what forces tend to move the stocks in this sector. Disney is part of the services sector. Recently the services sector has taken a large hit after a report last Tuesday showed that activity in the sector had fallen to a level not previously seen since the last recession. This downturn in the sector is due in large part to the market being driven by fear of a recession. However, with the Fed cutting rates last week, oil prices sliding, and airlines generally doing well of late, guest spending and theme park attendance at Disney is likely to continue.

Step 3- How has the stock performed?

Like most of the market, Disney stock has experienced a lot of volatility in the past year. The stock peaked during the summer months, likely due to high guest spending and attendance at theme parks, and the expected success of Cars and Dead Man’s Chest. The stock hit bottom in the middle of January, but has quickly rebounded by 6 dollars in the past week, when other service stocks were tumbling and the S&P 500 experienced its worst week of the year.

Step 4- What do the comparisons tell you?

Disney’s competitors have experienced the same downward trend, most likely due to the Writers Guild strike. Expect Disney’s Competitors, CBS, News Corp., and Time Warner, to rebound after Writers Guild leaders urge members to support a tentative contract that would end a three-month walkout. However, Disney has the third highest P/E ratio indicating that it is cheaper than its competitors, Gaylord Entertainment, and News Corp but more expensive than Time Warner and CBS. Finally, Disney’s PEG ratio (5 year expected) of 1.08 is second only to Gemstar International indicating that compared to its competitors, investors consider Disney’s price to be too high relative to its expected growth.

Step 5- Can the stock survive its balance sheet?

Disney’s Total Assets ($61 billion) exceed its Total Liabilities ($30 billion); this is a strong position. Disney has $11 billion in current assets, not enough to cover the $11.3 billion of debt it owes this year. Fortunately the company has $1.25 billion in cash flow to pay the remaining debt. Also a strong figure to note is that Disney’s total cash flow has increased steadily the past two years. Lastly, Disney is surviving its balance sheet by avoiding having to sell off any of its long-term assets.

Step 6- In light of your homework, does this stock look like a good investment?

Cramer makes a strong case. Currently, Disney stock looks like a strong buy. Disney is trading relatively cheap right now with respect to its competitors, and its expected growth. Its balance sheet is also very strong. However, if you buy Disney stock be weary of rising gas prices, and decreased consumer spending. With the economy teetering on the edge of a recession, watch for Disney revenues to fall along with the discretionary funds of consumers.
Suggested Events

**Carnegie Mellon Advising Resource Center (CMARC) 2008 Leadership Retreat**

Date: Sat. March 1st - Sunday March 2nd  
Time: 9:00am Saturday March 1st- 3:00pm Sunday March 2nd  
Location: DoubleTree Hotel Downtown Pittsburgh

This Leadership Retreat focuses on developing skills and strengths in order to propel you into the next level of professional and global leadership. It is open to all Carnegie Mellon undergraduates.
- One day of meeting and networking with leaders in the fields of Technology, Business, Public Policy, Medicine, and more
- Leadership skill and development sessions with renowned Consultant Mr. Marvin Worthy

Mark your calendars, plan to attend, and if you haven't yet - register now!!! Contact Lynna Martinez at lynnam@andrew.cmu.edu for registration (Limited spaces available!)

**R.I.S.E. VIII Forum**  
“The World's Largest Student Investment Conference”

Date: March 27 - 29, 2008  
Location: University of Dayton (Ohio)

During these challenging times, stock and bond market participants look to a select group of experts to gain insight into what the future holds for our economy and, hence, our investments. You are invited to interact with TWENTY of the market's most sought after investment professionals including:
- **Christopher Gardner** – Inspiration for The Pursuit of Happyness and CEO of major brokerage firm
- **John Surma** – Chairman and CEO, U.S. Steel
- **David Rosenberg** - Chief North American Economist, Merrill Lynch
- **Dr. Bob Froehlich** - Chairman, Investor Strategy Committee, Deutsche Asset Management;
- **Dr. Finn E. Kydland** - 2004 Nobel Laureate in Economics, University of California

Last spring, more than *1,700* participants representing 218 universities attended this unique educational event. In addition, a portion of the R.I.S.E. Forum was broadcast to more than 900,000 professionals in 140 countries.

**Forum Brochure:** [http://sba.udayton.edu/rise/brochure.asp](http://sba.udayton.edu/rise/brochure.asp)  
**Website:** [http://udrise.udayton.edu](http://udrise.udayton.edu)

**IMPORTANT:** Early registration ends March 1, 2008.

---

**Upcoming Events**

**UIC Board Meetings**  
4:30pm Every Tuesday  
UC Alumni Lounge

The Board of UIC meets every Tuesday at 4:30pm. Everyone is welcome to drop in and participate. Join us sometime and give us your opinion regarding the decisions that impact UIC.

To sign-up for our d-list and get the newsletter e-mailed to you each week, visit: [www.undergradinvestors.com](http://www.undergradinvestors.com)

**Board: Spring 2008**

Dylan Ozmore, **President**  
Evan Osheroff, **Vice President**  
Bhaswanth Nalabothula, **Senior Advisor**  
Vignesh Ravi, **Senior Advisor**  
Julianna Teeple, **Treasurer**  
Steve Karolyi, **Secretary**  
Ravi Aggarwal, **Chief Tech. Officer**  
Young Jun Lee, **Chief Marketing Officer**  
Tim Raschuk, **Newsletter Chair**  
Krishan Wanchoo, **Newsletter Chair**  
Joanna Leung, **Case Comp. Chair**  
Priya Bishen, **Case Comp. Chair**  
Hasan Abdullah, **Invest. Conf. Chair**  
Hemant Bothra, **Invest. Conf. Chair**  
Naman Patel, **Invest. Conf. Chair**  
John Gonzalez, **Trading Events Chair**  
Sagar Shah, **Alumni Relations Chair**