Market Summary

Friday 11/2/07

After spending most of the day in the dumpster despite an upbeat jobs report, the major indexes managed to climb back to close to where they started, which was a couple of ticks below where they began the week. Financial stocks fell sharply. Merrill Lynch ended up losing 7.9%, Citi fell another 2%, Goldman lost 4.4%, and JP Morgan Chase was down 2.6%. Both Goldman and Merrill issued statements trying to reassure investors that stories of further losses from sub prime were untrue but this seems to have only made things worse.

Thursday 11/1/07

The markets fell to the lowest level in over a week and the biggest one day decline since the anniversary of Black Monday. The previous day’s rate cut did little to soothe investors, reflecting the uncertainty facing the broader economy. Downgrades for Exxon Mobil and Citigroup, and a strong statement from the Fed weighed in heavily on equities.

Wednesday 10/31/07

Stocks climbed steadily on low volume up to the Fed announcement. When the Fed revealed that even an economy growing faster than expected wouldn’t stop it from giving Wall Street the 1/4 point rate cut it was demanding, stocks continued to rise. The Fed’s statement was interpreted as "This far we will cut and no further."

Tuesday 10/30/07

Stocks closed lower today on Fed uncertainty, even though the odds are pretty much stacked in favor of a rate cut. Dow component Procter and Gamble reported weaker than expected guidance, while the firing of Stan O'Neal at Merrill Lynch sent shares down 3%. Oil and Gold continued their rally into multi-year highs fueled by weakness in the dollar.

Monday 10/29/07

Stocks ended with gains with expectations of another interest-rate cut by the Federal Reserve helping to bolster financial stocks badly battered in recent months by sub-prime mortgage losses. Shares of Radio Shack soared on increased earning, while the S&P retail index rose. Oil closed at $93.53, a new record.

Top Stories

- October jobs report stronger than expected
- Federal Reserve cuts interest rates, but signals that another cut is unlikely
- Merrill Lynch CEO O’Neil forced to step down
- Oil reaches record above $96 a barrel
- Wal-Mart leads retailers to early holiday sales

Upcoming Events

UIC Board Meetings
4:30pm Every Tuesday

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

Equities Challenge
Nov 1 - Nov 30

Think you're the best trader at CMU? Prove it.

Register At: www.VirtualStockExchange.com
ID: CMUEquitiesChallenge
Password: CMU

Investing Quotes of the Week

Investors have very short memories.
- Roman Abramovich

"Spend at least as much time researching a stock as you would choosing a refrigerator."
- Peter Lynch

Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years.
- Warren Buffett

Successful investing is anticipating the anticipations of others.”
- John Maynard Keynes

"Bears don't live on Park Avenue."
- Bernard Baruch
Chris Gardner

Chris Gardner is the self-made millionaire who was the inspiration for the movie The Pursuit of Happyness. Born in 1954, he never knew his father. He lived with his mother who taught him to be strong and that if he ever wanted to attain something he could. He enlisted in the Navy right out of high school, afterwards he went to San Francisco to take a job as a medical supply salesman.

A turning point in his life came when in a parking lot he offered his spot to a man driving a Ferrari, as long as the man answered two questions, “What do you do? And how do you do it?” The guy responded saying he was a stock broker and explained his job to Gardner.

After the encounter, Gardner set out to become a stock broker, being accepted into the trainee program at Dean Witter Reynolds, which is now part of Morgan Stanley. During the day he worked hard to get clients and study for the licensing exam, which he ended up passing on his first try. In 1981, Gardner was the sole trainee to be offered a full-time position. In 1983, he joined Bear, Stearns & Company as a broker before setting up shop himself in 1987 under Gardner Rich & Company.

Currently Gardner, who is now a self-made multi-millionaire, not only runs his own company but serves on the board of the National Fatherhood Initiative and is working on a business project in South Africa. In 2002, Gardner was awarded the Father of the Year Award.

Billion dollar investing tips from Warren Buffett

- **Invest in Businesses, Not in Stocks**
  "Whenever we buy common stocks for Berkshire's insurance companies (leaving aside arbitrage purchases), we approach the transaction as if we were buying into a private business. We look at the economic prospects of the business, the people in charge of running it, and the price we must pay." -Warren Buffett

- **Only Buy Businesses that You Understand**
  "Did we foresee thirty years ago what would transpire in the television manufacturing or computer industries? Of course not. Why, then, should Charlie and I now think we can predict the future of other rapidly evolving businesses? We'll stick instead with the easy cases. Why search for a needle buried in a haystack when one is sitting in plain sight?" -Warren Buffett

- **Buy Companies with Defensible 'Franchise’**
  As Peter Lynch says, stocks of companies selling commodity-like products should come with a warning label: 'Competition may prove hazardous to human wealth'. " -Warren Buffett

- **Hold for the Long Term**
  "We are willing to hold a stock indefinitely so long as we expect the business to increase in intrinsic value at a satisfactory rate . . . we do not sell our holdings just because they have appreciated or because we have held them for a long time.” - Warren Buffett

- **Don't Be an Active Trader**
  "Indeed, we believe that according the name 'investors' to institutions that trade actively is like calling someone who repeatedly engages in one-night stands a romantic.” - Warren Buffett

- **Do Not Over-Diversify**
  "If you are a know-something investor, able to understand business economics and to find five to ten sensibly priced companies that possess important long-term competitive advantage, conventional diversification makes no sense for you." -Warren Buffett
The Subprime Mortgage Meltdown

We are currently facing a financial crisis brought on by a decline in the U.S. housing market. The fallout from the frozen subprime mortgage market is spilling over into the credit markets, as well as the domestic and global stock markets. Several mortgage lenders have declared bankruptcy and foreclosure rates have doubled in the past year. There are great concerns of a major global credit crunch. A credit crunch refers to an economic condition where investment capital is difficult to obtain. Banks and investors become wary of lending funds to corporations, and as a result the price of debt products for borrowers are driven up.

So, you may ask… what is a subprime mortgage? Well, a subprime mortgage is when a lender makes a loan to borrowers who do not qualify for the best market interest rates because of their poor credit history. Subprime lending is risky for both lenders and borrowers. It is risky for the borrowers because of the high interest rates they must pay and risky for the lenders because of the borrower’s poor credit history and the adverse financial situations associated with the borrower. The term “subprime” refers to the credit status of the borrower being less than ideal. Subprime borrowers are generally defined as individuals with limited income or those having credit scores below 620. Subprime mortgage loans have a much higher rate of default than prime mortgage loans and are priced based on the risk assumed by the lender. Since 2004, 20% of mortgages in the United States have been subprime and in 2006 they totaled approximately $600 billion, accounting for about one-fifth of the U.S. home loan market.

Now, that you better understand the subprime mortgage market… what led to its meltdown? Well, the cause of it cannot be attributed entirely to one entity, but the collective creation of the world’s central banks, homeowners, lenders, credit rating agencies, underwriters, and investors. In 2001 the Federal Reserve began cutting rates in order to expand the money supply and encourage borrowing, which would lead to an increase in spending and investing. This resulted in the expansion of the economy in 2002.

Investors began looking for higher returns through riskier investments. Lenders took on greater risks too, and approved subprime mortgage loans to borrowers with poor credit. Consumer demand drove the housing bubble to all-time highs in the summer of 2005, which ultimately collapsed in August of 2006.

The end result of these key events was increased foreclosure activity, large lenders and hedge funds declaring bankruptcy, and fears regarding further decreases in economic growth and consumer spending.