

UIC FINANCIAL NEWSLETTER

Issue 6, December 1, 2007

DJIA 13379.68 ▲ 3.14%

NASDAQ 2660.96 ▲ 2.48%

NIKKEI 15680.67 ▲ 5.10%

OIL \$88.71 ▼ \$10.40

10-YR TREASURY 102 10/32 ▲ 43/32

EURO \$1.4787



Top Stories

- Citigroup sells Abu Dhabi Fund \$7.5 billion stake
- Citadel Investments to inject \$2.5 billion cash into discount broker E*Trade
- Sears profit plunges 99%
- Home prices suffer their worst drop since the 1970's
- Oil Dips below \$90 a barrel

Market Summary

Monday 11/26/07

While many expected the spotlight to fall on retailers following Black Monday, the financial sector once again took hold of the markets. HSBC announced it was bailing out two of its structured investment vehicles to prevent a forced liquidation, rumors spread of massive layoffs at Citigroup, and UBS downgraded Freddie Mac and Fannie Mae. The Nasdaq, Dow, and S&P all fell around 2%. Oil declined following possible production increases from OPEC.

Tuesday 11/27/07

The markets rebounded, regaining nearly all of the prior day's losses led by news that Citigroup would receive a \$7.5 billion capital injection from the Abu Dhabi government. Bear Stearns upgraded five oil companies, while Activision rallied after raising guidance. Crude settled to \$94.42, its lowest level in two weeks, while silver, platinum, and copper dropped sharply with gold, as the dollar strengthened.

Wednesday 11/28/07

Further news of losses in the financial sector from Wells Fargo and Citigroup together with the sharp decline in existing home sales and durable goods orders started the markets out on a sour note. Fortunately, the comments of Federal Reserve Vice Chairman Donald Kohn triggered a sharp reversal. Kohn declared that the Fed will "Act as needed to foster stability and full employment" sending the Dow, Nasdaq, and S&P shooting up 3%.

Thursday 11/15/07

The markets moved back and forth throughout the session, but eventually finished in positive territory. E*Trade Financial rose on reports that Citadel Investment Group will be looking to significantly increase its stake in the troubled online broker. Sears plunged after reporting a 99% drop in profits. General Motors was upgraded by Bear Stearns, while Aeropostale fell after disappointing earnings and a downgrade from SunTrust Robinson. Gold plunged under \$800 as crude closed slightly higher at \$91, ending a 3-day losing streak.

Friday 11/16/07

The markets rose heading for the biggest weekly gain in two months, after Federal Reserve Chairman Ben Bernanke signaled he may cut interest rates and the Treasury moved closer to a plan to prevent thousands of Americans from losing their homes. JPMorgan and Wells Fargo led financial shares to their steepest weekly advance in four years. Countrywide Financial gained as homebuilders rallied the most in seven years on Treasury Secretary Henry Paulson's plan to avert foreclosures. Macy's Inc. and Gap Inc. led retailers higher after oil fell below \$90 a barrel for the first time in a month.

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.

Congratulations to the winners of the Hedge Fund Case Competition!

First Place:

Gauri Lamba, Melvin Udeh, Young Jun Lee, Stephano Dubuc

Second Place:

Cyril Philip, Abhinav Khaitan, YoungJoo Jeong, John Gonzalez

Third Place:

Anand Bhatia, Mehnt Bhatia, John Hanchulak, Ray Wong

Investing Quotes of the Week

"Investing without research is like playing stud poker and never looking at the cards."

- Peter Lynch

"A man may beat a stock or a group at a certain time, but no man living can beat the stock market!"

- Jesse Livermore

"The market is never wrong in what it does; it just is."

- Mark Douglas

"Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well."

- Warren Buffett

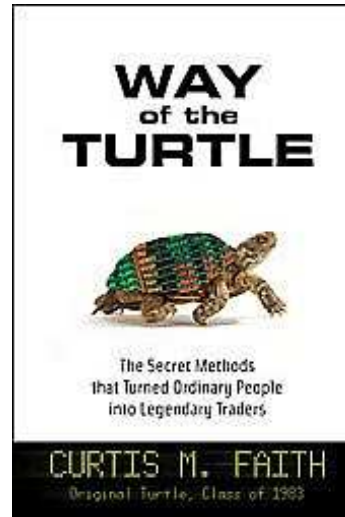
TURTLE TRADERS



Richard Dennis and the Turtles

Known as the “Prince of the Pit” for his amazing success as a commodities trader in Chicago, Richard Dennis is reported to have made over \$200 million in ten years trading on his own. He is perhaps just as popular for creating his massive fortune as he is for the group of traders that he personally trained called the “turtles.” In 1983, Dennis was in disagreement with fellow commodities trader and friend, William Eckhardt, over whether great traders were born or made. Dennis argued that traders could be trained to be great, while Eckhardt thought traders had to be born with the right traits. To settle the dispute, Dennis decided he would take 13 traders under his wing and prove to Eckhardt that he could turn them into successful traders.

Dennis took out large ads for the 13 positions in the New York Times, the Wall Street Journal, and Barron’s. After the traders were chosen, he trained them for two weeks in December of 1983. They were each given small accounts to trade for in January and by February the trainees on average were given \$1 million of Dennis’s money to manage, some were given more and some less. The fame of the turtles grew as word spread that the group of traders had earned an average annual compound return of 80% between 1983 and the end of 1986. Curtis M. Faith reportedly the best performing turtle earned more than \$30 million trading for Dennis in just over four years. When asked in 1989 why the traders were called turtles, Dennis responded saying that he had just returned from Asia when he started the program and told Eckhardt that he was going to grow traders like they grow turtles in Singapore.



Trading Lessons from the Turtles

Trade with an Edge: Find a trading strategy that will produce positive returns over the long run because it has a positive expectation.

Manage Risk: Control risk so that you can continue to trade or you may not be around to see the benefits of a positive expectation system.

Be Consistent: Execute your plan consistently to achieve the positive expectation of your system.

Keep it Simple: Simple systems hold up better over time than do more complex ones.

Trade in the Present: Do not dwell on the past or try to predict the future. The former is counterproductive, and the latter is impossible.

Think in Terms of Probabilities, Not Prediction: Instead of trying to be right by predicting the market, focus on methods in which the probabilities are in your favor for a successful outcome over the long run.

Take Responsibility for Your Own Trades: Don't blame your mistakes and failures on others. Take responsibility for your mistakes and learn from them.

WHAT'S UP WITH OIL?

Crude oil (CL) is the world's most actively traded commodity on the New York Mercantile Exchange. For the past month, crude oil prices have been on a roller coaster ride. Last week on Monday crude prices reached an all time high of \$99.29 a barrel (1 barrel = 42 gallons). The price then slipped to \$88.71 a barrel on Friday, dropping to its lowest level in a month.



This was quite a turn around for crude, as many financial gurus predicted it would go past \$100 but rather it dropped to its lowest levels since Oct. 25. The reason for the drop is that investors sold oil amid signs of weakening demand and expectations that OPEC will boost production next week. The fall of prices is good news for consumers, who will likely see lower gas prices in the coming days.

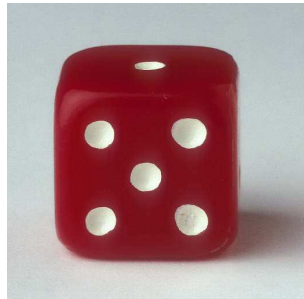


Overnight, gas slid 0.8 cent to a national average of \$3.088 a gallon, according to AAA and the Oil Price Information Service. Gas prices have been flat the past two weeks after rising steadily for a month as oil approached \$100 a barrel. Despite the downturn, many predict gas will rise steeply in the spring, and could threaten the record price of \$3.227 a gallon set in May. Analysts expect next year's price to be driven by rising demand and tight supplies.

GAME PUZZLE #2

Problem:

Consider the following game. The player tosses a die once only. The payoff is \$1 for each "dot" on the upturned face. Assuming a fair die, at what level should you set the ticket price for this game?



Solution of last week's puzzle:

The first step is to split the 12 marbles into three groups of four. Each group of four has two subgroups, a singleton and a triplet: $\{\{1\}_A, \{3\}_A\}$, $\{\{1\}_B, \{3\}_B\}$, and $\{\{1\}_C, \{3\}_C\}$.

Compare $\{\{1\}_A, \{3\}_A\}$ to $\{\{1\}_B, \{3\}_B\}$. If they balance, then the odd ball is in group C. In this case, compare $\{3\}_C$ to $\{3\}_B$. If $\{3\}_C$ is heavier (or lighter), then comparing any two marbles from within $\{3\}_C$ immediately locates the odd one; if $\{3\}_C$ balances $\{3\}_B$, then compare $\{1\}_C$ to $\{1\}_B$ to see whether $\{1\}_C$ is heavier or lighter.

If the initial comparison is unbalanced, say $\{\{1\}_A, \{3\}_A\}$ is heavier than $\{\{1\}_B, \{3\}_B\}$, then rotate groups $\{3\}_A$, $\{3\}_B$, and $\{3\}_C$ and compare $\{\{1\}_A, \{3\}_B\}$ to $\{\{1\}_B, \{3\}_C\}$ (while holding out $\{\{1\}_C, \{3\}_A\}$). If they balance, then a heavy marble is in $\{3\}_A$ and comparing any two marbles from within $\{3\}_A$ immediately locates the odd one. Suppose they do not balance. If $\{\{1\}_A, \{3\}_B\}$ is heavy, then either $\{1\}_A$ is heavy, or $\{1\}_B$ is light. Compare $\{1\}_A$ to $\{1\}_C$ to finish. If $\{\{1\}_A, \{3\}_B\}$ is light, then $\{3\}_B$ is light and comparing any two marbles within $\{3\}_B$ immediately locates the light one.

Congratulations to the winners:

1. Vidur Singhal
2. Nicholas Yoder
3. Kushal Doshi
4. Joey Wu

Rules:

Contestants must email their answers to kwanchoo@cmu.edu by Friday. Names of those that correctly solve the puzzle will be posted in next week's issue in the order in which they submitted. The first person to solve three puzzles will be rewarded with a \$25 gift card to Starbucks.