UIC FINANCIAL NEWSLETTER

Issue 9, January 20, 2008

DJIA 12099.30 ▼ 4.0% **NASDAQ** 2340.02 ▼ 4.1% **NIKKEI** 13861.29 ▼ 1.8%

OIL $92.69 ▼ $2.12 **10-YR TREASURY** 105 3/32 ▼ 1/32, yield 3.62% **EURO** $1.4635

Top Stories

- Citigroup's $10 billion loss is worst ever
- Gold soars past $900 for the first time
- Bush announces $145 billion fiscal stimulus plan
- Economic activity ticks down in December, furthering a 3-month decline
- Fed chairman tags mortgage meltdown's cost at $100 billion or more

Market Summary

Monday 01/14/08

Good news from IBM pushed the Dow to a triple-digit gain, helping to recoup most of Friday's losses. The good news even allowed investors to shake off weak earning from Sears and rising oil prices. Gold soared to close above $900 for the first time ever.

Tuesday 01/15/08

Selling pressure resumed as Citigroup announced a wider-than-expected loss, while the producer price index posted its largest yearly increase since 1981. The Department of Commerce reported that retail sales fell for the first time in 6 month in December, and that 2007 marked the weakest retail-sales growth for the past 6 years. The Dow, S&P, and Nasdaq all tumbled more than 2%.

Wednesday 01/16/08

It was another losing day for the markets, thanks to more poorly received earnings from Dow components and further inflation data. JP Morgan and Intel both reported disappointing fourth-quarter results, while Boeing announced their would be further delays to its 787 Dreamliner. Stocks wavered between positive and negative territory throughout the session, eventually closing in the red.

Thursday 01/17/08

Merrill Lynch reported a massive quarterly loss on sub-prime, and although stock futures pointed to a higher open, a disappointing report from Federal Reserve Chairman Ben Bernake helped spark a sell-off. Bernake said that the central bank expects growth to slow and urged congress to enact a fiscal stimulus plan. The Fed Chair reiterated that he did not believe the economy would go into a recession , and underlined his willingness to cut rates as necessary. The Dow closed below 12200 for the first time since March.

Friday 01/18/08

It was a very turbulent day with the Dow starting the day significantly higher, only to give up most of those gains and close sharply lower. The market did not believe President Bush' $145 billion economic stimulus plan would provide enough relief. A report came out suggesting further decline in job growth which only exacerbated the losses. Crude rose slightly ending its three-day decline, but still closing lower for the week.

Questions or comments? E-mail us at: kwanchoo@cmu.edu or tar@andrew.cmu.edu
*To sign-up for our d-list and get the newsletter e-mailed to you each week, visit: http://www.andrew.cmu.edu/user/uic

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 sophomore mechanical engineering major Vidur Singhal for solving 3 of the game puzzles and winning the $25 gift card to Starbucks.

The Week in Quotes

"The silver lining is that sales aren't bad everywhere: the new $410,000 Rolls-Royce is sold out."

-Barry Ritholtz of The Big Picture blog, commenting on the sorry state of retail sales in 2007

"People have the opportunity to buy in at close to the lowest price the stock has traded in five years."

-Former Citigroup CEO Sandy Weill, trying to put a positive spin on Citigroups declining stock price in an interview with Business Week

"American financial mismanagement has brought us to this economic meltdown."

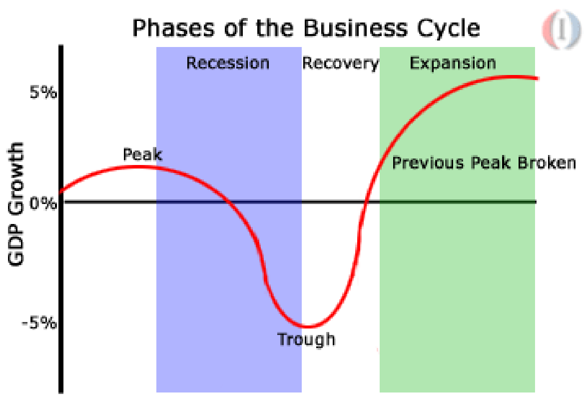
-Francis Luin, a general manager at Fulbright Securities in Hong Kong, speaking about plummeting world markets on speculation that the U.S. economy is sliding into a recession

Is the US in a Recession?

By Krishan Wanchoo

Is the US headed toward a recession or worse yet are we already in one? Well, first of all what is a recession? It is a significant decline in economic activity spread across the economy, lasting more than a few months. So, how do we know if we're in one? The technical indicator of a recession is two consecutive quarters of negative GDP growth. Finally, what happens in a recession? Well, of course there is a decline in GDP growth by definition. But, most likely there is also a decline in the stock market, industrial production, employment, real income, and wholesale-retail trade. Also, interest rates usually fall in order to help stimulate the economy by offering cheap rates to borrow money. Now, that we got all that sorted out... on to the topic at hand.

There has been much debate recently on whether or not we are headed toward a recession. However, the question perplexing many economists today is not whether we're headed there but rather if we're already there. The National Bureau of Economic Research (NBER) is the organization responsible for officially designating a recession in the US. However, a recession is not officially declared by NBER until we are almost half way through it. U.S. Federal Reserve Chairman Ben Bernanke told lawmakers on Thursday the economy does not appear to be headed for a recession, but warned growth could prove weaker than expected and inflation higher. Bernanke stated, "Our assessment is for slower growth, but positive growth, going into next year."



However, top economists most notably Jan Hatzius of Goldman Sachs and David Rosenberg of Merrill Lynch disagree with Bernanke and say a recession is likely already here. The Dow, S&P, and Nasdaq are all down and tumbling. Banks are writing off billions of bad debt, with more to come. The housing market continues its slump and credit market conditions continue to worsen, with losses from subprime mortgages and collateralized debt obligations (CDOs). The dollar is falling and losing its place as the world's reserve currency. The tipping point, however, for economists was the report released last Friday that showed a sharp jump in the unemployment rate in December, coupled with little growth. The latest unemployment reading stands at 5.0 percent, up from 4.4 percent in March. However, these are all simply suggestive towards a recession, not definitive. Only time will tell whether or not the U.S. is in or headed toward a recession.

The financial media often tends to undertake a "doomsday, end of the world" approach towards a recession. But, the bottom line is that a recession is a normal part of the business cycle and is an inevitable consequence. Remember, what goes up must come down; but eventually will go back up again, as is true in the business cycle.

By Dylan Ozmore

Part 1 - Trading Strategies

A hedge fund is an aggressively managed portfolio of investments that uses advanced investment strategies in both domestic and international markets with the goal of generating high returns. Hedge funds are open to a limited number of investors and require a very large initial minimum investment that is locked in for at least a year.

1. **Global Macro** –positions on the basis of forecasts and analysis about interest rate trends, movements in the general flow of money, political changes, government policies, inter-government relations, and other broad systemic factors

2. **Arbitrage** – seeking assets that are mis-priced relative to related assets
   a) Convertible Arbitrage - between a convertible bond (a bond that converts to stock) and the same company's stock
   b) Fixed Income Arbitrage - between related bonds
   c) Risk Arbitrage - between securities whose prices appear to im ply different probabilities for one event
   d) Statistical Arbitrage - between securities that have deviated from some statistically estimated relationship
   e) Derivative Arbitrage - between a derivative and its security

3. **Long / short equity** – generic term covering all hedged investment in equities
   a) Short Bias - emphasizing or solely using short positions
   b) Equity Market Neutral - maintaining a close balance between long and short positions
   c) “130-30” - through leveraging, 130% of the money invested in the fund is used to buy stocks, 30% of the money is used to short stock

4. **Event driven** – specialization in the analysis of a particular kind of event
   a) Distressed Securities - companies that are or may become bankrupt
   b) Regulation D - distressed companies issuing securities
   c) Merger Arbitrage - arbitrage between an acquiring public company and a target public company

5. **Other** – strategies that do not fall into one of the four major categories
   a) Emerging Markets - this usually means bullish (long) positions in overseas markets such as Brazil, Russia, China, and India
   b) Fund of Hedge Funds - long only positions in hedge funds, additional leverage is sometimes used to increase returns
   c) Quantitative - trading that is computer-driven by a written trading program and monitored by a trader