

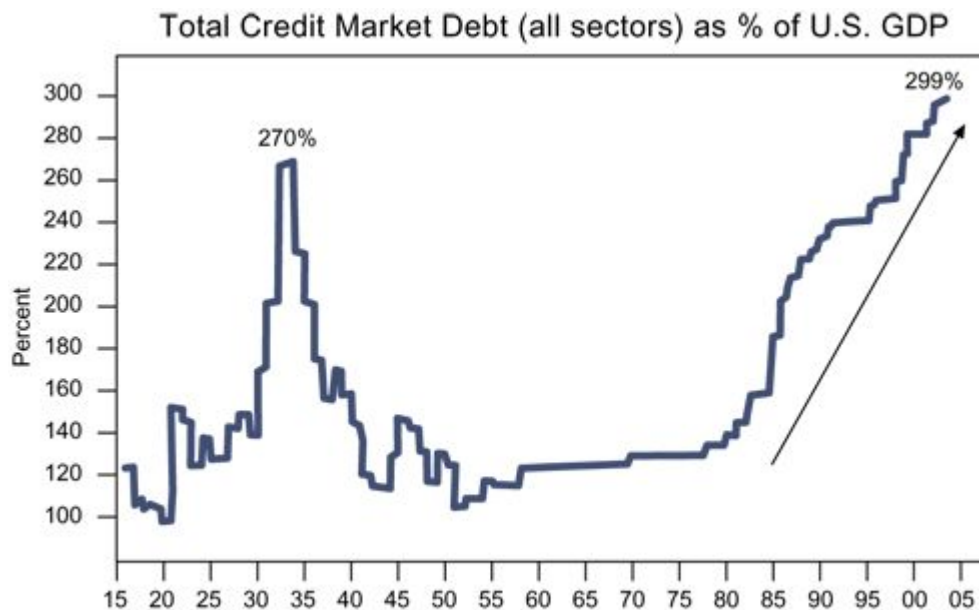
Poster Bank for the World to Come?

July 19, 2004

Citigroup reported earnings and balance sheet items last week. “The Street” was mightily impressed with the earnings as they beat expectations by several cents, however, their earnings were down sharply from a year ago due to \$5B after tax charge for the WorldCom class action settlement. It’s our opinion that such charges as this will become a familiar sight (recurring as opposed to non-recurring) on many banking income statements as this economy continues to slowdown. As Warren Buffet once said, “You don’t know who is swimming naked until the tide goes out.”

On the balance sheet statement, assets year over year increased 17.7% with most of that coming from trading account assets, which were up 41% (\$70.7B) and consumer loans up 21% (\$68.9B). Together they amounted to 67% of Citigroup’s asset growth. There could not be a more dangerous place for them to invest their assets than these two areas. Trading accounts profits need continued easy money and high liquidity – that is in the process of changing. As we have mentioned many times, trading profits are a zero sum game (for every winner there is a loser during a complete cycle) – these are not economic profits. The consumer is the most debt laden of all sectors of our economy and this has been Citigroup’s major thrust over the years.

Obviously we don’t mean to pick on Citigroup – they may well be taking steps to correct these concentrations as we write – but somewhere in this huge financial bubble lurks a large bank or two, which will bite the dust over the next 12 to 18 months. Note the Total Credit Market Debt as a % GDP below.



Source: Gabelli

From a liquidity standpoint please note the chart below. This indicates that there may not be too many more Fed hikes, or if there is, it may be “Katie bar the door” as far as the economy is concerned.

