

STUPIDITY ON THE STREET

WEB BUZZ 2007.11.05

Do you remember that for the last several years we have been railing against Wall Street and its underwriting and trading practices? Our point was that commercial and investment bankers under our financial system were allocators of capital and not players themselves. However, starting around 2004, this entire picture changed. By transforming their investment and portfolio practices from their previous practice to hedge funds, they, in essence, became allocators of capital to themselves. By so doing, those that needed capital to become more efficient and competitive were denied those funds, resulting in the continuation of the hollowing out of our industrial complex.

Now the worm has turned. Note the following quotes from a Marketwatch.com research report concerning the plight of Citigroup:

“Since 2006, Citigroup has made \$26 billion in acquisitions, taken over \$6 billion in recent charges, and increased its dividend against a backdrop of almost no net income growth.”

“While not part of our immediate thesis, higher credit losses and further disruption in the [structured investment vehicle] market would only exacerbate our thesis of capital pressures.”

“Based upon our thesis that over the near-term Citigroup will be forced to sell assets, raise capital or cut its dividend to shore up its capital ratios, we believe the stock will be under significant pressure and could trade into the low \$30s.”

Merrill Lynch has also recently taken an \$8 billion hit to its balance sheet, wiping out 20% of its capital. Their chief executive is now gone (with a \$190 million going away present), along with others. It is rumored that there are more losses to come. Wouldn't it be nice to be paid \$190 million as a reward for losing 20% of your company's capital?

Never in our lifetimes have we ever seen such a misuse of capital. Wall Street is simply the worst managed industry in America. Stay tuned—it's only going to get worse.

Do you realize that Wall Street's entire capital could be wiped out by the estimated \$1 trillion of toxic waste debt?