

UGBA 98/198

Introduction to Investment

Spring 2009



Jack Wei

Lecture 7 – Who's to Blame?



No Cell Phones!



Tip - TIPS

-Quantitative easing

-Low interest rates

-Fed purchasing treasuries

=

Inflation

-Lower purchasing power
-Higher prices
- Steel, copper, wheat, gold

Treasury Inflation Protected Securities

Capitulation

Celgene Corp CELG:NASDAQ

Sector: [Healthcare](#) Industry: [Biotechnology & Drugs](#)

40.48

Last



-1.83 -4.33%
Change / % Change

7,999,605
Volume

★★★★★
S&P Ranking

Last Trade as of 4:00 PM ET 4/7/09

Summary

News

Charts

Options

Fundamentals

Insiders

Earnings

Financials

SEC Fi

Time Range

Upper Indicators

Lower Indicators

Chart Style

Compare

Events

Tools

Apr 7, 2009 Open **42.00** High **42.09** Low **40.36** Close **40.48** Volume **7,999,600**



Volume+ (millions) Close Up (189.1M) Close Down (222.7M) EMA(13)

Options >

Remove x



Open **38.72** High **39.25** Low **36.90** Close **38.47** Volume **39,982,300**

Support, Resistance



Support, Resistance

7,789.56

Last



-186.29 -2.34%

Change / % Change

1,327,743,000

Volume

S&P Ranking

Last Trade as of 4:30 PM ET 4/7/09

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Horizontal Line (9000)

Apr 7, 2009

Open **7,969**

High **7,969**

Low **7,762**

Close **7,790**

Volume **276,924,000**



DOW JONES INDU AVERAGE NDX

as of 4:30 PM ET 4/7/09

Oct Nov Dec Jan Feb Mar Apr
2008 2009

Support, Resistance



Support, Resistance



No such thing as a triple bottom/top

Support, Resistance



No such thing as a triple bottom/top

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Politicians

Republicans... and Democrats

Gramm-Leach-Bliley Act

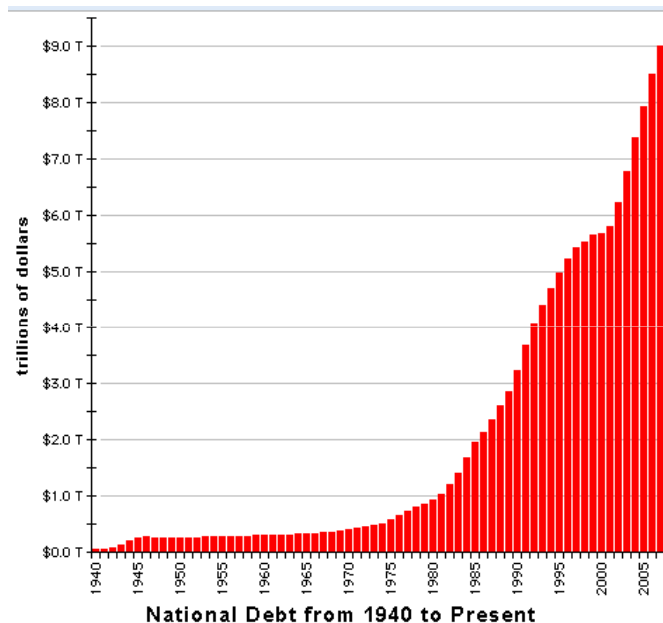


- Repealed key parts of Glass-Steagall Act
- iBanking, commercial banking, insurance
- Insurance over own products with no collateral
- Proposed by Republicans, signed by Clinton
- C, BAC, JPM

Sometimes blamed for current disaster

Republicans

\$11,160,094,634,435.51



National Debt from 1940 to Present

Source: U.S. National Debt Clock
http://www.brillig.com/debt_clock/

- Lowered taxes on wealthy
- Increased deficit spending
- Devalued US dollar = INFLATION***
- Gov't-funded growth

Sometimes blamed for current disaster

SEC

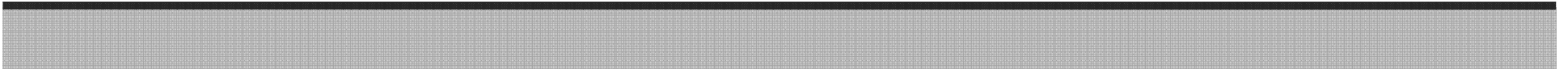


- Failed to regulate financial instruments
- Removed uptick rule
- No oversight over financial firms
- No limit to leverage

Worst SEC chairman of our life time?

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The Regular American

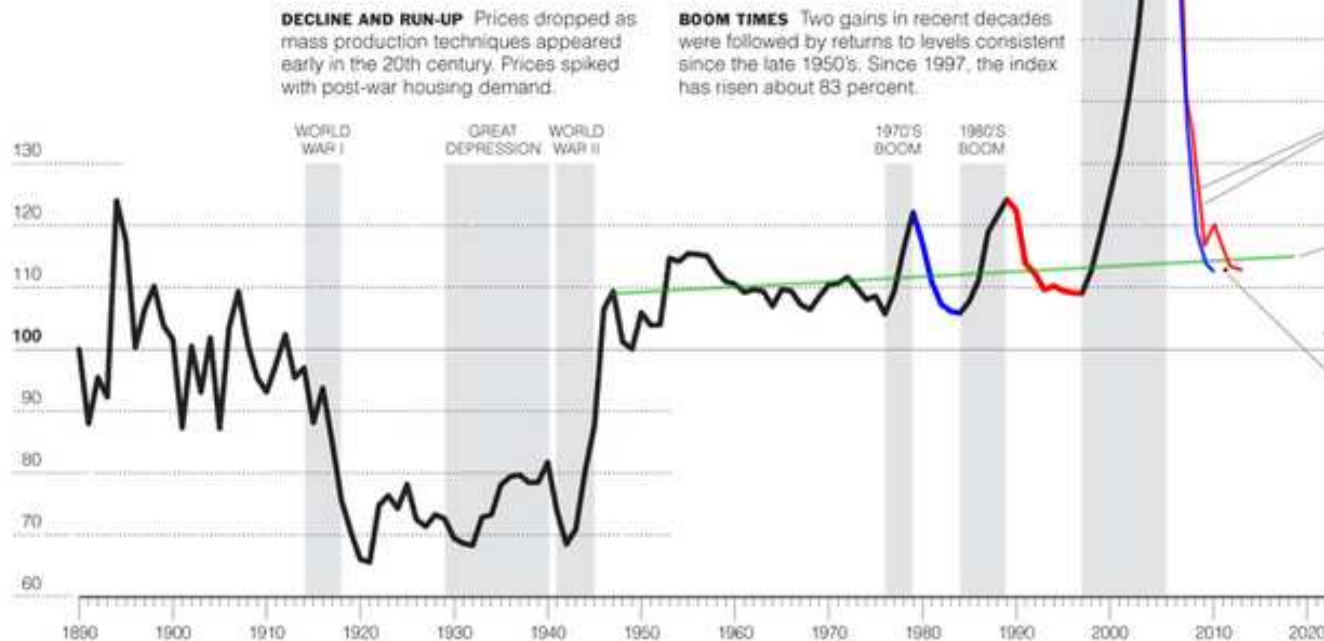


Housing Prices

A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 116 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$66,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).



A Likely Future of Home Values

The projected future of house prices is based on the last two real estate cycles.

The two previous downturns have been applied to the current boom. The curves are scaled to fit the average market trend since World War II.

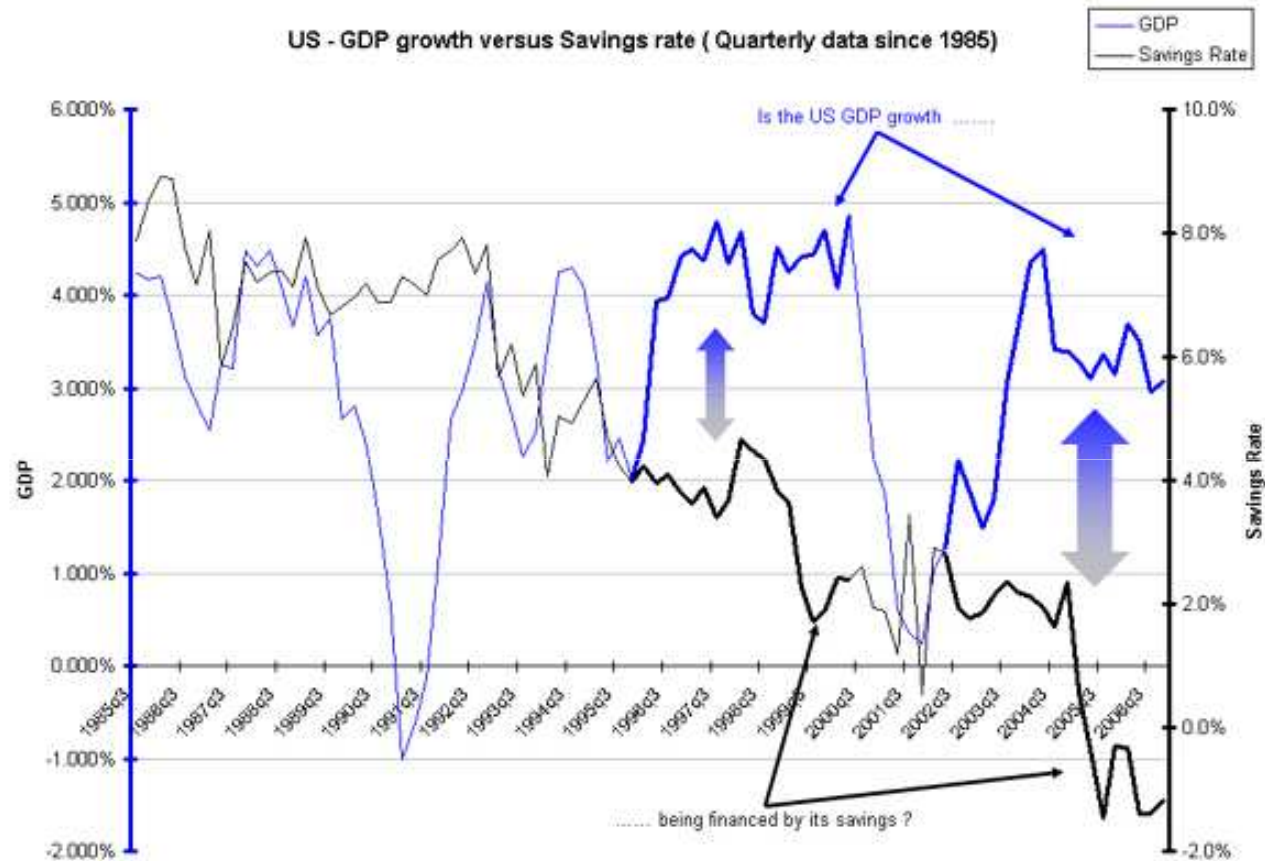
Two previous downturns (scaled)

Overall market trend since World War II.

The real estate market is likely to "bottom out" around 2011.

This corresponds with a 43.5% correction in house prices.

Savings



FYI: salaries have been stagnant for 20yrs

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Wall Street

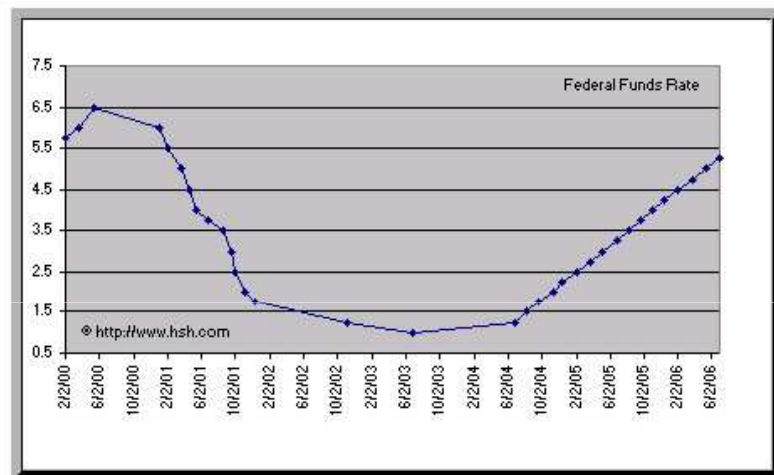
Rating Agencies



- Subprime, Alt-A, ARM: rated AAA
- Breakdown of ratings
- Assigned credit ratings to BONDS
- Rating agencies made more if WS does well...
revenue source: C, BAC, hedge funds

Should we trust them in the future?

Leveraging



- Firms borrowed up to 20, 30, 40 times for every \$
- Cheap lending for banks
- Loss of risk management
- Increases magnitude in any direction

BSC, LEH, C, MS, GS, Hedge funds all leveraged

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The Events Calendar



March

Dow Jones Industrial Average - [Add to Portfolio](#)

7,975.85

-41.74 (-0.52%)

Apr 6 - Close

Open: 8,016.16

High: 8,016.16

Low: 7,862.20

Vol: 247.40M

Mkt Cap: -

52Wk High: 13,136.69

52Wk Low: 6,469.95

Avg Vol: 446.10M

P/E: -

F P/E: -

Beta: -

EPS: -

Dividend: -

Yield: -

Shares: -

Inst. Own: -

Compare

Settings

[Historical Prices](#)

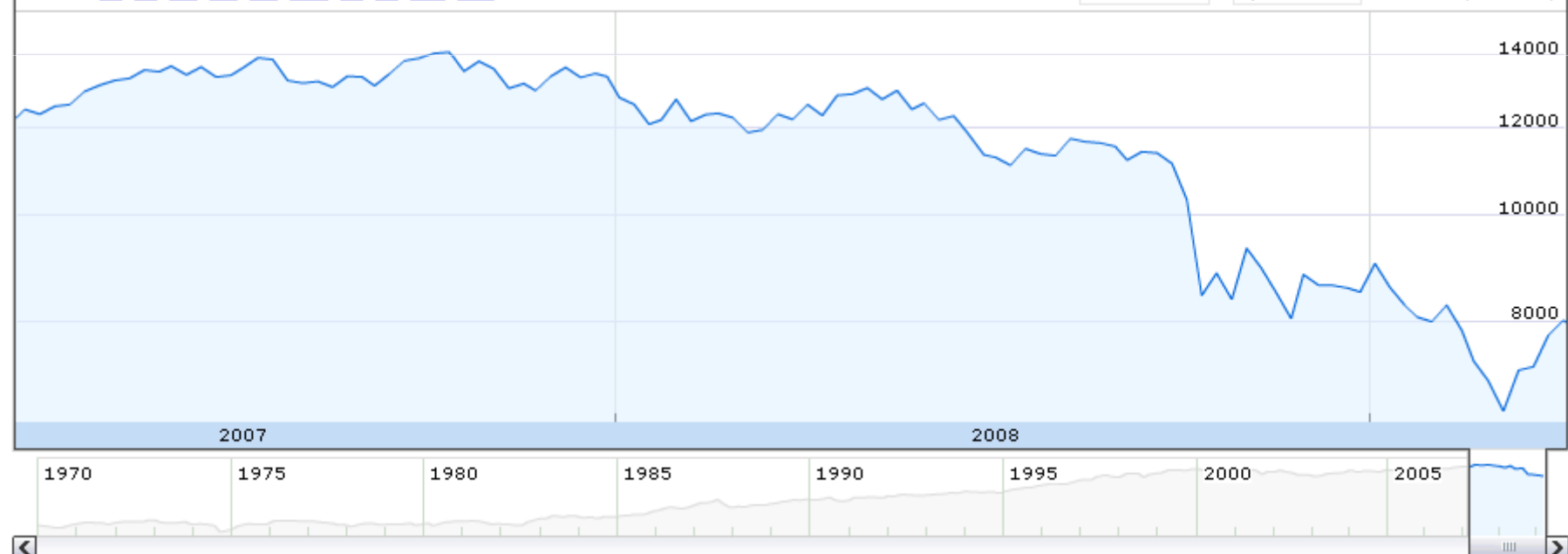
[Link to chart](#)

Enter ticker here

Add

Zoom: [1d](#) [5d](#) [1m](#) [3m](#) [6m](#) [YTD](#) [1y](#) [5y](#) [10y](#) [Max](#)

Mar 23, 2007 - Apr 06, 2009 **-4134.56 (-34.14%)**



BSC



\$2; \$10



FRE, FNM



FRE, FNM

