

UGBA 98/198

Introduction to Investment

Spring 2009



Jack Wei

Lecture 10 – Navigating the Bear Market & Bonds

No Cell Phones!



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Reviewing the Charts



S&P 500



S&P 500



S&P 500

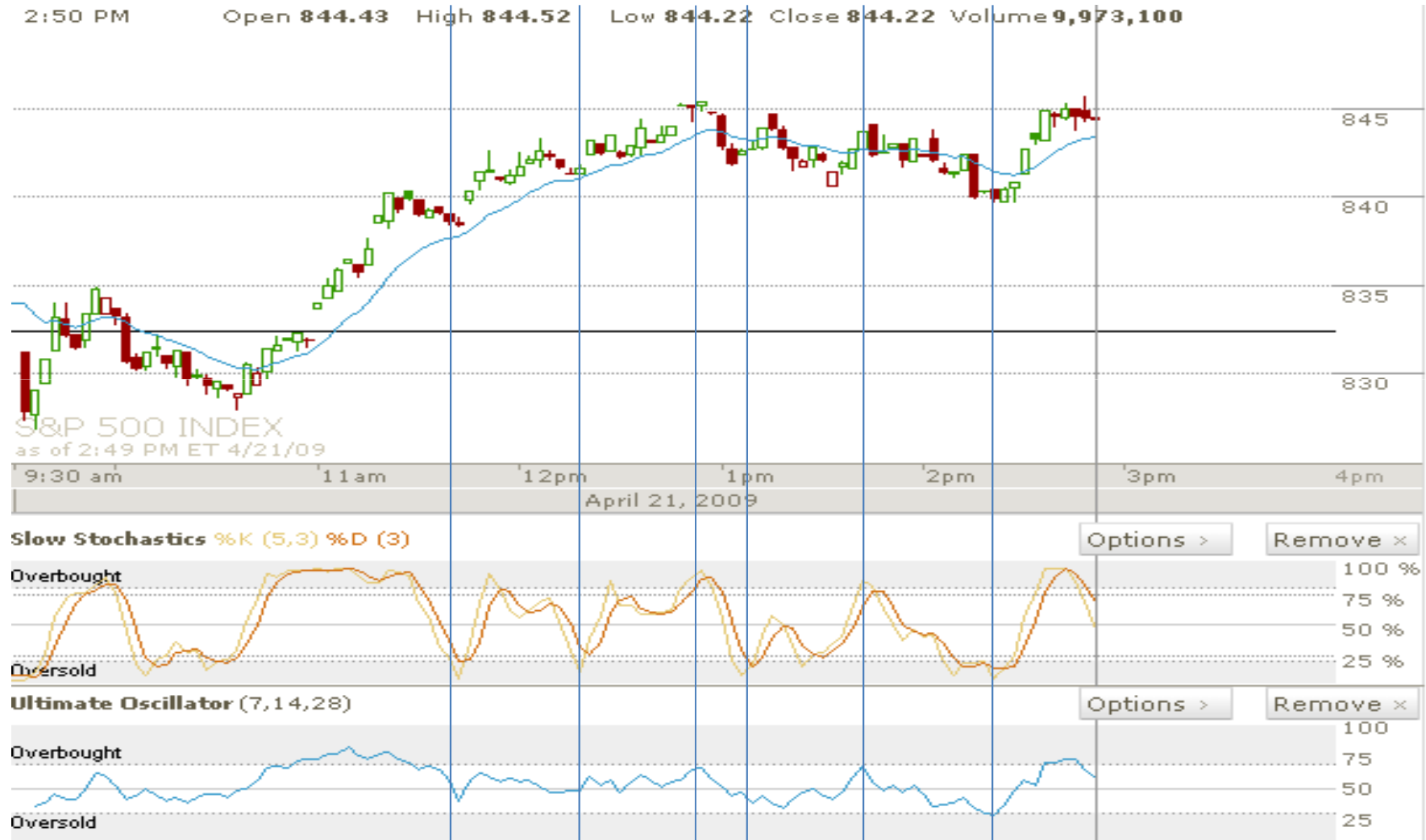
Apr 21, 2009 Open 831.25 High 845.46 Low 826.83 Close 845.00 Volume 6,681,480,300



S&P 500



S&P 500 – Daily Chart



WFC



WFC

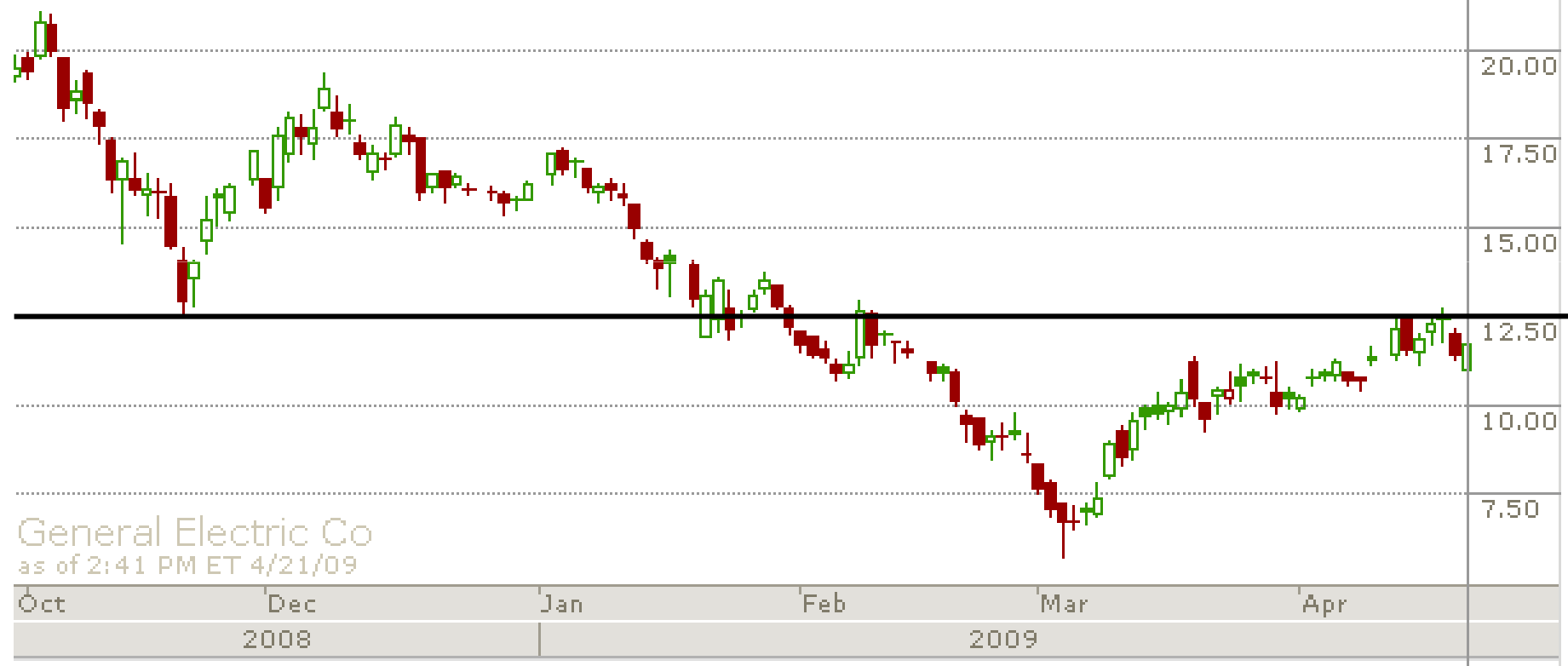


WFC



GE

Apr 21, 2009 Open **10.99** High **11.89** Low **10.85** Close **11.72** Volume **98,997,600**



JPM



JPM



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Navigating Bear Markets



Buy the Dips, Sell the Rips



Death to Buy and Hold



No to Fundamental, Yes to Technical

Profitability

Gross Margin (TTM)	--	Operating Margin (TTM)
Net Profit Margin (TTM)	20.3%	Pretax Margin (TTM)

Valuation

P/E excluding extraordinary items (TTM)	9.9x
P/E Normalized (MRFY)	9.9x
P/Sales (TTM)	1.9x
P/Tangible book (MRQ)	1.9x
P/Cash Flow (TTM)	--

Management Effectiveness

Return on Assets (TTM)	1.2%
Return on Equity (TTM)	14.7%
Return on Investments (TTM)	--

Income Statement

Revenue (MRQ)	--
EBITDA (MRQ)	--
Earnings before taxes (MRQ)	357.0M
Net Income (MRQ)	330.0M
Normalized earnings before taxes (MRQ)	357.0M
Normalized Net Income (MRQ)	330.0M

Short Interest

Shares Short (Current Month)	75.9M
Short Ratio	1.8x
Short Interest as % of Float	4.35%
Shares Short (Prior Month)	64.2M

*Data updated twice a month by the 18th and 29th

Financial Strength

Current Ratio (MRQ)
Quick Ratio (MRQ)
LT Debt/Equity (MRQ)
Total Debt/Equity (MRQ)
Payout Ratio (TTM)

Growth

Sales (5Yr)
Earnings Per Share
Dividend Growth (%)

Per Share Data

EPS excluding extraordinary items (TTM)
EPS Normalized (MRQ)
Rev per share (TTM)
BV per share (MRQ)
Tangible BV per share (MRQ)
Cash per share (MRQ)
Cash flow per share (MRQ)
Indicated Annual Dividend

17.95/2900 Bid/Size	17.96/4400 Ask/Size	15.90 Price Open
15.94 Previous Close	18.49 Day High	15.25 Day Low
0.87 Beta (5yr)	42.23/9/19/08 52wk High/Date	8.06/3/6/09 52wk Low/Date
31.5 Billion Market Capitalization	1.8 Billion Shares Outstanding	141.60 Volatility Avg (20 day)
33.0 Million Avg Vol (10 day)	11.1x P/E Ratio	1.61 EPS (TTM)
0.05 (4/15/09) Declared QTR Div	1.11% Yield	3/27/2009 Ex-Date

Balance Sheet	12/31/2008
12 Month Period Currency is US\$	
Assets	
Cash & Due from Banks	6,336
Securities Held	127
Securities for Sale	41,354
Total Invest. Securities	41,481
Loans Held for Sale	1,439
Customer Acceptances	95
Other Emg. Assets, Total	43,015
Total Gross Loans	126,315
Loan Loss Allowances	(2,080)
Net Loans	124,235
Buildings	2,288
Land/Improvements	311
Machinery/Equipment	2,243
Construction in Progress	5
Prop./Plant/Equip. - Gross	4,847
Accumulated Depreciation	(2,957)
Prop./Plant/Equip. - Net	1,890
Goodwill, Net	6,241
Intangibles, Net	2,387
Other Assets, Total	11,000
Total Assets	195,104
	209,465
	219,232
	237,615
	265,912

Attention to Price



Understand the Sectors



- Consumer spending

Goldman Sachs



- Interest rates
- Corporate earnings
- Recruiting restrictions?

Genentech
IN BUSINESS FOR LIFE

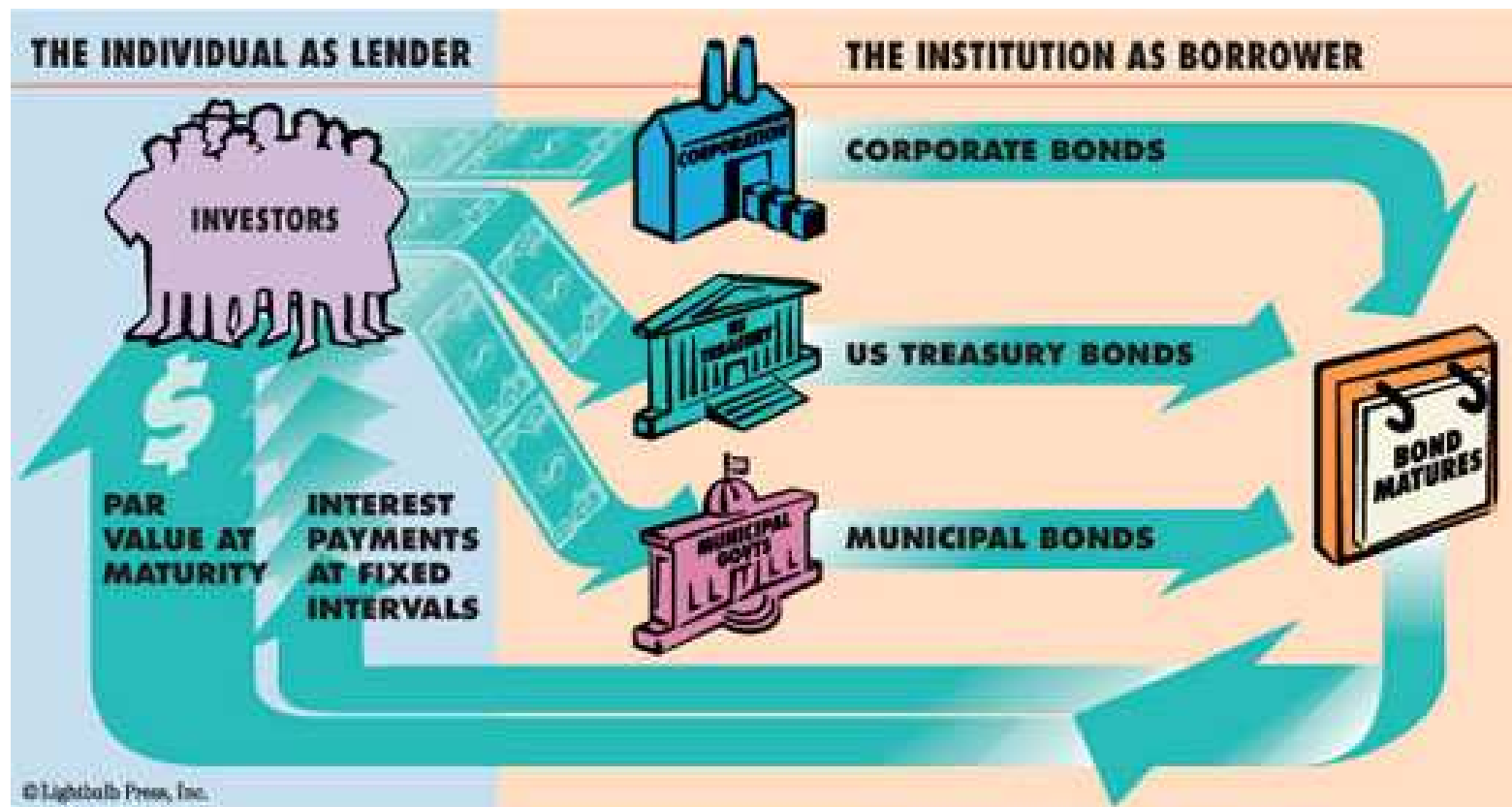


- Government
- FDA

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Bonds

A Snapshot



Bonds



- Principal: original investment
 - E.g. \$1,000 for a corporate bond
- Face value/par value/par: value at maturity
 - E.g. paid \$1,000, receive \$1,000 at end
- Coupon: interest rate at time of issue
 - E.g. \$50 on \$1000 per year = 5%
- Interest: interest rate at present
 - E.g. \$50 on \$900 per year = 5.6%

Zero coupon bonds: no interest; offered at discount

Bonds



Interest rate

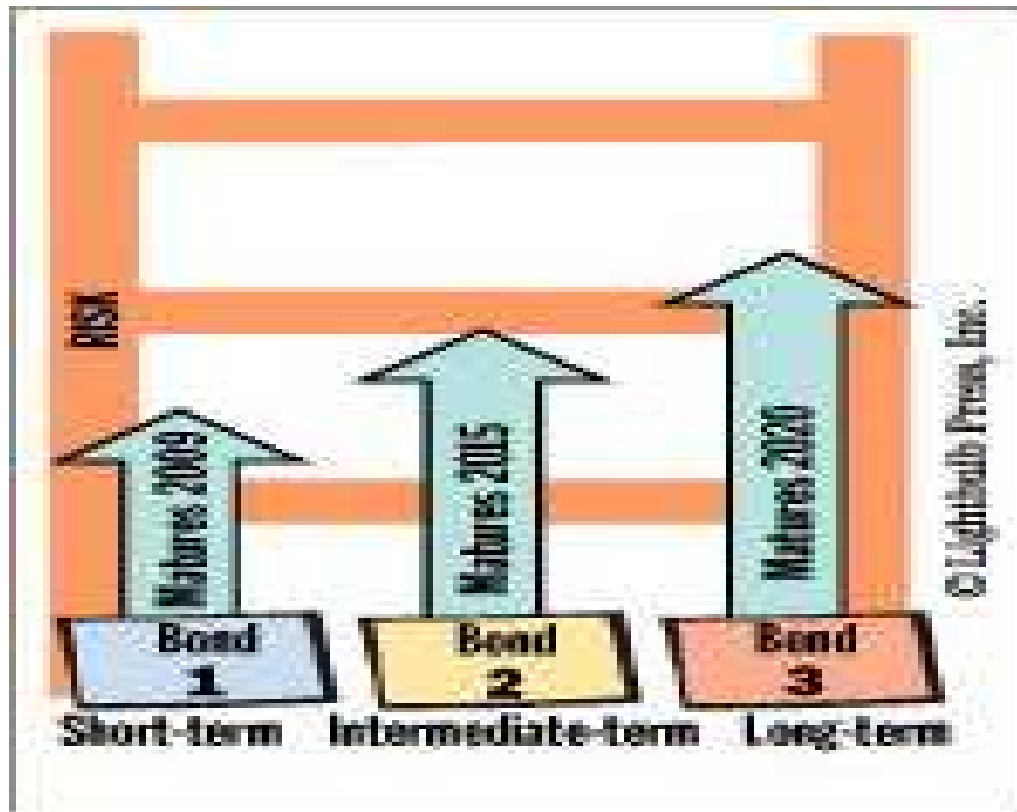
- If before maturity: must sell under par value at “discount” (opp. of premium)
- E.g. IR goes from 4 to 6%, bond price drops until yield is similar

\$1000
\$50, or 5%



\$830
\$50, or 6%

Terms



LT: Higher default risk

E.g. 30 year bonds

GM, M, Chrysler, airlines

Ratings

Fallen Angels



WM, MER, AIG

RATING SYSTEMS		
INVESTMENT GRADE	Standard & Poors	Moody's
	AA A AA A BBB	Aaa Aa1, Aa2, Aa3 A1, A2, A3 Baa1, Baa2, Baa3
SPECULATIVE GRADE	BB B CCC C D	Ba1, Ba2, Ba3 B1, B2, B3 Caa1, Caa2, Caa3 Ca C

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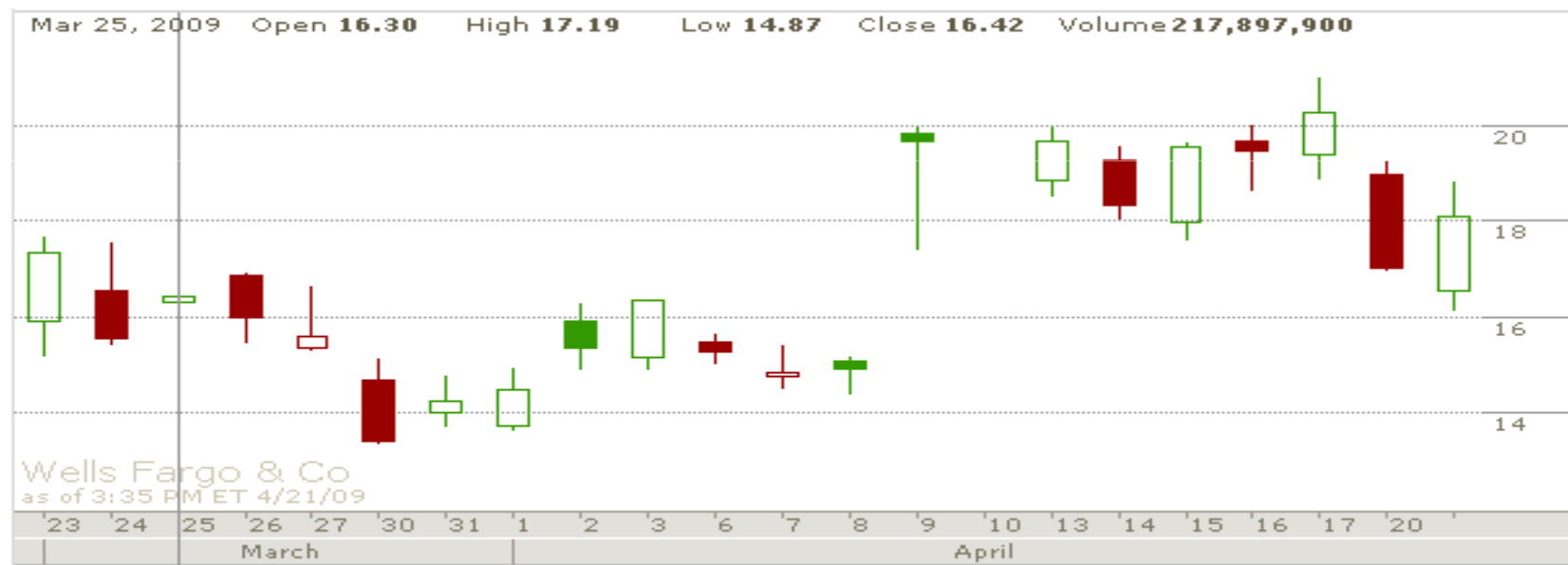
Upgrades



Downgrades

Equity Markets

Bonds determine the “true” fundamentals of common stocks



Equity Markets



Risk of default

Original yield: 8%

Feb: 50%

Now: 15%



Buying Bonds

Corporate Bond Search

Express Search

Issuer:

CUSIP List:

Ranges

	Minimum	Maximum
Maturity	<input type="text"/>	<input type="text"/>
Moody's/S&P Ratings	Baa/BBB <input type="button" value="v"/>	Aaa/AAA <input type="button" value="v"/>
Quantity	<input type="text"/>	<input type="text"/>
Coupon	<input type="text"/>	<input type="text"/>
Yield	<input type="text"/>	<input type="text"/>
Price	<input type="text"/>	<input type="text"/>
Call Protection	<input type="text"/>	<input type="text"/>
Delivery	All <input type="button" value="v"/>	

☐ Exclude

Industry Group

Use Ctrl-Click to select multiple industries.

- All Industries
- Financial
- Industrial
- Telephone
- Transportation

☐ Exclude

Coupon Payments

Use Ctrl-Click to select multiple months.

-
- All Months
- January
- February
- March

☐ Exclude at maturity

Interest Pay Frequency

Use Ctrl-Click to select multiple frequencies.

- All
- Semi-Annually
- Annually
- Quarterly

☐ Exclude

Constraints

	Yes	No
Callable	<input type="checkbox"/>	<input type="checkbox"/>
Listed	<input type="checkbox"/>	<input type="checkbox"/>
Step Coupon	<input type="checkbox"/>	<input type="checkbox"/>
Convertible	<input type="checkbox"/>	<input type="checkbox"/>
Survivors Option	<input type="checkbox"/>	<input type="checkbox"/>

Display Properties

Sort by:

Rows per page:

Updated Since: