

WF NewsLetter



Financial Crisis Casualties

Bankrupt

Lehman Brothers (USA)
IndyMac (USA)

Taken Over

Merrill Lynch (USA)
Wachovia (USA)
Washington Mutual (USA)
HBOS (UK)

Nationalized/Bailed Out

Bear Stearns (USA)
Fannie Mae (USA)
Freddie Mac (USA)
Countrywide Financial (USA)
AIG (USA)
IKB Deutsche (Germany)
Dusseldorfer
Hypotheekenbank (Germany)
Hypo Real Estate (Germany)
Fortis (Benelux)
Northern Rock (UK)
Alliance & Leicester (UK)
Bradford & Bingley (UK)
Roskilde Bank (Denmark)
Dexia (France, Belgium)

As of date of publication...

Summary:

- **Fannie & Freddie**
- **Alcoa**
- **Securization**
- **AIG in London**
- **Dubai, the End**

Fannie and Freddie *were in a Boat...*

Fannie Mae (nickname for **Federal National Mortgage Association**) and Freddie Mac (nickname for **Federal Home Loan Mortgage Corporation**) have been bailed out by the US Government. In Europe it would simply be called a **Nationalization**. Both are secondary mortgage houses. In plain English, Fannie supplies money for the US mortgage market and guarantees half of the \$1.2 trillion mortgages in the country while Freddie buys mortgages in the market, pools them and offer them to

investors as “mortgage-backed securities” or “safe” investments. The problem came with the sub-prime crisis, where banks oversold mortgages to people unable to repay them. So the foundation of the mortgage-backed market organized by Freddie and fed by Fannie was built on millions of bad loans (mortgages) ready to collapse. And they did. Then, **Fred and his pal Fan** announced that their accounting was not as sound as claimed and that their capital base was not as strong as published!

Agreed, it's confusing. Anyway, the net result is a the collapse of two major AAA rated Institutions (rated by the same agencies that had overrated the sub-prime loans).

Here comes Mr. Paulson the Treasury Secretary who says “enough is enough” and takes over in the name of the most liberal government in the world. And the following day, the Dow Jones shoots up 300 points in the name of free economy. Forget Russia, China or Europe, the **welfare state** is across the Atlantic!

Alcoa, *AA*

Alcoa, our pick of the month, lost 25%.

We could say “like the rest of the markets” but we would then undervalue the actual loss.

Alcoa lost more than the average (financial excepted).

Why is this?

Mainly because of the economic downturn, commodity prices (Alcoa is the world's largest aluminum producer) spiraled down.

Can this go on?

We think not.

(1) Commodities are still in strong demand and their prices should again move up after this correction

(2) Alcoa is now the perfect candidate for a take over from a larger mining concern

Se-Cu-Ri-Za-Tion, *The Recipe*



1. Take a large pool of would be home buyers unable to borrow
2. Offer them mortgages at higher rates, **subprime loans**
3. Pool their loans into one instrument (**Securization**)
4. Leverage this already high yielding loans
5. Offer this nicely packaged investment to banks and financial institutions (UBS, Lehman, Merrill, AIG,...)
6. Let the banks offer them to their clients (other banks)
7. Watch the home buyers default on their loans
8. Watch the packaged loans deteriorate
9. Watch the intra bank lending being reduced
10. Watch the banks become bankrupt
11. Applaud at Central Banks injecting cash in the markets to rescue the world economies

You got yourselves a **Recipe!**

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QUOTE OF THE MONTH

*THE REPORTS OF MY
DEATH ARE GREATLY
EXAGGERATED.*

**STEVE JOBS,
APPLE CORP. FOUNDER
(BORROWED FROM MARK
TWAIN)**

NUMBERS THAT STRIKE

- **\$700,000,000,000** the cost of bailing out AIG, that's \$2,000 per household in the US.
- **-94%** the percentage loss of AIG shares in 3 months.
- **1%** is the insurance premium against default of the US Treasury Bonds. A first in history!
- **\$1,200,000,000,000** the one-day market capitalization loss in the US markets on September 29, 2008

Indicator	Last	Year-to-date	1-Year	3-Year
Dow Jones	10,850.66	-16.81%	-20.66%	+5.42%
NASDAQ	2,082.33	-19.99%	-24.03%	-0.38%
CAC 40	4,047.81	-27.06%	-29.83%	-10.46%
\$/€	1.4113	+3.67%	+0.96%	-21.14%

United States of America are slowly and steadily becoming the first socialist country in the world with more nationalizations than any other country.

Mbeki (Thabo) whatever the guy did, he should be remembered in history as the first African leader to step down, following an inquiry. No coup d'état, no change of the Constitution, he just resigned. An achievement.

Hedge(Funds) may finally not be the culprits everyone was blaming. The Dow Jones lost 750 points in one day while authorities had forbidden short selling on Financials (who took the largest hit).

Ramadan is over. Eid Mubarrack!



DOWN
AIG is becoming the largest US bailout



DOWN
Lehman Brothers went down



UP
Merrill Lynch was able to find itself a buyer



UP
EDF takes over British Energy

AIG ... and its London Office

In 1987, AIG hired Mr. Joseph Cassano to help start its London unit. Mr. Cassano was essentially famous for having been an Executive with former (and bankrupt) investment bank Drexel Burham Lambert headed by the **junk bonds** king, Michael Milken.

The London unit of AIG became so profitable that Mr. Cassano's name was cited as possible new CEO of AIG.



"It is hard for us to even see a scenario that would see us losing one dollar in any of those transactions."

Joseph Cassano, August 2007

Last February, Mr. Cassano was pushed to resign amid heavy losses and questions raised by the auditors on the valuation of the unit.

The London unit **lost \$25 billion last quarter only!**

The CEO of AIG Mr. Greenberg liquidated 5 millions shares of AIG of its own portfolio last week.

The US government is nationalizing AIG.

The end of....Dubai

With two decades in this country I thought I had seen it all: Salik, street meters, Burj Dubai, the Palm(s), the rise and fall of the Dirham, air conditioned buses, the metro, the UAE team winning the soccer Gulf Cup, Ski Dubai, the fall of the next-door-groceries and the rise of the always-further-shopping-

malls, Emirates Airlines, Etihad, ownership of houses for foreigners, earthquakes, Gulf War 1, Gulf War 2, Skype blocked, 7 Days readers letters' not complaining about "certain communities". Yes, I thought I had seen all, but today was **the first day of the end of Dubai**. I stopped for petrol at an ENOC petrol

station, and, as I was handling my keys to the attendant, he told me: **"self-service only, Sir"**. Of course I immediately switched on and hurried to another brand. I can only urge our readers to do the same until ENOC will regain control! Fortunately a Coke can still cost Dh1. Same as 20 years back.