This Time it is Different - Not!

Lessons from the Past and
What is Next for the Global Economies

AIVARS LODE

Dedication

Thanks to all of my mates that I have worked and socialized with through the years, you have all helped me grow tremendously. The following people have had a profound impact on my life's many journeys and deserve special mention:

- My parents, thanks Mum and Dad for all the adventures you provided for us. Mum, thanks for the meals where you drove an hour every night while I was in hospital with my broken neck along with everything else. My father, for allowing me to invest alongside him, his patient counsel when I was young and emotional, and sage advice as I matured.

- Suzie, my darling wife, partner and Number #1 everything. We have had the most amazing adventures and have grown so much together. I look forward to many more.

- Arielle and Claudia, my inspirational daughters, for their capacity to learn and just do.

- My brother, Atis, an inspiration with his untiring energy and the reason I moved to business development; a key change in my life.

- Mark Waldron, an amazing friend and mentor who opened my eyes to what I could be.

- Richard Thompson (rest his soul), who gave me permission to be myself, was an inspiration to all, and showed us how to be good humans.

- Robert Hershenhorn, the most amazing deal mind that I have ever met; he showed me what was possible and inspired me to be creative.

Acknowledgments

During the past 30 years, I have traveled to 1,519 cities in 47 countries and met many fascinating people. I have sampled a lot of different cultures, seen a lot of different architecture, discussed the politics and the religions in each of these places, listened to countless stories, completed numerous business transactions, sampled different cultures and foods, and along the way have developed strong opinions of my own. I have lived the crashes of the 80's and 90's. I have lost on real estate and I have made money on real estate. I have made money on bubbles. I have worked with market makers and market manipulators, with agents and principals, the poor and rich. I have worked with my hands and now with my brain.

In 2008, I began to write a blog to share my observations in order to help others to better understand what is next for global economies. This book summarizes my writings and is intended to generate thought provoking discussion of what we have to look forward to in the years ahead. Indeed, these observations are based on the accumulated knowledge and experiences that I have been fortunate enough to experience.

In the mid-1980's, Australia put in place a dividend tax similar to what was established here in the United States in the mid-2000's. In the early 1990's, Australia experienced a financial meltdown similar to the one that the United States is currently experiencing. A significant number of my observations are applying what I saw in Australia back then to what we are experiencing today in the United States. Two years ago, I started my blog by stating what is going to happen and why. Today, the articles that I have posted support my predictions.

To put this book in perspective, I offer a timeline of my major adventures, beginning with my life up to the age of 20, a time when I focused on sports and school - in that order. At the age of eight, I started delivering mailers with my father around the same time that I started competitive athletics with no particular discipline and the ability to substitute for most of the team if someone did not show up. My specialty was the 400 meters where I would trade lanes to take the inside lane. This meant that I had everyone in front of me when I started, which was a place that no one wanted. My strategy was to pass them all by the half way mark and then make sure I had enough to hold on until the finish. By passing my opposition by the half way mark, I would demoralize them. Therefore, I did not have to be the strongest or the fastest - just the one who would hold on the longest. This is one of the important lessons in life, as Churchill said. Clearly, you don't have to be the strongest or the smartest; you just need to be the one who applies consistent effort.

I cleaned K-Marts with my father at 15, which required waking up at 5am. By doing this, I was always able to buy the next piece of sports gear that I wanted-- from a kayak to my scuba gear, diving watch to my snow skis, to my hiking boats, my backpack, sleeping bags, cooking gear, clothing, CD radio, surf boards, windsurfers, sails, catamarans, etc.

Unlike Warren Buffet, I did not invest in stocks as these were a mystery and I did not understand how to make money without losing it by playing the stock market. Probably today they would have classified me as ADD but my parents found that if they kept me occupied with sports I did not need to be fed drugs and I would end up tired and fall asleep as soon as my head hit the pillow. My parents' wanderlust and travel to remote parts of Australia when there were no paved roads and at a time when people were just not that mobile in Australia also contributed to my development.

I attribute my CQ skills to the amount of travel and the number of sports that I did during my youth. The ability to not be scared in any situation and the knowledge that I would always work things through set me up for later in life as I started my global career and circumnavigated the globe regularly for business. Thanks Mum, for driving us around everywhere.

Another element to my success is the fact that I was born into a well-educated family that values education. My parents convinced me to finish high school instead of going to technical college to become an electrical engineer. Following my days at the university, I spent one year as a full-time ski instructor. A very sage piece of advice from the head of the ski school at the time made me reconsider my career – "Aivars, go use your degree and then come and pay for schmucks like me to take you skiing," he said. Thanks, Guenter, for the advice.

I spent a few years trading commodities. I watched the fall of the Telex and the rise of the fax machine. Indeed, one of the first Fax machines was used in Australia. I lived through the floating of the AUD and Japan's Yen while dealing with Forex brokers, shipping companies, insurance companies and banks every day.

My next adventure was as an accountant. Preparing the numbers proved to be the most frustrating job to me as the sales guy and the CEO both knew the results even before I had produced them. I knew I needed to be closer to the sharper end of the stick and realized that nothing happened until something got sold. This would be in the back of my mind for many years until I acted on it. That did not last long and when a friend of my father's asked me to come and run his company, I jumped at the chance to get out in front and was able to leverage the trading and the accounting to understand what was happening in the business and get closer to the selling. It was there that I installed my first computer system. I was just always ready to try the latest technology; however, I did not have a very good sense of timing. When Barry asked me if it would be valuable to start a Lotus 123 training course, I replied that this had already been done. How wrong I was in my inability to recognize this computer opportunity.

I lived through the stock market crash of the 80's and watched as my second house purchase proved not to be my greatest investment. Unfortunately, I mis-timed the market and bought my second house before selling my first. In the space of two weeks, over 30 percent was shaved off both houses values. This is how we learn - though our own mistakes or the mistakes of others. I was exposed to oil traders, stock manipulators, Forex market makers and the early days of derivatives. I was also very lucky to have my father as mentor and a number of very good friends that supported me. Without that exposure to what was possible, I may not have chosen the path I did.

My brother constantly encouraged me to get into sales and at the time I was installing a large ERP system into a manufacturing company. Again, hadn't everyone? Well, the sales guys knew less than I did, but they wore better suits and drove BMWs so there was a clear choice. I decided to become involved with technology sales and my first job was at Dun and Bradstreet Software, which at the time was the largest software company in the world providing mainframe software that could only be purchased by the largest corporations and governments. This was all a very humbling experience as I really did not understand the terminology they used or how large corporations worked and had my "ass" handed to me a number of times. However, I prevailed and made the highest level of sales recognition achievable – the Chairman's Club. This was no mean feat as this was during the recession in Australia. The conversations in Australia at the time where so dire that I thought Australia was "done for" and decided that I needed to go to Asia as it was on our doorstep and something was stirring up there. Together with my mentor at the time, I engineered my way into position in Singapore where I accepted a position selling software into the largest corporations in the world, including Shell, BP, P&G, Unilever, Citibank, JP Morgan, and Nomura etc. Boy, did I learn global politics and how it gets played in global companies. At times, I wondered what I was doing visiting an oil and gas exploration facility in the middle of a jungle in Malaysia where you could see the remnants of headhunters with their tattoos around their necks to ward off any potential be headers. During the same day, I saw the Prince of Brunei's airplane hanger with his name three-feet high spelled out in solid gold bars. His name had more than 50 letters. In the days and months ahead, I went from the dizzying speed of Hong Kong, to inefficient China, to the colonial houses of Singapore, and then to the brashness of New York, the history of London, and the romanticism of Paris. My life so far had been a never-ending circling of the globe while creating and closing deals.

When it became time to start a family, we knew that if we ever wanted to integrate back into Australian society we had better get out of Hong Kong where I had been running the China operation for Dun and Bradstreet Software. We had made enough money due to the bonuses only being taxed at Singaporean and Hong Kong tax rates at a maximum of 20 percent compared to the 48 percent in Australia. As expats, all of our accommodations had been covered in countries where it was hellishly expensive – especially in the top 10 most expensive cities in the world. Dun and Bradstreet Software was being sold and it sold cheaply; clearly, the growth had stopped. I remember seeing the price it was sold for and thinking, "Boy if I knew that it would have been sold for that I would have bought it, as I understood the value of customers that had bought infrastructural software and the difficulty in replacing it, and had seen the waste of money that software companies spent when I compared it to the frugal manufacturing businesses with which I had worked. So, here we are in Melbourne and I am running Oracle's Application division in Victoria thinking that I would have a quiet life. Within a month of joining, I was running the Australia and New Zealand applications business and became part of the senior management team. At the time, Oracle focused on 100 percent growth a year and I was running a business where I could count on the last three customers to buy a solution - ?anyone's solution. Can you imagine a hamster running around in a wheel? That was me. The rest of the business was the same. We had to migrate the business away from the focus on products to the focus on customers and solutions.

This was also the beginning of the dot com period and given that I had been trained to look for the next latest thing, I had one huge customer of ours, Fosters, asking for things that Oracle did not have. So when a friend approached me about joining a supply chain execution software business, I knew it was the next "latest, greatest thing" so I jumped at the opportunity to start the Asia Pacific operation for Decartes Systems group and then within nine months, I was in Canada running the global operation and experiencing the dot com effect. When I joined, the company was at $30m in market cap and it rocketed to $1.3 billion in one year. Then, the end of 2000 happened and those market caps started to evaporate as the dot com cap burst.

As the dot com bubble burst, I was reminded of my observation in Hong Kong of Dun and Bradstreet's Software being purchased cheaply. After the craziness of the dot com era and Oracle, I reflected and said revenue growth is insanity and cash flow is sanity. Fosters had entered Canada in order to crack the U.S. market, but found that ineffective and withdrew to purchase an American company, Beringer. I, too, followed their experience and went south to the United States. After partnering with the largest private equity firms in the United States, I established my own hybrid private equity firm and began buying and investing in software companies. I participated in the real estate market in Florida, but this time did not get bitten by the bubble as I had a referential base to know when to get in and when to get out.

Preface

This book outlines the thoughts and prognostications of interesting individuals ranging from journalists to hedge fund managers to teachers, many of whom I have met in recent years and admire greatly. I intersperse my comments throughout.

Each chapter represents a specific theme that has been selected for a specific reason – corporations, dividends, commodities, currencies and climate. Through a series of outside experts' articles and interviews, followed by my own translation of what it means for the reader, I offer real life examples to illustrate the actual practice of these concepts in order to answer the ultimate question -- "So What?"

In a matter of a couple of hours, I hope you will be able to understand the key points and mental mind set needed to better understand what is next for the global economy and why you should care. In short, I hope to offer a fresh view of the global business cycle and help others to fine tune their own critical thinking skills.

Author Biography

Aivars Lode founded Avantcé in September 2001 in order to invest in software companies. The investment strategy is to purchase interests in mature companies, embed operational expertise and apply additional capital for controlled growth opportunities and consolidation acquisitions.

Avantcé invests in companies with mature markets, products and services, sustainable revenue and established customer relationships. This investment focus avoids the risks associated with new market, product and technology development. Investments include Robocom Systems International, Radcliffe, Revere Inc., Select Business Solutions, ADT, Aviva Solutions, and Dark Star Cloud. Aivars also holds board positions and advises companies such as BTrade, Rite Drive, Position Logic, BIG, Profit Path Systems and Knowledge4U. Avantcé has been retained by private equity firms CVC Capital Partners, Golden Gate Capital, Bain Capital and Welsh Carson Anderson & Stowe to advise on their acquisition strategies in Software. Avantcé successfully participated in creating the strategies for companies like IBM's EDI business, Inovis, Infor and Mincom. Avantcé also created a consortium to acquire the major airline cargo space for optimization, this resulted in private equity firms Welsh Carson and General Atlantic investing in 3rd party logistics providers.

More recently Aivars founded IT Capital, a merchant bank, whose sole purpose is to facilitate investments in software companies by high net worth individuals, pension funds and Sovereign funds, utilizing proprietary investment instruments namely EPN's and RPN's. Prior to founding Avantcé, Aivars was Group President of Descartes Systems Group based in Canada. Descartes is a publicly traded company providing customers with Internet based solutions to manage their complete supply chain. As Group President, Aivars led the company's global expansion efforts, achieving profitable growth as well as completing the successful acquisition and consolidation of two EDI businesses, TDNI and TranSettlements. He was named Group President in April 2000 after leading Descartes' successful expansion into the Asia Pacific region as President Asia Pacific.
Prior to joining Descartes, Aivars was with Oracle heading Applications Software for Australasia. He led the organization's change from a direct aggressive customer relationship model to that of a consultative business partner.

Aivars first entered the technology industry in 1991, when he joined Dun & Bradstreet Software, an enterprise software solutions provider. During his tenure with DBS he ascended through various management roles and transitioned several divisions from a strategic focus on high growth to that of customer intimacy and operational efficiency. Prior to DBS Aivars held various management positions, including COO, CFO and CIO roles in both public and private corporations. Throughout his career Aivars has lived in Australia, Canada, Singapore, Hong Kong and has conducted business in most of the industrialized countries in the world. Currently, Aivars resides in the USA with his wife and two daughters. Aivars holds a Bachelors of Business, Accounting from Swinburne University in Melbourne Australia. He is a past member of the Board of Directors at First Bank and Trust of Illinois

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Part 1

Reconstruction of Corporations

Introduction

It happened somewhere else and why it is relevant to the USA today.

The one thing that I do not have is a crystal ball. However, what I do have are observations from other parts of the world. During the past couple of years, I authored a blog designed to show similarities of what I have seen before and how it applies to us today in the United States. My intent is to record in writing - together with dates - key global events that prove my observations.

This does not mean that I think that Australia is better than the United States or that Australia is a global power. How can it be with just 20 million people and the same sized geography as the United States? Yet, for some reason, Australia matured faster than the United States by about 20 years; so, by examining what is happening there I have been able to identify similarities with the United States. Data on the web is difficult to search for at times, and much of what transpired in the 90's in Australia occurred at a time when the Internet was not around. Therefore, some of what is noted in my blog is based on my own recollection. These memories stand out quite vividly and enable me to identify patterns and apply them to today's events.

As I have mentioned previously, three broad events occurred beginning in the mid-80's in Australia: 1) a dividend tax at the same rate as capital gains tax was put in place; 2) a financial crisis occurred of the same proportion as what happened here in the United States over the last two years. I experienced my house drop in value by at least half; 3) growth stopped and a focus on delivering transparent stable earnings began. One of my mates was the treasurer of Coles Myer, the sixth largest retailer in the world, and went from hoarding cash to paying out dividends and increasing them annually through cost cutting and efficiency drives.

The following articles outline what is happening today in the USA and relate to parallels I draw with what I saw in Australia. In the 90's, banning texting whilst driving happened almost as soon as the mobile phone came out some 15 years ago. Cities and counties equivalents started to merge in order to reduce layers of government and to ensure that taxes would not increase. I remember standing on the beach in Naples conversing with a councilman about the time that two cities were looking to merge in Naples and talking about why this would eventually happen in the USA. Today in the United States, Tea Parties are taking place in an effort to reduce government spending and campaign to balance the budget and reduce the deficit.

In addition, red light cameras were introduced 15 or so years ago. What happened after red light cameras? Speed cameras proliferated. Why? The revenue served as an indirect tax generated for the government. Smoking was banned from restaurants and public offices some 20 years ago. Australians have been drinking espresso for over 30 years, but Starbucks didn't start to take off until 10 years ago. Wine consumption outpaced beer consumption some 20 years ago, and we are seeing the same shift in tastes here in the States. In fact, even Chardonnay and Cabernet Sauvignon fell in popularity some 10 or so years ago as palettes matured whilst Chardonnay and Cabernets still enjoyed great popularity here in the States.

Our family friends owned car dealerships so we hung out with great Formula One racers like Jack Brabham who told me how their dealerships generated a very skinny margin and they primarily made their money from the prudent management of the money as opposed to the actual sale or service of vehicles. Imagine my surprise when I meet people here in the States that own dealerships and have a 25% profit margin. I could see that certain models would not last as the manufacturers were subsidizing every sale of a vehicle. Surely, that could not last, and sure enough, it did not.

We purchased hotels in the 90's as the NAB, one of Australia's largest banks, owned half of the hotels in Victoria. We did so at cents on the dollar with the equity of the previous owners being wiped out the same away that it is occurring now.

I saw the Australian tax department going after wealthy individuals that had offshore accounts 10 to 15 years ago in order to find more revenue so as not to have to increase taxes more broadly and risk being thrown out of power. Today, the US Internal Revenue Service is doing the same.

Leading through Uncertainty

"The following article is a good summary of the status of the current economic environment."

- Aivars Lode

From McKinsey Quarterly
The range of possible futures confronting business is great. Companies that nurture flexibility, awareness, and resiliency are more likely to survive the crisis, and even to prosper.

The future of capitalism is here, and it's not what any of us expected. With breathtaking speed, in the autumn of 2008 the credit markets ceased functioning normally, governments around the world began nationalizing financial systems and considering bailouts of other troubled industries, and major independent US investment banks disappeared or became bank holding companies. Meanwhile, currency values, as well as oil and other commodity prices, lurched wildly, while housing prices in Spain, the United Kingdom, the United States, and elsewhere continued to slide.

As consumers batten down the hatches and the global economy slows, senior executives confront a more profoundly uncertain business environment than most of them have ever faced. Uncertainty surrounds not only the downturn's depth and duration—though these are decidedly big unknowns—but also the very future of a global economic order which until recently was characterized by free-flowing capital and trade and by ever-deepening economic ties. A few months ago, the only challenges to this global system seemed to be external ones like climate change, terrorism, and war. Now, every day brings news that makes all of us wonder if the system itself will survive.

If we look back in the past we can see the future. We have had recessions and depressions. Those that add value and generate cash flows by adding value to items we consume on a daily basis no matter how obscure, that continually adapt to the environment and don't get lazy, will survive.

Why Do Car Dealers in Australia Make Very Little Money?

01/04/09

"So the question is, why do car dealers in Australia make very little money and the profits that they do make, come from the management of the money in their float? I had this very conversation with the owner of a number of dealerships last year. It looks like the answer may have been able to be found in Australia at least a year ago. If someone had looked, maybe the following article from Wall Street Journal would not apply to them."

– Aivars Lode

A Tale of Two Dealerships

LONDON, Ky. -- Neither Johnny Watkins nor Elmer Gambrel had much growing up in southeastern Kentucky. Mr. Watkins's farm home had no indoor plumbing and he plowed the fields without a tractor. Mr. Gambrel, also a farm boy, joined the Navy after school and worked at a gas station.

But both had a knack for selling cars, and both eventually built thriving dealerships, bringing them wealth their parents never knew. With the profits, Mr. Watkins bought a Florida beach condo and Mr. Gambrel a plane.

That's where their business careers diverged. Today, Mr. Watkins's two dealerships, selling vehicles from General Motors Corp. and Chrysler LLC, are closed, his condo is gone and his house, now owned by a bank, has yellow-and-red "For Sale" signs out front. But the Toyota dealership that was started by Mr. Gambrel, who died in 1991, continues to provide a good living for his four children.

For decades, selling cars from Detroit paved a path to wealth for businesspeople in cities and towns all across the country. Even if the automakers were hurting, the dealers typically did all right because sales incentives financed by the makers supported sales. But the American auto industry has never before faced the kind of forces now slowing sales to a crawl. They include tight credit, rising unemployment, home foreclosures and a widespread public mood of hunkering down and spending less.

Cities and Counties Start to Consolidate to Reduce Costs!

05/27/09

"I was on the beach about four years ago talking with a friend about how I could not understand why my city taxes here were 10 times higher than for the equivalent property in Australia. I remember commenting that in the 90's, cities across Australia started amalgamating in order to reduce costs. I mused at the time when that would happen in the States. I just had to wait a few years. All we needed was a crisis to kick it off!"

– Aivars Lode

Towns Rethink Self-Reliance as Finances Worsen

As the recession batters city budgets around the U.S., some municipalities are considering the once-unthinkable option of dissolving themselves through disincorporation.

Benefits of this move vary from state to state. In some cases, dissolution allows residents to escape local taxes. In others, it saves the cost of local salaries and pensions. And residents may get services more cheaply after consolidating with a county.

In Mesa, Wash., a town of 500 residents about 250 miles east of Portland, Ore., city leaders have initiated talks with county officials about the potential regional impact of disincorporating. Mesa has been hit by a combination of the recession and lawsuits that threaten its depleted coffers, leaving few choices other than disincorporation, said Robert Koch, commissioner of Franklin County, where Mesa is located.

Two California towns, Rio Vista and Vallejo, have said they may need to disincorporate to address financial difficulties; Vallejo filed for bankruptcy protection last year. Civic leaders in Mountain View, Colo., have alerted residents that they are left with few options but to disincorporate because the town can't afford to pay salaries and services
Incorporation brings residents a local government with the ability to raise money through taxes and bond issuances. It also gives them more control of zoning decisions and development, and usually provides for local services such as trash pickup and police as well.

Dissolving a town government, on the other hand, often shifts responsibility for providing services to the county or state. A city's unexpired contracts usually remain binding, and residents are still obligated to pay off any debt.

But long-term commitments such as pension liabilities and day-to-day services such as sewage and water can be folded into services run by the county, public-policy experts say.

Disincorporations are rare, usually resulting from population declines that leave too few residents to support the government. The most recent in California occurred in 1972, when stalled growth and political instability led Cabazon to dissolve itself, according to the California Association of Local Agency Formation Commissions. In Washington State, the last one occurred in 1965, when Elberton gave up its autonomy after 70 years, according to the nonprofit Municipal Research and Services Center in Seattle

Today, some small municipalities are exploring the step to escape some financial burdens that have been exacerbated by the recession.

Rio Vista says disincorporating would eliminate 38 jobs and shift its sewer services to the county. Vallejo says disincorporating would end public-safety-employee contracts, which city leaders blame for pushing the city into bankruptcy.

Most talk of disincorporation appears to be exploratory, and some public-finance experts say towns may not have that option if it is being used to unload financial obligations. "This is somewhat of a legal gray area, because disincorporation was not designed to allow cities to escape financial hardship," said John Knox, a public-finance consultant with the San Francisco office of law firm Orrick, Herrington & Sutcliffe.

Mr. Knox, a bankruptcy consultant to Vallejo, said shifting oversight of a city's services to a county or state during the current economic environment would be a tall order. In California and many other states, the county or state must approve such a move, he said. Most counties are ailing as badly as cities, and are unlikely to readily approve a disincorporation, he said.

That isn't stopping some towns from checking into the possibility. In Mountain View, a Denver suburb with about 500 residents, sales-tax revenue has shriveled with the departure of four businesses last year, undermining its ability to pay city-government employees or to afford police and sewage service.

"We were surprised that it got this bad this quick," said Betty VanHarte, mayor of the 104-year-old city. "We have really tightened our belt and increased fees to solve some of our problems, but it's been very difficult."

Colorado recently hired public accounting and consulting firm Clifton Gunderson LLP to help Mountain View deal with its troubles. Chuck Reid, a consultant with Clifton Gunderson, said the town hopes to escape disincorporation, but its murky long-term financial outlook may make it the only option. The town could dissolve and be absorbed by the county, or merge with another nearby municipality, he said.

A group of residents of Spokane Valley, Wash., have a different motive for their campaign to disincorporate the city of 90,000 near the Idaho border: They want to keep their city's government from increasing taxes and fees that would finance construction of a modern downtown district.

The growth plans are too costly and break from the region's tradition of bucolic living, said Susan Scott, owner of Larks Storage in Spokane Valley, and one of the disincorporation campaign's planners. "Too many people are hurting from how bad the economy is doing," she said. "We just can't put up anymore with what the government wants."

Spokane Valley Mayor Richard Munson said that the city is providing services in a cost-effective manner, and that only a minority of citizens want to disincorporate.

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In the 90's in Aussie the Unions Lost Power

08/11/09

"Interesting what a crisis can do and growth stops."
– Aivars Lode

Seattle Frets as Boeing Looks South for Sites

Aircraft Maker's Search for a New Dreamliner Assembly Plant Poses a Threat to Big Machinists Union

By PETER SANDERS

SEATTLE -- The 787 Dreamliner, Boeing Co.'s marquee project, is about two years behind schedule, but another big worry has emerged: Is the company expanding in the South, where unions are weaker, instead of here?

Boeing, the area's largest employer, has said in recent weeks that it would likely choose a site for a second 787 assembly line, possibly in South Carolina, by the end of the year. The current assembly line is in Everett, Wash., 30 minutes north of Seattle.

The prospect of a second site outside the state of Washington has spread anxiety throughout the state's aerospace industry. Boeing's largest union is galvanizing against the plan.

"Obviously, it would be a blow to the region if they go elsewhere," said Connie Kelliher, spokeswoman for the International Association of Machinists and Aerospace Workers local union, which represents about 25,000 Boeing machinists in Washington.

Boeing's decade long reliance on Seattle as its major manufacturing hub for commercial aircraft has allowed the union to retain its muscle, even as unions in sectors from steel to textiles have seen their power wane amid low-cost competition from Asia.

But the myriad problems associated with Boeing's 787, considered the most sophisticated commercial plane ever designed, have suddenly handed the company an opportunity to cut some ties with the union.

Design issues and difficulties in coordinating the 787's hundreds of suppliers have created massive delays for the new plane. Last fall, the machinists union -- partly because it was upset Boeing had farmed out significant parts of the 787 construction to contractors -- staged a debilitating 57-day strike at factories around Seattle. That set the project back even further. It was the union's fourth strike in 20 years.

Boeing is considering a second assembly site for the 787 in part because it must ramp up production to make up for the repeated delays. Some Southern states, where Boeing is said to be looking, are right-to-work states, which don't require employees to join a union if one exists at a company.

Last week, 400 people gathered in a convention center in Lynnwood, a suburb of Seattle, to listen to politicians and industry officials air their concerns about the prospect of Boeing establishing a commercial aircraft beachhead outside the state. "The industry brings in tens of thousands of jobs and serves as a magnet to draw in other aviation-related employers to the region," Michael Zubovic, chairman of the Aerospace Futures Alliance in Washington, said at last week's conference. "We're going to have to work hard to preserve our leadership position in this industry."

Workers paint the company's colors on a jet, right, in late April in Everett, Wash. The company delayed the first test flight of the plane once again in late June.

On the same day, Boeing's head of the 787 program, Scott Fancher, was in North Charleston, S.C., where Boeing recently acquired a factory from one of its Dreamliner suppliers, Vought Aircraft Industries Inc. The supplier was a struggling link in the 787 supply chain, and last month Boeing said it would pay nearly $1 billion to purchase the operation from Vought and convert it into a Boeing facility. Boeing could choose to build the second Dreamliner assembly site at that location.

Mr. Fancher told a local newspaper that Boeing was looking at sites in both Washington and South Carolina to house a new final assembly plant for its 787. Industry observers say the company is also looking at sites in Texas and elsewhere in the South. A Boeing spokeswoman said she couldn't confirm or deny that the additional sites were being considered.

Since 1916, when William Boeing launched his first seaplane in Seattle's Lake Union, the region has been the backbone of the nation's commercial airplane industry. Today, Boeing employs 74,000 people in Washington and is a major economic driver in the region.

But Boeing has been gradually creeping away from its Seattle roots. Its defense business is based near St. Louis, and in 2001 the company moved its headquarters to an office building in Chicago, in part to reshape its image away from primarily a commercial airplane company.

"We were once a Puget Sound-based company with customers all over the world," Fred Kiga, Boeing's vice president of state and local government relations, said last week at the aerospace conference. "Boeing today is a global company competing in a global marketplace."

But he said there is "an opportunity for conversation" with the machinists union. He added: "Let's not be lulled into thinking the future of our state's aerospace industry is simply a question of labor and management." He said Washington state, too, must keep itself competitive as other states try to lure Boeing's business away.

Ripples Widen in UBS Tax Case

08/20/09

"A wise person more than ten years ago in Australia told me, 'Son just pay your taxes if you are making money; by the time you set up your offshore stuff the government is going to come after you.' Sure enough they did in the next few years, and took down as many high profile people that they could find. So here we go again in the States following the trend that occurred before in Aussie. Why? Growth has stopped and costs need to come down, and the government needs to come up with the shortfall of revenue. See my other postings where this thread is already highlighted." - Aivars Lode

By Arden Dale
A DOW JONES NEWSWIRES COLUMN

NEW YORK (Dow Jones)--A web of details on undeclared accounts at banks stretching far beyond UBS AG (UBS) has emerged as U.S. account holders scared by the case come forward to the Internal Revenue Service.

The banks are far flung, located in spots that range from the cantons of Switzerland to some Asian countries.

So far, the IRS has not said directly if it's investigating accounts at any bank besides UBS. Nonetheless, no one with an undeclared account appears to be safe these days.

On Thursday, the Department of Justice announced the indictment of Hansruedi Schumacher, who worked as a Swiss banking executive at Neue Zuercher Bank, a Swiss private bank in Zurich. Schumacher allegedly helped wealthy Americans conceal assets and income in Switzerland from U.S. authorities.

The indictment, said IRS Commissioner Doug Shulman, is "another step in our ongoing effort to pursue hidden offshore assets - no matter where they are located."

Indeed, the IRS said a day before in outlining its UBS deal that the Swiss government has agreed to review and process requests for account holders at other banks "to the extent that such a request is based on a pattern of facts and circumstances equivalent to those of the UBS case."

Tax authorities in the U.S. are gathering stories about undeclared accounts at many banks under an IRS program that shelters some tax evaders from the harshest penalties in return for turning themselves in. Scott D. Michel, an attorney at Caplin & Drysdale in Washington, D.C., says his firm is handling disclosures "not just from account holders at UBS or other major Swiss banks, but from a number of well-known, and lesser known, private banks and kantonal banks."

The Caribbean islands and Asia are other sites for such accounts, he adds.

The IRS is "well aware of the many banks other than UBS that held accounts for U.S. taxpayers," says Bryan Skarlatos, a partner at New York law firm Kostelanetz & Fink.

Robert E. McKenzie, a partner in the Chicago law firm of Arnstein & Lehr LLP and the author of several books on the IRS and the U.S. Tax Court, says he has helped clients report accounts at several smaller banks in the German, French and Italian cantons of Switzerland.

By now, the IRS is likely to have a "pretty thorough list of Swiss banks with American depositors," as a result of all the voluntary disclosures, adds McKenzie.

McKenzie says that Credit Suisse recently told some of his U.S. clients to close Swiss accounts within the next several weeks.

Credit Suisse spokesman David Walker said the bank "strongly believes we have the right compliance standards in place and adhere to all applicable laws." He declined to comment on whether the bank had sent letters instructing accounts to be closed.

IRS Commissioner Doug Shulman declined to say Wednesday if the agency is investigating other banks. However, he acknowledged that the agency is getting many leads from voluntary disclosures. The UBS deal should send a message that it will pursue tax evaders with foreign accounts at other banks, he added.

In the UBS deal, the IRS will submit a treaty request to the Swiss government describing the UBS accounts for which it is requesting information. The Swiss government will then direct UBS to start turning over information on thousands of accounts to the IRS.

A Look at What Will Happen Next in the World Economies

08/20/10

"It is interesting that the Quant funds are not doing that well these days. It would appear that too much money went into quant funds chasing a return the same way that money went into the venture capital funds with that space not able to deliver the returns promised either."

-Aivars Lode

Shrinking 'Quant' Funds Struggle to Revive Boom

By Julie Creswell

They were revered as the brightest minds in finance, the "quants" who could outwit Wall Street with their Ph.D's and superfast computers.

Theodore Aronson, a quant fund manager in Philadelphia, has seen his firm's assets fall by $12 billion since spring 2007.

But after blundering through the financial panic, losing big in 2008 and lagging badly in 2009, these so-called quantitative investment managers no longer look like geniuses, and some investors have fallen out of love with them.

The combined assets of quantitative funds specializing in United States stocks have plunged to $467 billion, from $1.2 trillion in 2007, a 61 percent decline, according to eVestment Alliance, a research firm. That drop reflects both bad investments and withdrawals by clients.

The assets of a broader universe of quant hedge funds have dwindled by about $50 billion. One in four quant hedge funds has closed since 2007, according to Lipper Tass.

"If you go back to early 2008, when Bear Stearns blew up, that's when a lot of quant managers got blown out of the water," said Neil Rue, a managing director with Pension Consulting Alliance in Portland, Ore. "For many, that was the beginning of the end," he added. Wall Street's rocket scientists have been written off before. When the hedge fund Long Term Capital Management nearly collapsed in 1998, for instance, some predicted that quants would never regain their former glory.

But this latest setback is nonetheless a stinging comedown for the wizards of high finance. For a generation, managing a quant fund — and making millions or even billions for yourself — seemed to be the running dream in every math and physics department. String theory experts, computer scientists and nuclear physicists came down from their ivory towers to pursue their fortunes on Wall Street.

Along the way, they turned investment management on its head, even as their critics asserted they deepened market collapses like the panic of 2008.

Granted, Wall Street is not about to pull the plug on its computers. To the contrary. A technological arms race is under way to design financial software that can outwit and out-trade the most sophisticated computer systems on the planet.

But the decline of quant fund assets nonetheless runs against what has been a powerful trend in finance. For a change, flesh-and-blood money managers are doing better than the machines. Much of the money that is flowing out of quant funds is flowing into funds managed by human beings, rather than computers.

Terry Dennison, the United States director of investment consulting at Mercer, which advises pension funds and endowments, said the quants had disappointed many big investors. Despite their high-octane computer models — in fact, because of them — many quant funds failed to protect their investors from losses when the markets came unglued two years ago.

And many managers who jumped into this field during good times plugged similar investment criteria into their models. In other words, the computers were making the same bets, and all won or lost in tandem.

"They were all fishing in the same pond," Mr. Dennison said.

Quant funds are still struggling to explain what went wrong. Some blame personnel changes. Others complain that anxious clients withdrew so much money so quickly that the funds were forced to sell investments at a loss.

Still others say their models simply failed to predict how the markets would react to near-catastrophic, once-in-a-lifetime financial events like the credit crisis and the collapse of Lehman Brothers.

"It's funny, but when quants do well, they all call themselves brilliant, but when things don't go well, they whine and call it an anomalous market," said Theodore Aronson, a quant fund manager in Philadelphia whose firm's assets have dropped to $19 billion, from $31 billion in the spring of 2007.

But Mr. Aronson, who has been using quantitative theories to invest since he was at Drexel Burnham Lambert in the 1970's, said investors would eventually return.

"In the good years, the money rolled in, so I can't really complain now about the cash flow going out," Mr. Aronson said. "If somebody can give me proof that this is a horrible way to invest, then I'm going to get out of it and retire."

Still, some of the biggest names in the business are shrinking after years of breakneck growth. During the last 18 months, assets have fallen at quant funds managed by Intech Investment Management, a unit of the mutual fund company Janus; by the giant money management company Blackrock; and by Goldman Sachs Asset Management.

Even quant legends like Jim Simons, the former code cracker who founded Renaissance Technologies, have seen better days.

Mr. Simons was celebrated as the King of the Quants after his in-house fund, Medallion, posted an average return of nearly 39 percent a year, after fees, from 2000 to 2007. It was an astonishing run rivaling some of the greatest feats in investing history.
But since then, investors have pulled money out of two Renaissance funds that Mr. Simons had opened during the quant boom. After losing 16 percent in 2008 and 5 percent in 2009, assets in the larger of the two funds have dropped to about $4 billion from $26 billion in 2007. (That fund is up about 6.8 percent this year, compared with a loss of about 3 percent marketwide.) In an effort to woo back investors, some quants are tweaking their computer models. Others are reworking them altogether.

“I think it’s dangerous right now because a lot of quants are working on what I call regime-change models,” or strategies that can shift suddenly with the underlying currents in the market, said Margaret Stumpp, the chief investment officer at Quantitative Management Associates in Newark. The firm has $66 billion in assets under management, and its oldest large-cap fund has had only two down years — 2001 and 2009 — since opening in 1997.

“It’s tantamount to throwing out the baby with the bathwater if you engage in wholesale changes to your approach,” Ms. Stumpp said.

But many quants, particularly late arrivals, are hunting for something, anything that will give them a new edge. Those who fail again may not survive this shakeout.

“What we’re seeing is that not all quants are created equal,” said Maggie Ralbovsky, a managing director with Wilshire Associates, which gives investment advice to pension funds and endowments.

A Doctor's Plan for Legal Industry Reform

09/04/09

“Reading the next article you will wonder; how is this relevant to where the economy is going? Coming from Aussie we just don't sue people like they do here in the States. I have met many doctors, and they are so risk averse because of the cost of insurance and being sued etc. The whole area of what they call TORT law adds tremendous costs not only in hard cash payouts, but also in reducing the creativity of individuals because of the threat of being sued. What do you think of the suggestions that the doctor makes?”

– Aivars Lode

By RICHARD B. RAFAL

Since we are moving toward socialism with ObamaCare, the time has come to do the same with other professions—especially lawyers. Physician committees can decide whether lawyers are necessary in any given situation.

At a town-hall meeting in Portsmouth, N.H., last month, our uninformed lawyer in chief suggested that we physicians would rather chop off a foot than manage diabetes since we would make more money doing surgery. Then President Obama compounded his attack by claiming a doctor's reimbursement is between "$30,000" and "$50,000" for such amputations! (Actually, such surgery costs only about $1,500.)

Physicians have never been so insulted. Because of these affronts, I will gladly volunteer for the important duty of controlling and regulating lawyers. Since most of what lawyers do is repetitive boilerplate or pushing paper, physicians would have no problem dictating what is appropriate for attorneys. We physicians know much more about legal practice than lawyers do about medicine.

Following are highlights of a proposed bill authorizing the dismantling of the current framework of law practice and instituting socialized legal care:

•Contingency fees will be discouraged, and eventually outlawed, over a five-year period. This will put legal rewards back into the pockets of the deserving—the public and the aggrieved parties. Slick lawyers taking their "cut" smacks of a bookie operation. Attorneys will be permitted to keep up to 3% in contingency cases, the remainder going into a pool for poor people.

•Legal "DRGs." Each potential legal situation will be assigned a relative value, and charges limited to this amount. Program participation and acceptance of this amount is mandatory, regardless of the number of hours spent on the matter. Government schedules of flat fees for each service, analogous to medicine's Diagnosis Related Groups (DRGs), will be issued. For example, any divorce will have a set fee of, say, $1,000, regardless of its simplicity or complexity. This will eliminate shady hourly billing. Niggling fees such as $2 per page photocopied or faxed would disappear. Who else nickels-and-dimes you while at the same time charging hundreds of dollars per hour? I'm surprised lawyers don't tack shipping and handling onto their bills.

•Legal "death panels." Over 75? You will not be entitled to legal care for any matter. Why waste money on those who are only going to die soon? We can decrease utilization, save money and unclog the courts simultaneously. Grandma, you're on your own.

•Ration legal care. One may need to wait months to consult an attorney. Despite a perceived legal need, physician review panels or government bureaucrats may deem advice unnecessary. Possibly one may not get representation before court dates or deadlines. But that' s tough: What do you want for "free"?

•Physician controlled legal review. This is potentially the most exciting reform, with doctors leading committees for determining the necessity of all legal procedures and the fairness of attorney fees. What a wonderful way for doctors to get even with the sharks attempting to eviscerate the practice of medicine.

•Discourage/eliminate specialization. Legal specialists with extra training and experience charge more money, contributing to increased costs of legal care, making it unaffordable for many. This reform will guarantee a selection of mediocre, unmotivated attorneys but should help slow rising legal costs. Big shot under indictment? Classified National Archives documents down your pants? Sitting president defending against impeachment? Have FBI agents found $90,000 in your freezer? Too bad. Under reform you too may have to go to the government legal shop for advice.

•Electronic legal records. We should enter the digital age and computerize and centralize legal records nationwide. All files must be in a standard, preferably inconvenient, format and must be available to government agencies. A single database of judgments, court records, client files, etc. will decrease legal expenses. Anyone with Internet access will be able to search the database, eliminating unjustifiable fees charged by law firms for supposedly proprietary information, while fostering transparency. It will enable consumers to dump their clunker attorneys and transfer records easily.

•Ban legal advertisements. Catchy phone numbers such as 1-800-LAWYERS would be seized by the government and repurposed for reporting unscrupulous attorneys.

•New government oversight. Government overhead to manage the legal system will include a cabinet secretary, commissioners, ombudsmen, auditors, assistants, czars and departments.

•Collect data about the supply of and demand for attorneys. Create a commission to study the diversity and geographic distribution of attorneys, with power to stipulate and enforce corrective actions to right imbalances. The more bureaucracy the better. One can never have too many eyes watching these sleazy sneaks.

•Lawyer Reduction Act (H.R. -3200). A self-explanatory bill that not only decreases the number of law students, but also arbitrarily removes 3,200 attorneys from practice each year. Textbook addition by subtraction.

Enthusiastically embracing the above legal changes can serve as a "teachable moment" and will go a long way toward giving the lawyers who run Congress a taste of their own medicine.

—Dr. Rafal is a radiologist in New York City.

Fontainebleau Miami Beach May Face Default Declaration

09/08/09

"How many of you old dudes remember Gomer Pyle USMC? Let me remind you; he was a bumbling seaman whose standard line was 'SURPRISE SURPRISE,' when it should have been obvious to anybody and not a surprise.

In the 80's in Aussie, the Japanese were throwing money into Aussie like you cannot imagine, and we have seen how everyone put money into the US over the last 10 years.

The National Australia Bank (NAB) owned 50% of all of the pubs (bars) in Australia, and when credit tightened, many people could not afford the repayments- sound familiar? The NAB ended up owning all the pubs. Who benefited? Those that bought the pubs from the banks. Who Lost? The Initial investors!

As for the Japanese, a friend of mine bought a golf course just near the Great Barrier Reef that the Japanese built at a cost of $250 million for $9 million. At $9 million the numbers worked.

It is fascinating to watch history repeat itself. The Wall Street Journal reported that the Fontainebleau Miami Beach may face a default judgment because of unpaid contractor claims."

-Aivars Lode

BY DOUGLAS HANKS

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The Fontainebleau Miami Beach is vulnerable to a declaration of default by its lenders, partly because of about $60 million in unpaid contractor claims, the Wall Street Journal reported Friday.

Citing unnamed sources, the paper reported that a 45-day agreement by lenders not to declare default on $670 million in construction debt expired Aug. 31. The Fontainebleau allegedly violated the terms of its loan, in part, because it didn't maintain appropriate reserves to cover the $60 million in construction liens on the oceanfront property, the paper said. The hotel's owners are contesting the debts in court.

In a statement to the Journal, the Fontainebleau said it has not missed a loan payment and is ``engaged in constructive negotiations with our lenders." Violating the terms of a loan while still making payments is considered a ``technical default," generally the lowest level of debt troubles.

Fontainebleau executives did not respond to interview requests Friday. But in a statement to The Miami Herald, Howard Karawan, COO of Fontainebleau Resorts said: ``Fontainebleau Miami is a world class resort and our performance is among the strongest in the area. While this tough economy has created challenges that we are actively addressing with our lenders, Fontainebleau Miami will continue to provide an outstanding experience to its guests for many years to come."

The potential trouble with the Fontainebleau Miami Beach comes as the hotel's primary owner, Jeffrey Soffer, grapples with bankruptcy proceedings for the Fontainebleau Las Vegas.

While both are run by Soffer's Fontainebleau Resorts, the projects are separate corporate entities. The Fontainebleau Miami Beach has not filed for bankruptcy protection and has not played a role in the Las Vegas bankruptcy case.

The Las Vegas property is now an idle construction site after lenders cut off funding to finish what was intended as the sister property of the Fontainebleau Miami Beach. Soffer bought the Miami Beach property in 2005.

The purchase marked a milestone for Jeffrey Soffer, the son of Donald Soffer, who earned legendary status in South Florida's real estate industry in the late 1960's when he developed Aventura out of swampland north of Miami.

In recent months, the Fontainebleau Miami Beach has enjoyed a surge of cash as buyers closed on condominium units in the second of two condo-hotel towers at the resort. But the hotel has been hammered by a nationwide pullback in meetings and business conferences, particularly in resort areas like Miami Beach.

Though rates for its hotel rooms are down, Fontainebleau executives say they're beating forecasts, doing better than competitors and renting most of the resort's beds each week.

Last year, Soffer sold half of the resort and its debt for $375 million to Nakheel Hotels, the investment arm of the Dubai government.

But a source familiar with the deal told The Miami Herald that Nakheel agreed to buy a completed project; overruns and the debt tied to the extra bills were to be the responsibility of the Soffer side of the partnership. Of the $375 million that Nakheel paid, Soffer shifted $200 million to pay for cost overruns at the Vegas Fontainebleau project.

The Journal reported that lenders, led by Bank of America, are withholding a final $26 million on the $670 million construction loan until the Fontainebleau Miami Beach resolves the problems with contractors.

A Miami judge has scheduled a hearing Wednesday for the Vegas Fontainebleau project. Scott Baena, the Bilzin & Sumberg lawyer representing Fontainebleau Las Vegas, said in a motion filed Tuesday that Soffer's team and the lenders have not yet reached a deal that would allow Fontainebleau Vegas to continue spending cash during the costly Chapter 11 bankruptcy proceedings.

Texting and Driving to be Banned in FL

11/24/09

"Interesting after the 90's crash of the stock market in Aussie they banned the use of cell phones whilst driving! So what, you say? Just another data point of the similarity of what happened in Aussie in the 90's and what is happening here in the USA now. "
-Aivars Lode

Florida leaders push ban on texting while driving
By Steve Bousquet, Times/Herald Tallahassee Bureau

TALLAHASSEE — Gov. Charlie Crist and the state's top highway safety appointee endorsed a ban on texting while driving Tuesday, adding new momentum to an idea that has never taken hold in the Legislature.

At a Cabinet meeting, Crist politely prodded Julie Jones, the executive director of the Department of Highway Safety and Motor Vehicles, to support a texting ban. "It's important that we do everything we can to make sure that our fellow Floridians are safe," Crist said. "The obvious danger of it (texting while driving) is absurd." "We support limiting texting and driving," Jones told Crist and the Cabinet after he asked her to add the issue to the agency's 2010 legislative wish list.

Jones later told reporters that she senses a shift in public opinion in support of a crackdown on texting while driving as a result of a number of fatal accidents caused by texting behind the wheel.

More than a dozen bills on the issue have been filed for consideration in the spring 2010 session. Similar measures have rarely gotten even a committee hearing in past years. Sen. Carey Baker, R-Eustis, a candidate for agriculture commissioner, has filed two bills to ban texting while driving.
"I think this year, something's going to pass," Baker said.
Fourteen states and the District of Columbia already ban texting while driving.

Sharp Corporation Integrating Supply Chain

12/06/09

"Interesting article all about reducing cost ultimately to reduce prices or deliver higher margins which could result in a higher dividend. Fosters (in Aussie) was doing this when I was with Oracle in the late 90's."
– Aivars Lode

Sharp's New Plant Reinvents Japan Manufacturing Model

By DAISUKE WAKABAYASHI

OSAKA—Sharp Corp.'s new production complex in western Japan is massive by any measure: It cost $11 billion to build and covers enough land to occupy 32 baseball stadiums. But it carries a meaning as large as its physical size. It's a litmus test for the future of Japanese high-tech manufacturing.

The facility, considered the most expensive manufacturing site ever built in Japan, started churning out liquid-crystal display panels last month, and Sharp's new flagship televisions featuring the energy-efficient LCD panels go on sale in the U.S. next month. Sharp moved forward the factory's planned opening by six months, saying the new plant would help it be more competitive.

Sharp's new facility in Sakai city is considered the most expensive manufacturing site ever built in Japan.

"When you look to the next 10 or 20 years, the existing industrial model doesn't have a future," Toshihige Hamano, Sharp's executive vice president in charge of the Sakai facility, said in an interview. "We had to change the very concept of how to run a factory."

Located in Sakai city along Osaka prefecture's waterfront, the complex represents Japanese industry's biggest gamble in LCD panels to remain competitive with rivals from South Korea, Taiwan, and China.

The factory's size accommodates two main factors. One is the size of the glass used to make the LCDs. Sharp is using the industry's biggest, or "10th generation," sheets, which allow the company to produce 18 40-inch LCD panels from a single substrate—more than double the eight 40-inch panels per sheet it uses at its other LCD television panel-making factory.

The other factor: Sharp has decided to try and cut costs by moving suppliers on site, a kind of hyper-"just-in-time" delivery system.

The plant currently employs 2,000 people—roughly half from Sharp and half from its suppliers—although the work force will ultimately reach 5,000 as it adds production of solar panels as well.

It remains to be seen whether it makes sense for Sharp to keep seeking ever more-sophisticated production in Japan, or, as competitors have, to simply use less advanced production techniques at lower costs in places like China.

CLSA research analyst Atul Goyal warned in a report last month that the company is making a mistake by "chasing technology" with the new factory.

In the past, such efforts by Japanese electronics makers have resulted in costly capital investments, only to be confronted with limited appetite for cutting-edge technology and then eventually outflanked by a cheaper alternative.

Even Sharp's Mr. Hamano acknowledged that the company only gave the green light to proceed during a boom period for LCD-panel demand, and that a similar choice might not be made in today's market.

Rival Samsung Electronics Co. has said it is looking into building a new LCD-panel factory using even bigger glass sheets than Sharp, while LG Display Co. has said it plans to build a new factory in China using current glass size.

Sharp announced the Sakai project two years ago when LCD demand was surging and the company had produced five straight years of record profit. When consumer spending ground to a halt in late 2008, Sharp didn't cut costs and curb production quickly enough. Saddled with excess inventory, Sharp posted the first annual loss in nearly 60 years in the fiscal year ended March 31, 2009.

The experience taught Sharp a painful lesson that its supply chain needed to be leaner and its production more efficient, especially if the factory was going to be in Japan, where the strong yen and expensive labor force put the company at a disadvantage to its Asian competitors.

Sharp aims to streamline the costly LCD-panel production process by moving 17 outside suppliers and service providers inside its factory walls to work as "one virtual company." In the past, Sharp kept suppliers within driving distance. Now they are all within the same facility. Supplies are sent not by truck from a nearby factory but by automated trolleys snaking from one building to another.

The suppliers, which include Asahi Glass Co. and Dai Nippon Printing Co., built and paid for their own facilities and are renting the land from Sharp.

Despite their location inside the plant, Sharp says its suppliers are permitted to sell their products to other companies.

At Sakai, Sharp has also linked its computer systems with suppliers so an order to the factory alerts suppliers right away. In the past, Sharp would email or call suppliers and place orders, creating a longer lag time.

Sharp wouldn't disclose how much, if any, cost savings will result from manufacturing LCD panels at Sakai, but analysts estimate a 5% to 10% savings.

Corning Inc. the world's largest maker of LCD glass substrates, built a factory next to Sharp's Sakai plant. Corning says the arrangement reduced total order cycle time from an average of one to two weeks to a matter of hours. Corning also says the proximity reduced the damage risk in transporting massive glass sheets on trucks.

While Sharp is a long-standing customer, Corning said it was concerned initially that building a factory on site would mean that it was "hitching its wagon" to Sharp since it's the only customer for such large glass substrates. Ultimately, Corning decided to proceed based on its faith in Sharp's Sakai plans.

"There's nothing like it anywhere," said James Clappin, president of Corning Display Technologies.

Write to Daisuke Wakabayashi at Daisuke.Wakabayashi@wsj.com

Hotels Moving into Foreclosure- Where Have We Seen This Before?

12/10/09

"I know it becomes repetitive. In '91 we bought our first hotel in Aussie out of foreclosure at a heavily discounted price. So what, you ask? The hotel was run as a business generating cash flow repaying debt and making dividend payments to shareholders and ultimately sold for a handsome profit as a real estate play 10 years later."

-Aivars Lode

Gansevoort South hotel goes from buzz to bust. Once the haunt of celebrities, Miami Beach's Gansevoort South hotel will soon be sold at auction, a victim of foreclosure.

BY DOUGLAS HANKS
dhanks@MiamiHerald.com

Good buzz was no match for bad debt at the Gansevoort South, a Miami Beach hotel popular with stars now destined to be sold at a foreclosure auction.

Credit Suisse announced Wednesday morning an auction for the ownership stake used to secure an $89 million mezzanine loan on the 334-room oceanfront hotel, a favorite stop for celebrities hitting the party circuit. Developers William and Michael Achenbaum secured the financing for the project at the height of South Florida's real estate boom, only to see their plans for the former Roney Palace roiled by the collapse of the condo market.

Sales were dismal for condos in an adjoining residential tower and in 2008, the Achenbaums halted plans to convert about a third of the hotel rooms into condo-hotel units. That left the father-and-son team to rely on hotel revenue to make debt payments on their construction debt, a task made even harder by what experts describe as the worst lodging downturn in a generation.

Despite its troubled debt, the Gansevoort, located at 2377 Collins Ave., enjoys as much buzz as any of South Beach's most high-profile hotels. It was a frequent backdrop in the Bravo reality show Miami Social. A popular online video captured Michael Phelps racing retired NFL star Warren Sapp in the Gansevoort's rooftop pool -- the Olympic champion gave Sapp a half-pool head start and still won -- and rapper Ludacris picked the Gansevoort as one of two spots to promote his new cognac, Conjure. The New York Times last weekend called the hotel South Beach's ``of-the-moment spot.''

The hotel remains open and under the control of the Achenbaums' Gansevoort Hotel Group. ``Operations at Gansevoort South hotel remain status quo,'' Michael Achenbaum said in a statement released Wednesday afternoon.

The Hotel Gansevoort, the Achenbaum hotel in Manhattan's Meatpacking District targeting the same affluent and hip traveler, is not involved in the foreclosure action.

He said he and his father hoped to buy back the loan at the auction and retain ownership. He blamed the financial woes on the condo component of the property and not the hotel, which the statement said is ``financially profitable and capable of covering its respective debt.''

Long a mid-priced convention hotel on Miami Beach, the Roney Palace and the adjoining Roney condo complex filed for bankruptcy in 2004. Chicago developer Joseph Chetrit paid about $150 million for the property months after the Chapter 11 filing, then sold his company's interest to the Achenbaums after a failed joint venture between the two groups.

Because the $89 million loan was backed by the Achenbaum ownership stake -- and not the Gansevoort property itself -- the Jan. 28 auction announced Wednesday does not constitute a traditional foreclosure proceeding. Known as a ``UCC auction,'' the sale is conducted under laws governing loans with equity stakes as collateral.

The winning bid would take control of the company that owns the hotel, but also assume a big liability: a $314 million mortgage on the real estate itself, according to documents posted online by Credit Suisse's agent in the sale, Jones Lang LaSalle Hotels.

TIP OF THE SPEAR?

The Gansevoort could be the leading edge of what analysts predict will be a wave of banks seizing hotels throughout South Florida next year.

With defaults rising on hotel loans, lenders are under pressure to foreclose on the properties and clean up their balance sheets. And with room revenues predicted to drop again in 2010 throughout South Florida, those owners reaching into their pockets to make hotel loan payments say they're not willing to fund losses indefinitely.

Cities Start to Look at Mergers to Reduce Costs, Same as Aussie in the 90's

12/28/09

As Slump Hits Home, Cities Downsize Their Ambitions
By CONOR DOUGHERTY

MESA, Ariz. -- The police department in this city of 470,000 has lost about 50 officers, and is hiring lower-paid civilians to do investigative work. The Little League has to pay the city $15 an hour to turn on ball-field lights. The library now closes its main location on Sundays, and city offices are open only four days a week. This holiday season, the city didn't put up festive lights along the downtown streets.

Mesa's tax receipts, depressed by the recession, will likely come back one of these days. But Mayor Scott Smith doesn't believe city services will return to prerecession levels for a long time, if ever. "We are redefining what cities are going to be," says Mr. Smith, a Republican who ran a homebuilding company before his election last year.

Civilian investigator Rachell Tucker looks for fingerprints on a piece of glass as she investigates a vehicle robbery in Mesa, Ariz., earlier this month.

The redefinition isn't sitting well with residents like Sandra West, 67 years old, who has lived in Mesa for more than four decades. She's noticed the city's parks looking a bit ragged, is unhappy the library has cut back hours and misses the Christmas lights. "It was really beautiful," she says.

Months after many economists declared the recession over, cities are only now beginning to feel the full brunt of it. Recessions often take longer to trickle down to local government, in part because it takes time for the sales and property-tax revenues on which municipalities depend to catch up with a depressed economy.

But the sting this time around is expected to be far more acute and long-lasting than in previous recessions. Projected deficits are especially deep in some places and tax revenues could be pinched for years as consumers turn thrifty and real-estate prices remain diminished. That means the relatively painless measures such as borrowing; deferred payments to pension plans and scattered layoffs that have been used during past episodes of fiscal strain are unlikely to be effective in some cities.

In the decade through 2008, municipal tax revenues grew at a rate of 6.5% a year, faster than the overall economy's 5.1%, unadjusted for inflation. Those revenues have started to slip. A national tally isn't yet available, but state tax collections fell 11% across 44 states in the third quarter of 2009, from the same period a year ago, according to a report by the Nelson A. Rockefeller Institute of Government at the State University of New York. In a recent survey by the National League of Cities, 88% of city budget officers said they were less able to meet their financial needs than they were a year ago.

The specter of lean budgets for years ahead has some of the nation's 89,000 local governments rethinking what services to provide and how to pay for them. From Mesa to Philadelphia, this means some combination of higher taxes and fewer services. In some places, it means more and higher fees for permits and recreation programs. Museums, pools and the like are relying more on income from fees charged to users and from nonprofit organizations, and less on taxpayers.

These cuts matter greatly to the economy at large. Local government spending accounts for 8.8% of the nation's total output, including everything from employee salaries to snowplows. The sector employs one in nine workers -- 14.5 million in all, or about 8 million in education and 6.5 million elsewhere. More Americans work for cities, counties and school boards than in all of manufacturing.

More likely to be union members, government workers tend to be better paid and have greater job security than many of the taxpayers who pay their salaries. Benefits are often better, too. Virtually all full-time state and local workers have access to retirement benefits; in the private sector, about 76% of full-time employees had retirement benefits. Employment in local government peaked in August 2008 and has fallen by 117,000 since then, or less than 1%, compared with a 6.3% fall in private employment from its December 2007 peak.

Mesa's Mayor on Governing in Recession
About one third of the federal $787 billion fiscal stimulus was aimed at state and local government. The money has helped some local governments keep police and school teachers on the job, and has gone toward building new firehouses and police stations. Another stimulus program subsidizes municipal borrowing by paying 35% of local government's interest cost of borrowing for infrastructure.

But some cities have complained that too much of the stimulus was absorbed at the state level. President Barack Obama is promising to do more, calling in a recent speech for more "relief to states and localities to prevent layoffs."

Just as the recession has spurred businesses towards more efficiency, it has forced some cities to do the same. In upstate New York, for instance, the Village of Lake George and the neighboring town of Lake George are debating a consolidation plan that would create one government from two sets of lawmakers, two planning boards and two zoning commissions.

The move would save about $350,000 a year, or about 10% of the combined town and village budgets, according to Fairweather Consulting, which was hired to study the proposal. But some locals say the two places might sound alike on paper, but in reality are very different: Residents of the quaint village, which thrives on tourism, worry services could decline, while residents of the town, whose primary commercial center is a highway-adjacent strip with a Howard Johnson, worry that taxes will rise.

"It's the unforeseen," says Robert Blais, mayor of the Village of Lake George. "They know what they've got and they're happy with it."

In Philadelphia, where sales and corporate taxes have taken a hit, budget cuts are limited by the large fixed costs of city workers' pension and benefits plans. About one fifth of the city's $3.7 billion budget goes for health-care and pension costs for current and retired workers. The city's overall tax revenue has fallen 6% over the past two years, while pension costs have risen 6% and health-care costs 11%. Philadelphia Mayor Michael Nutter, a Democrat, is pushing union employees to pay more of their health costs and is looking to move new employees to a less generous pension plan.

The city has cut about 800 positions in the past year, mostly through attrition, and suspended some services citizens used to take for granted. It has stopped providing snow removal on some smaller, one-way streets, except in emergencies, and it suspended mechanical leaf pick-up in some spots. This fall and early winter, older, tree-lined neighborhoods like Mt. Airy and Chestnut Hill were littered with rotting leaves.

"Intellectually, I understand budget cuts need to be made but I do not think this was thought through," says Liz Macoretta, who lives in the West Mt. Airy neighborhood. "You're going to have half the street full of leaves and then you're going to have one-way traffic. I feel let down."

Anyone who wants to have a parade in Philadelphia now has to pick up the tab. The city's Mummers Parade, where 10,000 or so string bands and other performers don bright costumes and march up Broad Street on New Year's Day, won't receive the $336,000 in prize money that used to go to the best string band and other parade participants. The last time that happened was during the Great Depression.

"You used to get ten grand and a trophy, now you just get a trophy," says George Badey, chairman of SavetheMummers.com Fund, a nonprofit that helps fund the parade. The Mummers also had to pay $8,800 for security, clean up and other services, all of which the city used to provide free.

Mesa was founded in the 19th century by Mormon pioneers who built a grid of wide streets to accommodate settlers' wagons. It's been growing ever since, from a quiet

Phoenix suburb to the nation's 38th most populous city. More people might have heard of Minneapolis or Miami, but Mesa has more people than either. The stretch marks of growth are everywhere, from new freeway lanes under construction to miles of red roofed subdivisions with curvy streets.

The city's revenues come largely from state aid and sales taxes, both of which have been hit hard by the recession. As a result, Mesa has spent the past year slashing services it spent decades adding, stripping 13% out of its general fund budget and cutting 340 positions through layoffs and attrition. Mesa's voters also approved a property tax this year, something that the city's generally conservative citizens had long resisted.

Mesa's police force now has 801 sworn officers, down from 858 last year. To keep the force just as visible on the streets, some detectives have been reassigned to patrol duty, leaving bigger case loads for the rest of the detectives.

The cuts have spawned new ideas. A nine-person investigative unit, based out of a Mesa substation on the eastern edge of town, consists of civilians, not sworn officers. Investigators make about $37,000 per year, versus $49,000 for officers, and carry out basic investigations for minor nonviolent crimes. They travel in unmarked white cars, don't carry guns and wear "business attire" -- usually a pressed shirt and pants – instead of the blue uniforms sworn officers wear.

The team goes through 18 weeks of training, 20 weeks less than police officers do. Many of the classes are the same, but the course leaves out things like aggressive driving and time at the firing range. They come from a variety of backgrounds: One had been a police officer; a few had civilian desk jobs for the Mesa police department, while several others worked in retail stores including Costco and Barnes & Noble.

Sgt. Stephanie Derivan, who oversees the program, says hiring civilians reduces costs while improving services. It gives police officers more time to patrol the streets, she says, and the specialized investigators never have to hurry through a crime scene to get to a break-in in progress or chase down robbers. "My folks have the time to spend with people," says Sgt. Derivan.

On a recent afternoon, civilian investigator Rachell Tucker was sent to check out a burglary at a Mesa trailer park. Ms. Tucker was an officer in the Los Angeles School Police Department eight years ago, where she patrolled public school buildings, before taking time off to have kids. At the trailer park, she dusted a window screen for fingerprints and asked neighbors if they'd seen anything suspicious. Becky Cumberland says she didn't notice that Ms. Tucker wasn't a police officer. "As long as she does what a police officer can do, that works for me," said Mrs. Cumberland as she sat on her back porch, sipping a Coke while writing down everything that had been stolen from her trailer, including an Xbox video game console and her son's birthday money.

Cuts in the parks department are easier to see. Michael Holste, Mesa's assistant director of recreation operations, pointed to the department's new brochure, which lists an after-school recreation program with kickball and other games with the word "cancelled" overlaid in bold letters.

In one Mesa park, a green-and-yellow jungle gym is surrounded by dirt because the city couldn't afford sprinklers. At Powell Junior High School, which itself might be closed due to tight budgets, swimming classes are cancelled; the pool has been closed all year and isn't likely to reopen.

It's far from certain the city will resume funding parks at the same level, even when tax revenues return. Cuts in the recreation department eliminated a city-funded programmer who organized disabled sports programs such as wheelchair basketball and flag football games for people with disabilities including autism and Down syndrome. Mesa Association of Sports for the Disabled, a local nonprofit, has hired its own coordinator at a lower salary and fewer benefits. Lane Jeppesen, the group's executive director, says the new arrangement may be permanent. "I don't think the city will come back with another full-time position for a very long time because we've picked up the slack," she says.

All the cutting has put Mesa in a financial position stronger than that of many cities. Expenses are now in line with revenues. Standard & Poor's rates the city's debt AA and calls Mesa's financial management "strong, well embedded and likely sustainable."

And despite tight budgets, the remaining city workers are striving to add at least some services for the city's still-growing population. At a city council study session on a recent morning, library director Heather Wolf presented her idea for a new "express" library to open in 2010. "There is a need out there for library service and this is one way to fill the gap," says Ms. Wolf.

It wouldn't look much like Mesa's main branch, though, which sits downtown and is adorned with a plaque commemorating the library's 1980 dedication. Because of the shoestring budget, the new library would be housed in a mostly vacant strip mall, with two employees and open just three days a week. On days when the library is closed, the collection of mostly popular titles such as self-help books and airport fiction would be dispensed via vending machines similar to the DVD rental kiosks that sit in front of convenience stores in Mesa and many other U.S. cities.

Write to Conor Dougherty at conor.dougherty@wsj.com

People Now Want to Lead a Richer Life, Rather Than a Life of Riches

02/13/10

"The content of the following article was Australian dinner conversation in the 90's. Back then there was a movement away from luxury items and towards experiences. There was an explosion of restaurants at every level and tourism expanded as individuals sought to have a richer life. In parallel, corporations started to focus on paying consistent dividends in order to provide certainty to fund these experiences."
- Aivars Lode

BMW Touts 'Joy,' Value in New Ads

By ALEX P. KELLOGG

With Americans tightening their belts, BMW AG is parking "the ultimate driving machine" in the garage, at least for a while.

The automaker for years has promoted the power and performance of its cars using that slogan, one of the longest-running and most well-known in the auto industry.

But now the company is switching gears. On Friday, it was launching an advertising campaign that focuses on the joy the company says comes from owning its vehicles and suggests BMWs are safe for mothers and children. One print ad uses the tagline "Joy is Maternal"—a departure from past promotions that touted horsepower, handling and acceleration.

In another big change, the campaign features photos of real BMW owners more than shots of its vehicles. In the past, images of BMW vehicles dominated its ads. People—and even celebrity pitchmen—were shunned to keep the focus on the car. The new "Joy" campaign "is a big departure for us," said Jack Pitney, vice president of marketing for BMW North America. "We hope to really add some humanity to our brand" and show the diversity of its buyers, he said.

BMW declined to say how much it is spending on the campaign; it said it is the most expensive brand-wide campaign ever in North America for the German automaker.

The shift in BMW advertising illustrates how makers of luxury autos are trying to alter their messages to fit the mood of America as the country pulls out of the worst economic downturn since the Great Depression.

Companies in many industries have found that consumers have turned away from the free spending of the late 1990's and earlier this decade. The new appreciation for frugality and values means companies like BMW have to find new ways of persuading people to pay $30,000, or much more, for a car.

Associated Press
BMW, with its 'Joy' campaign, is adjusting its advertising message.
Others already have started down this path. In January, Acura, the upscale brand owned by Honda Motor Co., began airing an ad called "White Room," which shows just the frame of an MDX sport-utility vehicle crashing into a wall. The ad aims to demonstrate the vehicle's top-rated crash-safety ratings. Several years ago, the MDX was advertised smoothly taking curves on an empty highway.

"Now it's down to the bare-bones message," said Steven Center, vice president of national marketing for Acura in North America. "What you're getting is less art, less esoteric and more blunt messages" about the added value under the hood of a luxury vehicle, he said.

Recent commercials by Daimler AG's Mercedes-Benz have highlighted its vehicles' safety features, crash-test results and strong resale values. At the end, a voice-over says, "The question isn't whether you can afford to drive a Mercedes-Benz, but whether you can afford not to."

Steve Cannon, vice president of marketing for Mercedes in the U.S., said the idea is to point out the "value beneath the skin."

BMW's new campaign is set to launch during the opening of the winter Olympics in Vancouver, British Columbia, and is the first major ad push in the U.S. for BMW in four years.

The "ultimate driving machine" slogan still appears in the ads, but only in small print. Many of the ads also suggest cars aren't what BMW is offering. In one called "Joy is BMW," the text reads: "At BMW we don't make cars. We make joy."

Madelyn Hochstein, president of DYG, a market-research firm that works with BMW and whose research helped shape the new campaign, said the reasons to buy premium vehicles have changed in the current economic climate. "People now want to lead a richer life, rather than a life of riches," she said.

In coming months, BMW's ad campaign will evolve into a value message. It will emphasize the quality of the engineering, vehicle safety, the company's four-year or 50,000-mile free service package and the fuel economy of its diesels and hybrids.

Its latest campaign will still include classic elements: One print ad to appear in the March issue of Vanity Fair will show a black-and-white photo of Elvis Presley stepping into a BMW 507. Another shows a boy at a steering wheel with the slogan, "Joy is Youthful." That is a departure from the past. In the 80's, an ad featured a BMW 7 Series sedan arriving at a polo match. "It was all about prestige and status," said Mr. Pitney. "We look at that now and we cringe."

Venture Capital Industry Looks Like It is Dead?

08/26/10

"Interesting article: Pension Funds back in the early 2000's allocated a percentage of their funds to VC and Quant funds. Both areas of investing seem to have too many dollars chasing outsize returns that are not there anymore, thus creating bubbles."
-Aivars Lode

O'Brien: Grim numbers point to the end of the venture capital era
By Chris O'Brien, Mercury News Columnist

Silicon Valley has passed an important milestone that may mark the end of one era and the beginning of another.

This dividing line in history was revealed this summer in the latest report from the

National Venture Capital Association, which showed that 10-year returns on venture capital investments had turned negative at the end of 2009, and nose-dived during the first quarter of 2010. Let me translate what might sound like some insider mumbo jumbo: Venture capital investing, the lifeblood of the valley's innovation economy, has become a sucker's bet.

In the game of venture capital, the 10-year return on investments is one of the most closely watched benchmarks of performance. Everyone can have a bad year here or there. And in the short run, there's always going to be sluggishness from an economic downturn or two. But none of those excuses can explain away a whole decade of failure.

No, there's something bigger going on. The venture industry is in free fall. And that has big implications for the Silicon Valley economy, especially when it comes to job creation.

"It's harder to get venture money," said Mark Heesen, president of the NVCA. "That leads to fewer innovative companies being formed."

Until now, venture capitalists have occupied sacred ground in Silicon Valley. They grow startups by providing advice and precious financing. But that influence is waning.

According to the most recent NVCA numbers, venture capital funds returned 25.8 percent over 10 years for the quarter ending March 2009. For the quarter ending March 2010, that return had fallen to minus 3.9 percent. That spectacular dip is due to the outsize gains of the dot-com boom finally washing out of the official 10-year benchmark.

But the larger problems plaguing the venture industry are really about how the world has changed since the dot-com bust. The venture industry's financial model was built on having a significant number of their portfolio companies hold initial public offerings of stock. Venture firms depend on windfalls from these IPOs to overcome failed investments and to deliver healthy returns to investors. But except for a couple of years, the IPO market has been comatose this past decade.

Venture capitalists were hoping against hope that this year might finally be the year that the IPO made a comeback. But once again, that hasn't happened. According to Renaissance Capital, the Bay Area has had nine venture-backed companies go public this year, up from two last year. The most notable of those was Tesla Motors, the electric carmaker that represents the highest of high-risk bets.

What little momentum these IPOs generated has been offset by companies like Solyndra, a cleantech success story that filed and then withdrew its IPO plans. And worse for venture capital firms, companies that might provide a true home-run IPO, such as Facebook, LinkedIn and Zynga, have been doing everything in their power to avoid an IPO. These companies say they don't need the money enough to give up the control that comes with being a public company.

How gloomy is this picture for venture capital firms? According to an NVCA survey, 90 percent of venture capitalists who responded expect their industry to contract through 2015.

That trend is well under way. While firms have not started collapsing en masse, they have been quietly shrinking. The number of principals at U.S. venture firms fell from 8,892 in 2007 to 6,828 in 2008. As firms raise smaller funds, they need fewer people to invest.

Some will argue that at least in the area of Web startups, companies can be launched on the cheap, and growing numbers of angel investors -- those wealthy individuals who invest at the earliest stages -- are stepping in to give these companies a boost. True, but that kind of funding doesn't work as well for biotechnology, medical devices or cleantech. And these angel-backed companies are small and lean, and don't create large numbers of jobs.

It's not just fewer startups, though. When companies don't go public, they don't generate the same number of jobs in their later stages. Heesen said the cash raised from an IPO usually triggers an explosion in hiring.

"The real job creation starts far down the road, after they go public," Heesen said.

Instead of going public, the companies that do show potential now get gobbled up by the Googles and Facebooks of the world. At the same time, valley giants like Hewlett-Packard, Oracle, Intel and Cisco Systems continue their acquisitions of larger tech companies, a consolidation trend that more often than not is accompanied by big job cuts.

So we're seeing fewer startups and sweeping consolidation. Tie those trends together, and you've got a drag on job creation that could weigh down the valley for years to come.

With venture capital in retreat, we must look elsewhere for a new model for startup funding to kick-start the valley's next era of innovation and the kind of job creation we desperately need.

Oracle Corporation: A Transition Near the Top

09/07/10

"Why this is interesting? It is the strategy that we were implementing at Oracle in Australia in 1999. Most of Australia had already purchased pretty much every piece of software to run their enterprise, and we needed to focus on vertical solutions and on customers rather than technology to add value and retain the customers."
-Aivars Lode

Oracle announced the resignation of co-President Charles Phillips and the hiring of new co-President Mark Hurd, who was recently with HP. Mr. Hurd will essentially be assuming the functional roles of Mr. Phillips, with Sales & Marketing and vertically focused business units (vertical applications) reporting to him. Mr. Hurd will also have Support report to him.

Exit Mr. Phillips. We believe Mr. Phillips' tenure at Oracle exceeded the expectations of many observers when he left a sellside analyst job over seven years ago to become an executive at the company. While his intellect and work ethic were never in question, a dearth of operational experience, especially at the level he entered Oracle, caused many to pause. In hindsight, we believe that Mr. Phillips was very influential in streamlining a bloated marketing organization at Oracle, and (along with other senior sales management) also helped to bring a new customer focus to the company. He also was instrumental in a new strategy to focus on vertical applications as new markets unto themselves, but also as a way to further penetrate the horizontal ERP and CRM application spaces, while also helping to boost technology sales. We wish Mr. Phillips well in his future endeavors.

Enter Mr. Hurd. Mr. Hurd's success at first Teradata, then parent NCR, and more recently at technology behemoth Hewlett Packard is legendary, as is his recently, well publicized exit of that latest role. It is our understanding that Mr. Hurd will assume the responsibilities vacated by Mr. Phillips (along with Support oversee), which is not necessarily aligned with our impression of his strengths. We view Mr. Hurd as a very hard-driving proponent of optimizing operational efficiencies. This is a function that we believe has been impressively spearheaded by co-President Safra Catz at Oracle.

Our Assessment. Mr. Hurd is undoubtedly a talent whose efforts would benefit many companies, including Oracle, in our opinion. While the integration and operations of the recently acquired Sun assets appears to be going well, Mr. Hurd's hardware experience can only help and may be exactly what Oracle can use at this time. Oracle's recent push to provide incremental value through the combination of hardware and software into a single product (Exadata) is something he has successfully accomplished at Teradata. As far as any potential conflict with Ms. Catz (given similar strengths), we assume his hiring implies that she approved, and we do not expect this to become an issue beyond healthy banter within the executive ranks.

Furthermore, we do not believe that this transition will materially affect the roles of what we view as the two most important executives at Oracle at this time – Mr. Ellison and Ms. Catz. In addition, our assessment is that Sales operations have largely been run by very able sales management at this time, which mitigates any risk related to this issue. Finally, we view the hiring of Mr. Hurd as opportunistic given recent events at HP, and do not believe this implies any near term succession planning, though it does bring someone into the fold that has a proven record of leading a large technology company.

- North America Equity Research

Part 2

The Dividend Puzzle

Introduction

As I mentioned at the opening of the previous chapter, three broad events occurred beginning in the mid 80's in Australia: 1) a dividend tax at the same rate as capital gains tax was put in place; 2) a financial crisis occurred of the same proportion as what happened here in the United States over the last two years. The conversation in Australia at the time was so depressing that I left and went to Singapore where there was growth. I was left with the impression that Australia was done for and would never recover. Every conversation revolved around how miserable life was, how much money everyone had lost, and the fact that many could not see a way out of the situation (Sound familiar?); 3) growth stopped and a focus on delivering transparent stable earnings began. My mate who was the treasurer of Coles Myer, the sixth largest retailer in the world, went from hoarding cash to paying out dividends and increasing them annually through cost cutting and efficiency drives. We have seen talk of inflation turn to deflation and the expected recovery by consumers has not occurred. This further delays capital investment by companies.

One of the articles cited here lists ten of the top 100 dividend paying companies on the globe based in Australia. Numerous articles talk about the move by corporations to dividends. Why? Many companies are sitting on reserves of cash and shareholders are asking the management and board what they are going to do with the cash. There are not enough investments to be made to use up all the cash. Microsoft and Cisco are announcing higher dividends.

We are already seeing the signs of cost reduction efforts. JetBlue is looking to move to Orlando, Florida in order to reduce taxes and reduce employee cost of living. There will be profound changes in where companies are based due to the move into dividends. All across Florida there are numerous empty condos, houses and offices due to the crazy building that occurred over the last five years, the collapse of the property market, and the foreclosure process that has been depressing property values. Property values have deflated so far that companies and individuals are able to buy property or rent at rates not seen for over a decade and well below replacement costs of equivalent properties. Combine that with no revenue growth, high state taxes and crumbling infrastructure in the many older and more established states versus brand new infrastructure freeways that are underutilized, brand new empty commercial and residential properties, and no state taxes. If you move from Manhattan to Florida, you have an instant 20 percent pay increase by not having to pay all the state and city taxes along with other hidden costs. Plus, you have better weather so this is really a no-brainer.

Why are companies verticalising? It is so they are able to capture a larger part of the profit pool in order to increase profits by squeezing out distributors and non-value add contributors to the value chain. Ultimately, this returns a greater dividend through increased cash flows as we saw in Australia in the 90's.

<u>**Dividends! Oh I Hear the Words ‘Go West to Dividends’**</u>

03/02/09

“When will companies stop hoarding cash and start paying dividends? In Australia in the early 90's it took two years after the financial crash. Companies like Coles Myer, the 6th largest retailer in the world, went from hoarding cash to paying a stable dividend. Looks like those questions are being asked now.”
– Aivars Lode

Apple: What Should It Do With The Cash?

Posted by Eric Savitz

In my print column in Barron’s over the weekend, I took a look at the great gobs of cash piling up on the balance sheets of large technology companies. Among other things, I asked readers to suggest what **Apple** (AAPL) might do with its $28 billion cash pile. So far, at least, the company has shunned the obvious alternatives: it isn’t buying back large blocks of stock, it isn’t paying out in the form of dividends, and it isn’t in the habit of making large acquisitions. They just pile it up. But with short-term returns under 1%, you would think that at some point Apple might want to do something with the ever-increasing pile

The column ended this way:

The most fascinating situation involves Apple, which pays no dividend, doesn’t aggressively buy back stock, and rarely makes acquisitions. Every quarter, its money pile climbs higher. Maybe they’d like a nice bank? (Bank of iMerica?) Or how about a car company? Plug-in hybrid, four-wheel drive iPhones? Who wouldn’t want one of those?

Anyway, quite a few people took me up on the offer; I’ve excerpted some of the responses below. There are plenty of ideas: Develop new products! Make acquisitions! Keep the pile stacking higher! Or pay it out!

Readers suggest:

- “AAPL should announce that starting in Fiscal 2009 all net profits will be paid out to shareholders in the form of an annual cash dividend. In 2009 this should be approximately $5.50/share (free cash flow is actually noticeably higher due to conservative revenue recognition on iPhones). At the current stock price ($90) this would equate to a 6% yield. I believe it is quite reasonable to assume that the stock price will rise sharply in response to this shareholder friendly action. If the stock moved up so that the yield moved down toward 4%, a $125 stock price could be expected. This is a no-brainer method to create shareholder value. All the cash-rich tech giants should be following this strategy. Otherwise, balance sheets will continue to grow, and with short-term interest rates unlikely to rise anytime soon, hoarding mountains of cash is just plain poor financial management." - *Carl Goldsmith, Chief Investment Officer, Delta Asset Management*

- "Use it to create an army of Steve Jobs clones." - *Doug Pike*
- "With its history of fiscal responsibility, why not let Apple use its $28 billion cash to help bail out the U.S. Treasury. Oh, wait, that wouldn't be fiscally responsible, would it? - *Bill Schweitzer*
- "Apple should buy Sprint (S). 50 million subs for about 500 a piece." - *Ken Krogulski*
- "Wouldn't Sandisk (SNDK) be a good acquisition for Apple? Many synergies, including their flash memory for iPods and iPhones, and SSDs for their notebooks. Not to mention their little share of the MP3 market." - *Richard Ferrentino*
- "I think a perfect acquisition for Apple would be Electronic Arts (ERTS)." - *Nick*
- "Apple will need a new growth engine after the iPhone growth slows down. They're in the computer, phone and MP3 business, so why not jump into the video game market next? An acquisition of major video game publishers and developers, such as Take-Two Interactive (TTWO), Electronic Arts and another one or two major names could be had for less than $15-$17 billion in total. Apple would own the best IP in the video game industry and instantaneously be able to build its own new console with the best IP in the industry. And think of the synergies for its developers to create games in the iPhone and future iPhones that compete with Nintendo's DS and Sony's PSP." - *James Mansour, George Washington Law, class of 2010*
- "I'm surprised someone like Apple (or even Dell) hasn't snapped up Isilon (ISLN). They sell a clustered storage hardware/software solution that has been popular in large data set environments (media, oil & gas, scientific). To Apple more specifically, it would enhance (create) a storage offering that plays well in the media/entertainment space - where their systems are popular." - *Tom Tierney*
- [Buy] TiVo (TIVO). Best interface. High-end users willing to pay high margins. Good client list that will enable them to cross sell other Apple products to work with the TIVO interface. Sort of a Trojan horse." - *domini66*
- "You nailed it, the iBank. The perfect 'utility bank' would put these old banking dinosaurs out of their misery. Your iPhone or other Apple device would act as your debit/credit and or cash machine card. You direct deposit paychecks to iBank or set up EFT from brokerage accounts to your iBank account. Get better rates on balances (like ING). We'd probably love to get nickel-and-dimed by the iBank for service rather than pay $20 or more a month for the privilege of maintaining a non-interest bearing checking account or $2 per transaction to access our own cash. I've done almost anything to avoid setting foot in a bank over the last 20 years. iBank should be able to do for banking what iTunes did for music. - John M. Coughlin, Jr.
- "My wife and I started a small company, and three years in we are making it. One reason: Apple. Now, people ask us how we run an international consultancy, providing executive coaching and workplace performance seminars to of all clients investment banks, using Apple computers…We found a way. My advice to Apple: seek out every small business with tech needs and answer

their questions. Up the one-to-one and ProCare Programs, get applications that make running small businesses better, and be there when I refer a colleague to the products." - *Jason W. Womack, The Womack Company*

- "They desperately need to develop quickly a new Netbook. They have the resources to do this based on their great notebook models. The netbooks out there right now are all crappy or lacking in some features. Sony, Asus and Acer are all just so-so, and have lousy keyboards to start with. Some don't have CD drives. Apple, last but not least, sees all this and can come up with one that has all the ingredients that people need… An apple netbook would sell in the millions for sure." - *Vic Strano*
- "It may be a natural fit for AAPL to look at the home theater market." - *Glenn F*
- "One thing Apple has is patience; they've rarely rushed a product to market. Similarly, they may recognize that as the economy weakens, time is on their side. What they could buy [for] $10 today, may well be down to $7 next November. Patience!" - *Charles D. Hoffman*
- "If I were AAPL I would hog the cash in t-bills." - *Robert Howarth*

Here Come the Dividends

03/19/09

"I know I am a little rhetorical; however, here is what happened in the crisis we had in Aussie in the 90's. Companies went from fixating on growth to distributing dividends. The following is from JP Morgan, Oracle. They just announced a new dividend. Wait for the rushing sound of others following."
P.S. Did you know I love software?
- Aivars Lode

JP Morgan Research article on Oracle Corp

Overweight

Oracle reported impressive results in the face of the obvious (a deteriorating macro backdrop and increasingly negative currency effects since guidance was given) and the expected (resulting demand softness in both its applications and infrastructure software businesses).

All boxes checked. ORCL did everything it needed to and more in regards to what we believe most were looking for: 1) license was better than most expected, 2) maintenance grew nicely, both year-over-year and sequentially, and 3) the bottom line was solid. Strong cash flow was up 17%.

Strong Feb-Q. Non-GAAP EPS was $0.35 (with $0.01 from a one-time tax benefit) on license of $1.52B (-6%, +3% cc) and total revenue of $5.45B (+2%, +11% cc), versus consensus of $0.32, about $1.45B, and $5.46B. The results are probably even better than appears, since we believe most investors expected results below the official estimates.

Prudent (and conservative) guidance. We believe that guidance assumes close rates at the low end of the range experienced for the F4Qs over the last ten years. Even with this assumption, guidance was probably better than what the collective investor base was looking for. We're reducing our estimates to come in line with guidance.

In a time of dividend cuts, ORCL announces a new dividend that reflects its confidence in the sustainability of its free cash flow. We view this as a very strong statement, in stark contrast to the announced dividend cuts by what have historically been stalwart institutions. We do not believe that this will restrict Oracle's ability to continue its strategic acquisition strategy at appropriate prices.

Derivative effects. While we do NOT view ORCL as a good gauge on the software sector, we do believe the stocks in the space will benefit for at least the short term from ORCL's results, given its position as the second largest pure software company in the world.

Reiterate Overweight and $23 price target based on our DCF

Precursor to Dividends? Where is Inflation If Costs are Lower?

09/23/09

By ANJALI CORDEIRO and TESS STYNES

NEW YORK -- General Mills Inc.'s fiscal first-quarter earnings soared 51% as the company's profit margins widened in tandem with moderating commodity prices and as sales rose of household staples like Hamburger Helper, Multigrain Cheerios and Pillsbury cookie dough.

The results handily topped expectations and the processed-food giant again raised its fiscal-year earnings view, this time by 20 cents to $4.40 to $4.45 a share.

Lower commodity prices have begun to aid the large food makers, who were hit badly last year as their raw material costs surged. Despite the declines in raw material costs, most of these companies have largely been able to avoid the large scale price rollbacks some investors had feared. That is beginning to help their profit margins. ConAgra, maker of Hunt's sauces and Healthy Choice meals, this week also raised its fiscal year earnings forecast. Companies like General Mills have also cut costs aggressively.

General Mills also has introduced products to help drive its U.S. retail segment growth, such as Progresso High Fiber soups. Its Betty Crocker brand entered the profitable gluten-free niche with mixes for cookies, brownies and cakes.

For the quarter ended Aug. 30, the company reported a profit of $420.6 million, or $1.25 a share, up from $278.5 million, or 79 cents, a year earlier.

Excluding items, such as hedging gains and losses, earnings were up at $1.28 from 96 cents. The company earlier this month indicated results likely would top its internal projections but didn't give details.

Revenue edged up 0.6% to $3.52 billion, with currency fluctuations hurting sales results by 2 percentage points. Volume was flat, reflecting the loss of 2 percentage points from divested product lines.

Analysts polled by Thomson Reuters most recently were looking for earnings of $1.03 on revenue of $3.49 billion.

Gross margin jumped to 41.5% from 34.1% amid lower costs for grain and other commodities.

At its U.S. retail business, sales rose 5.8%, with volume up 2%. Profit rose 21%. In its international division, sales dropped 4.1% on the weaker dollar as earnings fell 13%.

The bakery and food-service unit remains under pressure amid restaurant industry weakness, with sales down 16% on divestitures and falling flour prices. However, segment profit more than doubled amid lower commodities prices and cost cuts.

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Companies Going Vertical

12/03/09

"Organic growth has stopped? Got to grow through acquisition and generate a greater margin ultimately to pay a dividend? Wonder where we have seen that before?"
-Aivars Lode

Companies More Prone to Go 'Vertical'

By BEN WORTHEN, CARI TUNA and JUSTIN SCHECK

Larry Ellison is known for forward thinking. With his new business model, though, the billionaire chief executive of software maker Oracle Corp. is taking a page from the past. Mr. Ellison plans to buy Sun Microsystems Inc. and transform Oracle into a maker of software, computers, and computer components -- a company more like the U.S. conglomerates of the 1960's than the fragmented technology industry of recent years.

"It is back to the future," he told financial analysts in October.
Mr. Ellison is among the executives reviving "vertical integration," a 100-year-old strategy in which a company controls materials, manufacturing and distribution. Others

moving recently in this direction include ArcelorMittal, PepsiCo Inc., General Motors Co. and Boeing Co.

The reasons vary. Arcelor, the world's largest steelmaker, wants more control over its raw materials. Pepsi wants more authority over distribution. GM and Boeing are moving by necessity, to assure quantity and quality of vital parts from troubled suppliers. Some are repurchasing businesses they only recently shed.

"The pendulum has shifted from disintegration to integration," says Harold Sirkin, global head of the Boston Consulting Group's operations practice. He attributes the change to volatile commodity prices, financial pressures at suppliers and quests for new revenue -- challenges exacerbated by the recession.

Just two years ago, for example, Mr. Ellison said Oracle would stick to its traditional focus on software. Computer hardware isn't "a business we have any ambitions in," he said then. In a September speech, he called that view "fundamentally wrong." Mr. Ellison declined to comment for this article.

The moves toward vertical integration are a departure from the past half-century, when companies increasingly specialized, shifting functions like manufacturing and procuring raw materials to others. Steelmakers in the 1980’s sold their mining operations; in the 1990’s, auto giants spun off their parts suppliers. Tech companies stopped making every piece of a computer system and specialized in chips, data storage or software.

The guiding principle was that specialization would boost efficiency and quality. Today, a typical corporate computer system might be assembled by Accenture PLC with data-storage systems from EMC Corp. and computers from Hewlett-Packard Co. that use chips from Intel Corp. to run Oracle software. Now, Oracle is trying to combine all those functions.

Others are pursuing similar strategies. Pepsi plans to repurchase bottlers it spun off in 1999. Back then, Pepsi executives wanted to focus on marketing and leave most operating decisions to the bottlers. Now, as consumers flock to noncarbonated beverages, Pepsi is keen to gain more control over the distribution of its growing menu of offerings, says spokeswoman Jenny Schiavone.

Such steps don't necessarily portend a return to the early-20th-century vertical conglomerates of Andrew Carnegie and Henry Ford. Then, Carnegie Steel Co. and Ford Motor Co. each owned iron-ore mines, while controlling everything from manufacturing to sales.

"The historical view of vertical integration was that you had complete control of the supply chain and that you could manage it the best," says Bain & Co. consultant Mark Gottfredson. Today's approach is more nuanced. Companies are buying key parts of their supply chains, but most don't want end-to-end control.

Some moves may face resistance from regulators. The Federal Trade Commission, for example, is reviewing Pepsi's plan to buy its two largest bottlers. At the Justice

Department, antitrust chief Christine Varney has signaled interest in scrutinizing vertical deals.

Employees inspect steel rolls at an ArcelorMittal steel plant in Bremen, Germany, earlier this month. ArcelorMittal in the past two years has bought iron-ore and coal mines to insulate itself from fluctuating raw-materials prices and supply-chain disruptions.

Regulators in recent decades have blessed most vertical mergers on the grounds that they make firms more efficient, lower costs and benefit consumers, says M.J. Moltenbrey, an attorney with Howrey LLP in Washington, D.C. Instead, regulators have focused on preventing one company from dominating a specific market.

The European Union has moved to block Oracle's $7.4 billion acquisition of Sun on such grounds, fearing Oracle would have too much control of one software niche. (A spokeswoman for Oracle says the company sees no such conflict and is confident it will gain clearance for the deal.) The EU, however, hasn't expressed concern about Oracle's move into hardware.

While many companies, such as Coca-Cola Co. and Toyota Motor Corp., are content to stick to their current business models, others find they have little choice but to vertically integrate. In the past two years, Boeing bought a factory and a 50% stake in a joint venture that make parts for its troubled 787 Dreamliner jet. The moves partially reversed Boeing's aggressive outsourcing strategy to assemble the Dreamliner from parts made by hundreds of suppliers. Supply and assembly problems have knocked the Dreamliner more than two years behind schedule. Boeing CEO Jim McNerney says the company is still committed to outsourcing.

Likewise, GM in October took a minority stake in Delphi Automotive LLP, its biggest parts supplier, and purchased four factories and Delphi's steering business as the supplier emerged from bankruptcy. GM, which spun off Delphi in 1999, wanted to assure uninterrupted supply, a spokeswoman for the company says.

Johnson Controls Inc., another big auto-parts maker, last year bought a 70% stake in the interior-product business of bankrupt supplier Plastech Engineered Products Inc., to guarantee supply.

Several steelmakers are also embracing the shift, moving deeper into the raw-materials business that earlier steel companies exited. Arcelor has acquired mines in Brazil, Russia and the U.S. and expanded existing mining operations in recent years. Strategy head Bill Scotting says the Luxembourg company is trying to hedge against price fluctuations for iron ore and coal and supply-chain disruptions amid rising Chinese steel consumption and mining-industry consolidation.
"If you're buying fully from a market, you are relying on that market's supply chain," Mr. Scotting says.

Nucor Corp., which makes steel from recycled metal, last year bought a major scrap-metal processor. Nucor moved as scrap prices soared. Prices have since dipped, but Chief Executive Dan DiMicco says owning the supplier will help Nucor manage inventory more efficiently, eventually saving the company more than $100 million annually "Information on markets is extremely valuable in the scrap business," Mr. DiMicco says. By controlling supply, "you have more control over your own destiny."

Perhaps the most dramatic reversal is taking place in the tech industry, where specialization and outsourcing had dominated for decades.

Through the 1970's, computer makers such as International Business Machines Corp. also made the semiconductor "brains" of their machines, the data-storage devices and the software that made the computer useful. In 1969, the U.S. government, in a landmark antitrust suit, charged IBM with illegally bundling hardware, software and services to hinder rivals.

The government dropped the case in 1982. By then the evolution of technology had achieved what the lawsuit could not: IBM's mainframes were rivaled by less-expensive minicomputers and personal computers that ran on software from many vendors.

Oracle, founded by Mr. Ellison in 1977, quickly flourished in part because its database software could run on multiple types of computers, including IBM's. That allowed Oracle to also sell to companies that used computers from Digital Equipment Corp. and Honeywell International Inc.

The technological shift ushered in a period of innovation and specialization. Entrepreneurs devised software for particular tasks, such as word processing or accounting. Semiconductor companies, such as mobile-phone mainstay Qualcomm Inc., specialized in designing chips; they hired other firms to manufacture them.

A few years ago, the pendulum began swinging the other way. In 2005, Oracle started a strategy of buying other software makers. Last year, H-P acquired Electronic Data Systems Inc., which manages corporate computer systems, to strengthen its consulting arm and exert more control over a key sales channel. Rival Dell Inc. recently bought tech-services firm Perot Systems Inc. for similar reasons.

This month, H-P said it would buy 3Com Corp. for $2.7 billion to bolster its computer-networking unit. Rob Cihra, an analyst for Caris & Co., called the move an effort to "vertically re-integrate" to gain control over customers. An H-P spokeswoman declined to comment.

Apple Inc. last year moved to re-enter the semiconductor business after a two-decade hiatus, buying chip maker P.A. Semi and hiring chip engineers. By developing its own chips for new mobile devices -- a departure from the industry trajectory -- Apple hopes to tighten control over a key technology and keep it away from rivals, according to people familiar with the matter. An Apple spokesman said executives weren't available to comment.

At Oracle, Mr. Ellison's shift is among the industry's most pronounced. For 32 years, Mr. Ellison was a big proponent -- and beneficiary -- of specialization in what he called the "horizontal computer industry." Oracle's forte was business software to help companies run their operations more efficiently. The model generated big profits for Oracle, which avoided the expense of manufacturing computers.

With the Sun deal, Mr. Ellison scrapped that strategy. Now, he wants to sell "complete systems" made of chips, computers, storage devices and software from Oracle. Mr. Ellison is betting that the combination will appeal to corporate customers tired of assembling technology from multiple vendors.

Mr. Ellison himself invokes the old IBM. "We want to be T.J. Watson Jr.'s IBM," Mr. Ellison said in September, referring to IBM's president from 1952 to 1971. He said IBM in that era was "the greatest company in the history of enterprise in America" because its hardware and software ran most companies.

Sun was something of an anachronism that still made its own chips, storage devices, software and computers -- much like the old IBM. Over time, this diversification hurt Sun, which couldn't simultaneously keep pace with innovation from Intel, EMC, Microsoft Corp. and IBM. In today's changed tech landscape, Mr. Ellison sees those multiple product lines as assets.

His change of philosophy seems sudden. As recently as March, Oracle tried to buy only Sun's software products, according to a filing with the Securities and Exchange Commission. But when IBM neared a deal to buy Sun, Mr. Ellison decided he, too, wanted the whole company. Oracle won by offering $9.50 a share for Sun, or 10 cents a share more than IBM's bid.

During the meeting with analysts last month, Mr. Ellison said that he changed his mind quickly, calling the acquisition "opportunistic." Then, he set out to combine Sun's hardware with Oracle's software. Mr. Ellison recently unveiled such a computer, which he says searches data faster than rivals, and costs less. Oracle says it plans to make Sun computers with specialized software for tasks such as billing and managing retail stores.

Oracle will still sell software to customers that have H-P's computers, and Sun computers that will run software from its rivals. But Mr. Ellison has pledged to invest more in Sun's chips and other equipment than Sun did.

"We weren't in the hardware business, now we're diving in with both feet," Mr. Ellison said at the October event.

Noting Oracle was bucking a decades-long trend in the industry, Mr. Ellison said: "We're really brilliant, or we're idiots."

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LA Times Reporting Banks' Miraculous Recovery- Why is That Not a Surprise?

12/06/09

"See other posts for the comparison of what happened in Aussie in the 90's and the USA now. Which stocks came back the quickest with the greatest gains, (reminder banks). Also, see previous posts- did the USA actually print all that money, and is it more indebted than the rest of the world?"

-Aivars Lode

Bank bailouts appear to be paying off. The U.S. gets billions back as Wall Street rebounds. But critics say the TARP fund will still end up in the red.

By Jim Puzzanghera and Walter Hamilton

Reporting from Washington and New York - The government's bailout of the banking system is turning out to be far from the fiscal sinkhole so many had feared.

The $700-billion Troubled Asset Relief Program, known as TARP, was reluctantly created by Congress last fall despite criticism that it was a huge risk that would only encourage the profligate ways of Wall Street. But in recent months, tens of billions of dollars have begun flowing back from banks to the U.S. Treasury.

Bank of America Corp.'s decision this week to repay one of the largest chunks -- $45 billion -- reflects the stunning turnaround of the financial industry and demonstrates that the government's unpopular medicine appears to have saved the patient. And the price tag isn't as large as expected.

"It turns out, actually, TARP -- as wildly unpopular as it has been -- has been much cheaper than any of us anticipated," President Obama said Thursday at a White House summit on creating jobs.

Federal Reserve Chairman Ben S. Bernanke, who pushed for the fund's creation, made a similar point at a Senate hearing Thursday on his nomination to a second term.

"Unlike some of the scare stories about $700 billion being thrown away, I do believe . . . in the end that there'll be something close to a break-even there," Bernanke said.

The TARP fund may break even, that is, on its first and biggest use of taxpayer money: investing billions -- $205 billion as of Monday -- directly in banks.

Including Bank of America's expected repayment, $116 billion -- more than half -- of that amount has already come back to the government, along with about $10 billion in dividends and interest. One expert, however, predicts the TARP fund will end up as much as $150 billion in the red because of losses on additional uses that the Bush and Obama administrations found for the program's money.

Totaling $270 billion so far, with commitments to spend about $160 billion more, those add-on uses include higher-risk investments in American International Group Inc., General Motors Co. and Chrysler. Little of that money has come back. The add-ons also include expenditures on incentives to boost small-business and consumer lending and to encourage mortgage firms to modify home loans.

And more TARP dollars might be heading out the door. Lawmakers and the Obama administration are considering using some of the remaining money to offset the cost of new job creation efforts. Any money used that way would not be repaid into the fund.

Also, the White House is not expected to allow TARP to expire at the end of the year. The law allows for a nearly automatic extension until October 2010.

"It's great that some financial institutions are paying the money back. It's not going to be so great if this administration immediately takes this money and shoves it out the door for some other big government boondoggle," said Rep. Jeb Hensarling (R-Texas), who serves on the Congressional Oversight Panel for TARP and wants the program shut down.

One reason the TARP fund has gotten a substantial sum of money back is that BofA and other financial giants desperately wanted to get out from under the government's heel on the issue of executive pay. Leaving TARP left them free to pay the lavish salaries to which their executives have become accustomed. Compensation limits under TARP have hampered BofA's search for a successor to Chief Executive Kenneth D. Lewis, who is set to retire Dec. 31.

Another motivation to pay back TARP money is being able to stop making dividend payments to the government. Those dividends currently equal 5% on most of the money invested by the Treasury and 8% on a second round of infusions that went to Bank of America and Citigroup Inc.

The repayments also reflect Wall Street's stunning resilience. The rest of the country may only be groggily recovering from recession, but many Wall Street firms are solidly back in the black.

Plain-vanilla banks, however, are still dealing with piles of bad loans that could get worse or more numerous as foreclosures keep surging and unemployment remains high. Ironically, many of those bad loans represented a big portion of the troubled assets that TARP was initially designed to purchase. The fund has done little to address that problem directly, however, spending only $27 billion on an initiative to buy up "toxic" mortgage assets in partnership with private investors.

Days after TARP was signed into law, the Bush administration decided the money was needed more urgently to thaw the frozen credit system. The Treasury soon began pumping billions into major banks in exchange for equity stakes.

Mark Zandi, chief economist at Moody's Economy.com, said TARP would have been more effective if it instead had been used to buy troubled assets, as originally intended.

Still, the capital infusions helped quell financial panic, even if it proved highly unpopular with the public because it bailed out firms that helped cause the crisis, he said.

Zandi estimated that all but $100 billion to $150 billion would be returned to taxpayers, a much better return than predicted last fall. But that won't change the American public's opinion of the program, he said.

"They're still going to say it cost us $100 billion to $150 billion and all it did was save Wall Street," Zandi said. "There's no way to sugarcoat this: TARP is a black mark on our economic history. But we had to do it. The world without it would have been immeasurably darker."

There's a widespread consensus that TARP shored up confidence in the global financial sector and paved the way for a dramatic rebound in Wall Street profits.

"The end result is hard to debate," said Adam Sussman, research director at Tabb Group, a research firm. "The banks are more stable now than when TARP was initiated. Overall the efforts to restore financial stability have been successful by any measure."

But even some on Wall Street acknowledge that a secondary rationale offered for the infusions of government capital into banks -- that a restored financial sector would help the economy rebound -- hasn't panned out.

"This worked extraordinarily well for Wall Street, but it has failed utterly for the real world," said Don Putnam, managing partner at Grail Partners, a boutique investment bank in San Francisco.

TARP and other government programs breathed life into the financial markets, which boosted demand for basic Wall Street services such as stock trading, corporate capital raising and the construction of exotic, often lucrative financial instruments known as derivatives.

But some analysts worry because TARP didn't help banks purge the mountains of toxic assets that sparked the financial crisis, which could restrain their lending going forward.

"TARP has given us the illusion that the banks are on the mend," said Christopher Whalen, managing director of Institutional Risk Analytics in Torrance. "But the losses that banks face on some assets are going to be so big that the real economy is going to end up dying before the banks can heal themselves."

Not everyone is so glum.

Many see the resurgence of Wall Street as a crucial first step toward broader recovery. But the resuscitation of the banking industry could be short-lived if unemployment stays high and consumers remain wary of spending.

"The financial sector's recovery won't last unless there is a subsequent recovery in the broader economy," Sussman said. "So far what's happened has been good, but it doesn't mean we can breathe a sigh of relief yet."

For that reason, Zandi said the Obama administration should extend the TARP program, even if that limits the potential return to taxpayers.

"I don't think we can declare that the coast is clear," he said. "We need to have this as an insurance policy.

JetBlue CEO Tells Crist the Airline Could Move to Orlando

01/21/10

"Many have heard me talk about companies moving from the North East to Florida to reduce cost, in order to drive dividends. Why? Companies are able to reduce the costs of office space, pay no state taxes and have cheap housing for employees, resulting in better operating margins in order to pay dividends or be more cost effective than competitors. Read on, Jet Blue is looking to do that! (One article does not make a trend)."

- Aivars Lode

JetBlue CEO tells Crist the airline could move to Orlando. The airline is considering moving 800 jobs to Florida.

By Josh Hafenbrack Tallahassee Bureau

TALLAHASSEE - Gov. Charlie Crist and the chief executive of JetBlue Airways said Tuesday the company is considering moving its headquarters from New York to Orlando.

"We'd love to have JetBlue move to Florida and fortunately, that's under pretty serious consideration," Crist told reporters in an impromptu press conference outside the Governor's Mansion Tuesday evening.

"It could mean 800 new jobs in the Orlando area," Crist said.

Dave Barger, CEO of JetBlue, met privately with the governor earlier and noted JetBlue already has its training facility in Orlando.

"We're taking a hard look at relocation," he said. The decision is to whether move up to 800 jobs from New York to Orlando "or, candidly, remaining in New York," Barger said.

Greater Orlando is "arguably one of the greatest airports in the world," said Barger, who said his airline flies from seven cities and has more than 1,000 weekly departures from Florida. "We also employ 2,000 crew members in the state in Florida. Our commitment has been genuine, is genuine, regardless of the decision."

"Certainly cost is a deciding factor," Barger said. "This is an airline that has right now, 800-plus crew members in New York. As we look at relocation or separation efforts, there's cost associated with that if people elected not to move. We're an airline that focuses on culture -- we do not furlough, we do not lay off. We take care of our people. And so there's a significant cost."

Barger also they'll also look at what he called "adjacencies," saying he'd love to be located next to the training center in Orlando.

Barger added that JetBlue is the largest domestic airline at JFK airport in New York and the "history" his company has there is also a factor. Crist said he's working through Enterprise Florida and his own economic development office to offer financial incentives.

"This would be huge economic development in our state. There always is the chance to provide money as an inducement," Crist said. "We want to review what the revenues look like going into the next legislative session, what additional incentives we might be able to provide."

Barger said the decision is down to New York and Orlando. "The term we use is, we're in a jump ball at this point," he said.

Dividends Take to the Comeback Trail

03/22/10

By PETER A. MCKAY

In the tumult of the last two years, dividends have been all but forgotten. Now they are starting to make a comeback.

So far this year, companies in the Standard & Poor's 500-stock index have announced $4.4 billion in combined net dividend increases, the best figure since the fourth quarter of 2007. Last year's first quarter was the worst in recorded history, with companies announcing $38.7 billion in dividend cuts, according to S&P data.

The recent announcements of increased payments come as corporate balance sheets are flush with cash—a record $832.4 billion at non-financial companies in the S&P 500 at year's end, up by more than a third since 2008.

Hunting for dividend payers traditionally has been considered a game only for the cautious. It has largely been out of favor during the market's rebound from the bear-market lows set last March. The Dow Jones Industrial Average is up 64% over that period, including gains in 10 of the last 12 sessions. Before suffering a slight pullback Friday to 10741.98, the Dow rallied last week to its highest close since October 2008.

The gains have been largely driven by smaller stocks, those considered higher-risk or likely to be acquired. Such companies generally aren't dividend payers. In contrast, the large market stalwarts that tend to make regular quarterly payouts have been largely snubbed during the comeback.

Now that corporate profits are recovering, though, it is inevitable that investors will take a harder look at what companies are doing with their newfound riches, traders and analysts say. Shareholders are likely to demand at least some of the rising earnings be put directly into their hands.

"I think we're getting into a period of perhaps a half a decade or so where investors will be looking for more yield wherever they can get it," says David Prokupek, chief investment officer at portfolio-management firm Consumer Capital Partners in Denver. "Dividends definitely fit into that theme, especially since you're just starting to see them come back along with some of these other things."

Mr. Prokupek says his firm has been buying dividend payers like AT&T and Verizon this year as a play on increased corporate payouts, since each boasts a dividend yields above 6%. He also is betting on several exchange-traded funds tracking the utilities sector, which historically offers a steady dividend stream.

One encouraging sign: Last week, General Electric's chief financial officer said that the conglomerate might begin raising its dividend again in 2011. The news, which came a little more than a year after GE announced its first dividend cut since 1938, helped drive up GE shares by 6% for the week.

So far this year, companies in the Standard & Poor's 500-stock index have announced $4.4 billion in combined net dividend increases, the best figure since the fourth quarter of 2007.

To be sure, total dividend payments are still relatively low compared to a year ago, since many companies' earlier cutbacks are still in effect. Actual payouts in the first quarter are projected to decline about 16% from a year earlier, according to S&P data. But analysts say hints of increases to come—just like GE's reassuring comments last week—suggest that the pendulum is swinging in the right direction for dividend-starved investors.

S&P analyst Howard Silverblatt says he expects a surge in dividend increases in the third quarter as the economy improves. In all, 2010 will probably see a 5.6% increase in dividend payments among S&P 500 companies, Mr. Silverblatt estimates. That would be a big reversal from 2009's record decline of $52 billion in dividends, or 21%, to $196 billion.

In the current quarter, 77 companies in the S&P 500 have announced dividend increases, compared with just two that cut their payouts, according to S&P. Valero slashed its dividend by 75%, and Tesoro suspended its dividend altogether. Both companies are refiners that have been squeezed by higher oil prices and weak demand for finished fuels.

The fuel behind increased dividends comes from the recent rebound in corporate profits, which in turn are being helped by greater efficiencies that companies instituted during the worst days of the financial crisis.

S&P 500 companies tripled their per-share earnings in the fourth quarter compared with the same period a year ago, near the worst of the financial crisis. For the first quarter ending March 31, S&P 500 companies are expected to report a combined 36% rise in per-share profit, according to Thomson Reuters. Revenue is expected to rise about 10%.

After the massive cost-cutting by corporate America, many traders expect the market will enjoy solid "earnings leverage," or outsized benefits from any uptick in sales, which should go straight to the bottom line. For now, analysts surveyed by Thomson Reuters are calling for overall S&P 500 profits to surge by about 20% to 35% every quarter this year, aided by growth of 6% to 10% in sales each quarter. Those forecasts are subject to big revisions.

Still, analysts and money managers warn of pitfalls that could disrupt a dividend bonanza. Mr. Prokupek points to the health-care legislation taking shape in Washington, which likely will raise taxes on dividends but keep their advantage over interest payments.

Michael Thompson, a managing director at S&P, says he is skeptical that dividend yields, or payments relative to share prices, are sufficiently out of whack with bond yields to encourage executives to compete for investor attention by raising their payouts.

The S&P's dividend yield, based on total payments in 2009, was about 2%, while the benchmark Treasury note now stands at 3.693%. But if profits grow as fast as Wall Street expects during the next few quarters, the gap could close quickly, especially now that the Federal Reserve has pledged not to raise interest rates anytime soon.

"There's no question a lot of the big guys are increasing dividends right now," says Mr. Thompson. "But I also think it's true that if they see something else that will make a good use for their cash, especially M&A, they'll go after that."

Perhaps the biggest question hanging over dividends: When will financial companies rev them back up? The crisis led to huge cuts, and regulators are reluctant to allow increases given the pile of bad loans still haunting most banks.

Bank of America Chief Executive Brian Moynihan recently said the giant bank remains cautious even though the worst of the crisis is receding, hardly an encouraging sign about dividends. In February, J.P. Morgan Chase James Dimon said the bank won't raise its dividend until it is sure the business environment has improved.

Mr. Silverblatt thinks increases in dividends by banks could be several quarters away. Even then, per-share dividend payments are likely to be smaller than they were before the crisis at banks that issued piles of shares to help repay U.S. government aid.

Stocks Fall as Strains Accumulate

05/20/10

“The Euro is "collapsing" and becoming "radioactive," China's growth is slowing, and the commercial property fallout is yet to be fully realized. How many new developments like the W hotels and others are up for renegotiation? How much empty commercial real estate is out there? Whilst the bad news won’t have a true devastating

effect for everybody, the news will make it sound dire. In "charting terms," following the Dow or similar, this will result in the second leg of a W movement- a share price collapse followed by a share price increase in a short space of time. Let's watch!"
-Aivars Lode

By Kristina Peterson and Donna Kardos Yesalavich
U.S. stocks tumbled, leaving key indexes on pace for their first corrections since rallying from March 2009 lows.

Industrial and materials stocks led the decline as worries mounted that Europe's debt woes, in addition to possible slowing growth in China, will sap global demand. The broad retreat in stocks mirrored selloffs in many markets around the world, from the Australian dollar to metals, as investors shed riskier assets in favor of safer bets such as U.S. Treasury debt.

Worry over Europe persisted as unions went on strike in Greece and investors remained concerned that trading regulations like those introduced this week in Germany could be adopted in other countries.

"Confidence and patience are beginning to wear thinner" as no new solution emerges to calm the euro zone's turmoil, said Tim Evnin, equity portfolio manager at Evercore Wealth Management.

Trading Specialist Geoffrey Friedman works on the floor of the New York Stock Exchange, May 20.

"The global interdependence is terrific when everything's working," he said, "It works in both directions. We can't immediately disassociate yourself with parts of the world that are doing badly."

The Dow Jones Industrial Average was down 277 points, or 2.6%, to 10168, in recent trading. The Standard & Poor's 500-stock index fell 32 points, or 2.9%, to 1083. Earlier selling intensified after the measures broke below their 200-day moving averages, at 10258 and 1102, respectively. The S&P 500's slide through 1100 was a key psychological move that fueled more selling, traders noted.

The measure was also on pace to post a correction of 10% from its 2010 high last month, along with the Nasdaq Composite, which was recently down 73 points, or 3.2%, at 2225. If the S&P 500 remains below 1096 through the close, and the NASDAQ is still below 2278, the measures will be down more than 10% from their 52-week closing highs reached in late April.

Sectors with the greatest global exposure posted the biggest drops, led by the material and industrial sectors as investors worried that international demand might decline.

The Dow's leading decliners included Alcoa, which dropped 4.5%; Caterpillar, which fell 4%; and Boeing, which slid 4%. Financial stocks also weakened as new trading restrictions in Europe and the U.S. Senate's debate over financial legislation continued.

Hartford Financial Services slid 6.1%, while American International Group fell 6% and Citigroup slid 4%. Shortly before 12:30 p.m., 3.7 billion shares had traded hands in New York Stock Exchange Composite volume, with 98% of volume in a downward price direction.

Reflecting the market's heightened unease, the CBOE Market Volatility Index jumped to its highest point since April 2009, posting an intraday high above 45 before pulling back slightly.

New data added to the worries about the economy. The Labor Department said that initial claims for jobless benefits rose by 25,000 to 471,000 in the week ended May 15. Economists had predicted claims would fall by 4,000. In addition, the Conference Board's index of leading economic indicators fell in April for the first time since March 2009.

"Today's jobless claim report is evidence that there's not a strong, discernible trend that employment is stable and increasing," Mr. Evnin said.

The euro edged down to $1.2368 on Thursday, surrendering gains made a day earlier after comments from a euro-zone official suggested coordinated central-bank intervention to stem the euro's slide was off the table.

The euro was also weighed down by uncertainty over whether other euro-zone countries would follow Germany's ban on naked short sales of certain investments. Markets are also awaiting a crucial vote Friday in the German parliament over its contribution to the European Union/International Monetary Fund rescue package.

The U.S. Dollar Index, reflecting the U.S. currency against a basket of six others, edged up 0.1%. Treasurys also advanced, pushing the yield on the 10-year note down to 3.25%. Crude-oil futures fell to nearly $70 a barrel, as did gold futures.

Federal Governor Says US Could Feel Europe's Pain

05/21/10

"The pace of bad news is picking up and will ultimately become a self fulfilling prophecy. So what do you say? I think it will lead to a drop in the stock market like has happened previously."

- ***Aivars Lode***

Fed Governor Says U.S. Could Feel Europe's Pain
By Sewell Chan
Published: May 20, 2010

WASHINGTON — A top Federal Reserve official warned Thursday that Europe's debt problems could amount to a "significant external shock" to the United States economy, harming American banks and exporters and stalling the global recovery. Daniel K. Tarullo told a House panel that another credit squeeze was "not out of the question."

The official, Daniel K. Tarullo, said in testimony at a House hearing that the Fed's decision last week to reinstate dollar liquidity swap lines with the European Central Bank and four other central banks was a crucial measure to minimize the risk of further financial turmoil arising from the Greek fiscal crisis.

"In the worst case, such turmoil could lead to a replay of the freezing up of financial markets that we witnessed in 2008," Mr. Tarullo told members of the Financial Services Committee.

Despite a nearly $1 trillion financing package assembled by the European Union and the International Monetary Fund, the downturn in stock markets and continued tight financing in Europe reflected persistent uncertainties, said Mr. Tarullo, who was President Obama's first appointment to the Fed's board of governors. The United States is "in a very different position" than the debt-stricken European countries, he said. But their problems could hold lessons.

"Their experience is another reminder, if one were needed, that every country with sustained budget deficits and rising debt — including the United States — needs to act in a timely manner to put in place a credible program for sustainable fiscal policies," he said.

Two subcommittees called a joint hearing after the Fed's decision last week. Other experts also provided strong warnings on the state of the international economy. Edwin M. Truman, a senior fellow at the Peterson Institute for International Economics, said the new financing package in Europe was "ambitious and demanding." He added: "It may fail, but it is in the collective interest of the United States and the international community to give the people and authorities of Greece time to implement at least the first phase of their program."

The European Union has responded to economic imbalances since the late 1970's by providing financing without requiring adequate fiscal adjustments, with the result that European countries turned to Brussels rather than Washington for relief, Mr. Truman said.

"During those decades, policy makers in Washington were generally content that E.U. countries were not borrowing from the I.M.F. because the I.M.F. could then concentrate its limited resources elsewhere," Mr. Truman said in a written version of his testimony. "However, in retrospect U.S. policy makers should have promoted European adjustment assertively, including through the I.M.F."

He added: "As a former Federal Reserve official, I hold myself partly to blame for this failure."
Carmen M. Reinhart, an economist at the University of Maryland, College Park, said that a restructuring — or a partial default — by Greece seemed probable but was "no panacea." While other European conditions may not require a restructuring of government debts, she said, "there is a pressing need to facilitate a restructuring of private debts, notably those of financial institutions."

At most, the newest financing package buys time for other heavily indebted countries in Europe to impose austerity measures and restructure private debts, but "it does not change Greece's, nor anyone else's, levels of outstanding debts and their even more worrisome profile in the period ahead," Ms. Reinhart said.

Peter Morici, a professor at the University of Maryland's Smith School of Business, predicted that a default by Greece would result in much higher borrowing costs for Portugal, Spain and potentially other countries. "Crisis could easily spread from Europe to the United States, much as the recent U.S. mortgage and broader financial crisis spread to Europe," Professor Morici said.

Mr. Tarullo laid out how that contagion could spread. If sovereign debt problems were to broadly affect Europe, American banks could face large losses on their overall credit exposures, as asset values declined and loan delinquencies mounted. Money market mutual funds that hold commercial paper and certificates of deposit issued by European banks also would be hurt. The result could be a further contraction in bank lending.

"Although we view such a development as unlikely, the swoon in global financial markets earlier this month suggests that it is not out of the question," Mr. Tarullo said.

More Like a "W," Not "V" Shaped Recovery

05/29/10

"A lot of data points that support that there is a W movement coming in the stock market that I spoke about a couple of days ago."
-Aivars Lode

Market Musics & Data Deciphering from Gluskin Sheff at a Glance

Call it a nightmare. Asian markets closed down over 3% and are down to 10-month lows and are now down 16% from the nearby highs of April 15. Geopolitical concerns surrounding a rift between North and South Korea are posing an added source of angst, as did Steve Ballmer's surprisingly cautious comments about China as a reliable end market.

European bourse are rapidly following suit with all major sectors in the red at this time (Spain's stock market is now down 26% for the year – we suppose it would be safe to call this a 'bear run' in Pamplona). There is a further huge flight to safety and liquidity as the U.S. 5-year Treasury note yield is all the way down to below 1.9% and the U.S. 10-year yield is seven basis points away from breaking below 3% for the first time since April 27, 2009. And, there is still lots of room to play catch-up seeing as the 10-year German bund yield has rallied all the way down to a record low of 2.6%.

The Dow is also on its way — assuming the futures market is a tell-tale — towards breaking back below 10,000 in a decisive manner for the first time since February 8. And, the Canadian dollar has slipped below its fair-value estimate for the first time in nearly five months as the greenback gains favor in this sudden new era of risk aversion, which is in the process of clipping the commodity complex at the current time. (The loony is not alone — the Aussie dollar is down 2% as well and down to 81 cents, the lowest in nine months). Speaking of the commodity sector, we see that copper is down over 2% today and oil down 4% — the former is now off almost 10% for the month and the latter is on the precipice of slicing below $67/bbl (last there on August 17, 2009). Asia's currencies are also selling off, including yuan forwards as a Chinese revaluation has been taken off the table for the time being amidst all of the global financial turmoil.

The euro is getting crushed after a brief respite last week — down to its lowest level since November 2001 against the yen — in response to mounting concerns over Spain's banking system. Over the weekend, a savings bank in Spain crippled by bad property loans was seized by government regulators – there is a major push for consolidation to limit contagion risks. There is also growing market chatter of the euro emerging as the new "funding currency" for global carry trades (see page 24 of today's FT and C2 of the WSJ for more on this file).

More like a "W", not "V" shaped recovery

The banks led the rally off the March 2009 lows and now they are leading the descent — strains underscored by the move up in three-month Libor to their highest level since July 16 of last year. Investors may also be in the process of adjusting future U.S. bank earnings power by roughly 20% based on what is soon to transpire in terms of new regulations governing capital ratios, consumer protection, derivatives trading as well as hedge funds/private equity investments.

What is most ironic is that the world financial markets managed to hit this latest inflection point just as the National Association of Business Economists (NBER) lifted their GDP forecasts for this year and next — talk about a contrary indicator. The U.S. government is so freaked out now about the prospect of a double-dip that just a week after Timothy Geithner was crowing about how well the economy was doing (aren't payrolls rising — at least outside of the ADP survey?) we had Larry Summers advising Congress yesterday that a new $200 billion stimulus package (on top of the $787 billion earmarked from last year's budget buster) is needed. Ironically, a month after Mr. Obama established a commission to identify budget cuts in order to help shrink the deficit! You truly cannot make this stuff up.

As we have warned time and again (i) this has been an overvalued equity market for the past nine months and as such the rally needed to be handled either with care or a large grain of salt regarding its sustainability; and, (ii) undervalued markets do not behave the way this market has been behaving for the past month. These types of brutal downdrafts coupled with intense volatility are generally the hallmark of overvalued markets as we saw in 1990, 1998, 2000 and again in 2007. Undervalued markets tend to have more downside protection, which is why we prefer to invest in them compared with overvalued markets. However, we can certainly understand that human emotion has and will test investor resolve and, just as fear gripped the market back in March 2009, greed came back into vogue at the highs just a little over a month ago. We have the emails from our readership to attest to that!

In the meantime, we welcome the move in the markets for everything from the Canadian dollar, to credit, to commodities, to equities back towards fair-value — and also look forward to taking advantage of it, especially as the liquidation continues. Speaking of credit, just a month after what can only be labeled as a frenetic pace of new-issue activity, risk premia in the high-yield space has done a complete about-face as spreads in the junk bond space in a matter of a month have moved out 150 bps in the most pronounced reversal since late-2007 meltdown. This is now forcing deals to be pulled back in rapid fashion — at last count, a total of seven have been either withdrawn or postponed since April 29. The banks led the rally off the March 2009 lows and now they are leading the descent. We welcome the move in the markets for everything from the Canadian dollar, to credit, to commodities, to equities back towards fair-value.

One of our primary themes has been deflation — say that at a time when average wage offers to 2010 college graduates are 1.7% lower than they were for the 2009 crew. In fact, wages paid out by private sector employers as a share of total personal income just fell to a record-low 41.9%; it was almost 45% when the recession began in late 2007. Never before, 16 months after a recession began, has real income excluding government handouts been down anywhere near $500 billion as is the case now.

One has to wonder aloud what it means to have the yield on the 5-year note back below 2% following the most unbelievable experiment in monetary and fiscal stimulus in recorded history. Perhaps what it means is that the challenges and imbalances in the U.S. economy are more structural in nature than they are merely cyclical. The fact that the DXY (U.S. dollar index) is soaring this morning — challenging the recent highs — is merely testament to how bad things are on a relative basis across the pond. Like Canada, the U.S. is the proverbial one-eyed jack.

The only economic news that came out — Eurozone industrial orders, which were up a resounding 5.2% in March, was double the consensus estimate and is being treated as old news by Mr. Market. There is nothing major coming out of the U.S. this week except for a variety of housing-related indicators (see more below on yesterday's synopsis of the April resale data) and the calendar in Canada is extremely light — the focus will be on first-quarter bank earnings beginning with the BMO tomorrow.

We see no shortage of market commentators claiming that investors should be buying into this rapid selloff. Of course, these commentators never saw a correction coming in any event. Our advice is to be patient and disciplined and let the market do the talking.

We need two solid up-days in a row (a follow-through after a big bounce is vital) with some major volume attached to show participation (October 18-19, 1990; October 20-21, 1987; October 14-15, 1998; October 10-11, 2002; March 10- 11. 2009 — we can't help but notice how October usually shows up as the capitulation month!). This may be technical turnaround talk, but bottoms and tops in the market are typically technical events, as history suggests. There is not one general piece of data, sentiment indicator or government intervention that rings the alarm bell at the peak or the trough. Again, it is best to let Mr. Market do the talking. For example, anyone who was watching closely enough could see a classic 'neckline' emerging in what was in hindsight a very clear heads and shoulders' pattern developing since late year (peak and trough formation, as an aside, is a process and not an exact point in time). But we should always be aware of 'double tops' forming — June and August of 1987; January and June of 1990; April and July of 1998; March and September of 2000; July and October of 2007 all serve as classic examples.

The V-shaped recovery lasted two quarters — it's now starting to look like a W. After swinging wildly on the back of the massive fiscal and monetary stimulus from -29.87% on December 5, 2008, to +28.54% on October 9, 2009, the ECRI leading economic index (smoothed) has slumped all the way back down to 9.0% in the May 14 week (down from 12.15% the week before in what was the steepest one-week slide on record). At 9.0%, it is back to where it was last July when the S&P 500 was hovering near the 900 mark. In the past 30 years, there has only been one other time when the index fell this far over such a time span and it was during the depths of despair in early 2009.

The downdraft in the market in recent weeks reflects the financial risk related to the European debt crisis, the monetary tightening in China and the re-regulation of the financial sector that is currently making its way through to Congress. The next leg down in the equity market specifically and cyclical assets more generally is economic risk. Equities went into this period of turbulence priced for peak earnings in 2011 and with a tailwind of positive earnings revision and positive guidance ratios from the corporate sector. If the ECRI and the Conference Board's own index of leading economic indicators, which dipped 0.1% in April, are prescient, then they are portending a period of sub-par economic growth ahead (the ECRI is pointing to 1½% real GDP growth in the second half of this year). As the events of 2002 showed, more-than-fully valued markets do not need a double dip scenario to falter — a growth relapse can easily do the trick. It's still time to be defensive and too early in this correction to be picking the bottom.

The "V"-shaped recovery lasted two quarters — it's now starting to look like a "W" If the ECRI and the Conference Board's own index of leading economic indicators are prescient, then they are portending a period of sub-par economic growth ahead

History can be a useful tool so we went back to the 1870's to see how severe equity sell-offs can be during bull markets (as an aside, all the data can be found on Robert Shiller's website for free). While the 1987 correction was the most severe (down more than 30%), we saw several instances where equities corrected by at least 10%. In fact only two of eight times did the correction stop at 10%, with the average correction being 20%.

The April State Employment Report was released on Friday (yes, it lags the national report by several weeks). While the national unemployment rate inched up to 9.9% from 9.7%, most U.S. states saw unemployment rates stay the same or move down slightly. Thirty-four states saw a decline in the joblessness rate and 10 states were unchanged. This is actually a slight improvement over the March tally where about 40% of states saw improvements in the unemployment rate. While the improvement is encouraging, bear in mind that more than one-third of states have unemployment rates above 10%.

We saw yet another strong piece of Canadian data — March retail sales sailed by analysts' expectations, jumping 2.1% MoM versus consensus expectations for a very modest 0.1% rise. Even stripping out autos (which jumped 3.6%) and gasoline station receipts (+2.4%) "core" sales were up a very respectable 1.6%. Furthermore, once we adjust for prices, retail sales were up 2.2%, capping off a strong month of data (real manufacturing shipments up 1.7% and real wholesale up 2.2%). Our in-house GDP tracking suggests that monthly GDP could be 0.5% MoM in March, leaving the quarter at very respectable 6.0% QoQ annualized rate, which would be better than the Bank of Canada's own lofty estimate of 5.8% and would beat the 5.0% Q4 result.

Yes, there wasn't much to quibble about in the report (although we will note that Stats Canada did note that warmer-than-expected weather may have boosted some spending). The problem is that this is old news and it is very unlikely that we will see a repeat performance in Q2 and beyond. Already, we have seen some signs of slowing in Q2, especially in the housing market (resale home sales slowed as the Q1 ended and single-family starts plunged in April).

While markets and most analysts continue to expect the Bank to start hiking in June (the just-released Reuters poll found that all primary dealers expect a 25bps rate hike), the BoC is not just watching the domestic data flow (not only were retail sales strong but Canadian CPI came in above expected too).

Global events are one of Governor Carney's key downside risk and we now place 60% odds that the Bank does not start hiking rates in June.

For all the talk of a boom in the art market, we see that even in this space, deflation pressures are building. See page B9 of the weekend WSJ — all told, art valuation declined 5% YoY in the first quarter of the year.

And at a time when underlying price trends have receded to below 1% for the first time in four decades, one must contemplate the odds of outright deflation after reading page B6 of today's WSJ on the U.S. consumer spending outlook (Retailers Temper Hopes for Recovery).

While markets and most analysts continue to expect the Bank to start hiking in June, the BoC is not just watching the domestic data flow; global events are one of Governor Carney's key downside risk.

Who would have thought that on a year-to-date basis, the S&P 500 would have generated a 3% net loss and the Treasury market a net positive return of 4% (nearly 7% for the 10-year note, 10% for the long bond and 16% for long-dated zeros). Bonds do have more fun after all.

The rally in bonds is creating at least as much pain for the investment community as the sell-off in equities. As of May 18, the Commodity Futures Trading Commission (CFTC) data show that there are still a net speculative SHORT positions in the 10-year T-note of 206,783 contracts (in the futures and options market). In other words, the potential for a further significant short-covering rally in U.S. Treasuries.

By way of comparison, there is a net speculative long position of 1,238 S&P contracts, a net long position on oil totaling 134,863 contracts, a net long position of 7,233 on copper, as well as 47,085 contracts on the Canadian dollar.

All of these are vulnerable to a further short squeeze. We are still long-term bulls of gold, but even here near-term caution is advised considering that there are a near-record 274,769 net speculative long positions in the yellow metal — this has become a very crowded trade; better pricing points likely lie ahead.

1. The ECR weekly leading index growth rate peaked on October 9, 2009 (at 28.54%; now at 9.0%).
2. The Conference Board's LEI peaked at 109.4 in March (109.3 in April).
3. ISM orders/inventory ratio peaked at 1.805 in August 2009 (1.33 in April).
4. University of Michigan consumer expectations peaked on September 2009 (at 73.5) – now at 65.3 in May.
5. The UofM index of big-ticket consumer purchases peaked in February-March at 136; is down to 129 as of May.
6. Jobless claims bottomed at 442k on March 11. They had peaked at 651k on March 28, 2009. But they are back at 471k, which is where they were back on December 19, 2009 so the improvement has stalled out. Not only that, but to keep 472k into perspective, claims were at 453k the week after 9/11 (and the economy back then was eight months into recession). Yes, yes, employment has been rising of late; however, keep in mind that nonfarm payrolls are in the index of coincident indicators; claims are in the index of leading indicators. Please let's not drive looking through the rear window.
7. Single-family building permits peaked at 542k (annual rate) in March (were 484k in April).
8. Mortgage purchase applications peaked on April 30th at 291.3 and now are at a 13-year low of 192.1 even though mortgage rates have come down 20 basis points since the nearby high.
9. Auto production peaked at 7.8 million units (seasonally adjusted annual rate) in January – was at 7.2 million in April. The rally in bonds is creating at least as much pain for the investment community as the sell-off in equities
10. Electrical utility output was down 0.1% YoY as of May 15th. Could be another early sign that the production revival is behind us.

Many in the past have used an ISM clock (while on Wall Street, I did the same several years ago) but the problem is that the ISM is a perfect coincident indicator. It leads nothing. But the ECRI leading index does look ahead six months and is now pointing to GDP growth of little better than 1½% at an annual rate through the second half of the year, which is anemic enough to regenerate.

A new peak in the unemployment rate (jobless claims have stopped falling and at current levels are consistent with net job loss 75% of the time in the past); A new low in housing prices (see page 16 of the weekend FT — the venerable Lex column — for true Bob Farrell-type mean reversion, U.S, home prices still have downside risk of up to 40%!); And new concerns over consumer credit quality (we say this as we see the S&P/Experian consumer credit default rate index hit a new high of 9.14% in April — the proportion of credit card debt going bad is rising sharply and this is not receiving the attention it should but is a yellow flag for consumer-oriented lenders and businesses).

This is not necessarily a double dip scenario as much as a growth relapse – as we saw in 2002, still not exactly an ideal atmosphere for taking on long risk positions.
The ECRI not only leads but is also more timely than the ISM since the data are released weekly and the index covers the whole economy, not just manufacturing.

What we did was divided the ECRI into four different quadrants:
1. From the trough to zero (coming out of recession).
2. From zero to the peak (sweet spot of the cycle -- from the end of the recession to the cycle peak in growth).
3. From the peak back to zero (past the peak in growth; economy slows but not back in recession).
4. Zero back to the negative trough (heading back into recession).
5. From late 2008 to the fall of 2009, we were in stage 2. Since last October, we have been in stage 3 and it looks like we could be here for a while. In stage 3, historically, the S&P 500 has provided tiny positive returns (average price appreciation of +1.3%). Tech, industrials and energy are the top performing cyclicals and health care and staples are also outperforming sectors in the more defensive area. This cyclical-defensive barbell works well — basic materials, consumer discretionary, financials and utilities tend to lag the most.

In the credit market, this is a period to be focusing on reducing duration and scaling into quality -- Baa spreads tighten, on average, by 11bps but widen in the high-yield space by an average of 13bps.

Nothing is to say that we will automatically revert to stage 4 just because we are in stage 3 right now but we are only nine -percentage points away, even with policy rates still close to 0%. Then again, this was a credit cycle, not a rates cycle. It was credit that created the 2003-07 boom, and it was credit that created the 2007-2008 bust. A 5.5% peak in the funds rate was hardly the culprit, and we know that it was not a 0% rate in late 2008 that triggered the 2009 renewal in economic activity and investor risk appetite but rather the Fed's massive expansion of its balance sheet and the government's willingness to push the fiscal deficit to record peace-time levels. In this sense, any analysis that relies on the classic post-WWII recession-recovery experience -- even this one -- has to be viewed in the context of a secular credit contraction which began two years ago.

In stage 4, the S&P 500 on average declines 6.3% with eight of the 10 sectors declining — a barbell of being long energy on the cyclical side and consumer staples on the defensive side has worked well. Consumer cyclicals, technology, industrials and financials are crushed in this segment of the ECRI cycle; telecom, utilities and health care do not perform as well as staples but are areas where at least you don't typically get beaten up (for relative-return folks). The CRB is down an average of 3% but gold and oil tend to be supported by a weaker U.S. dollar. The yield on the 10-year note rallies an average of almost 40bps; as with equities, corporate bonds are hurt in this quadrant -- Baa spreads widen about 60bps and high-yield by close to 100bps. We have to be mindful that this can very well be the next phase of the cycle even without the Fed raising rates.
The ECRI bottomed this cycle a good four months before the equity market did and for those folks that paid attention, like Jim Grant, kudos to them. Because from the trough to

zero — stage 1 — the equity market rallies on average by 12% with all 10 sectors in the green column, led by tech, consumer discretionary and basic materials. Energy, telecom and utilities tend to lag behind. Financials are basically market performers. The government bond market is still rallying in this segment and the curve is steepening — that along with a slight softening in the U.S. dollar provides a positive liquidity backdrop, which in turn is conducive to spread narrowing in the credit market (average tightening of around 50bps in investment-grade and 200bps in junk).

The market really takes off once the ECRI crosses above the zero line on the way to the peak, which is stage 2 or the “sweet spot”. In this phase, risk taking works best with the S&P 500 rising 22% through this interval and every sector is up double-digits in terms of average price gains. Financials, basic materials, industrials, technology, and consumer discretionary typically provide the greatest alpha in this most intensely pro-cyclical phase of the cycle — utilities and telecom lag the most as does energy within the economic sensitive space (energy tends to be a stage 3 and 4 outperformer). Again, the credit market mirrors the positive backdrop in equities — Baa spreads come in by more than 30bps and by nearly 170bps in the high-yield space.

U.S. existing home sales soared 7.6% in April to a seasonally adjusted annual rate of 5.77 million units, above expectations. The surge was already foreshadowed by the earlier release of the pending home sales figures and entirely reflects the rush of activity ahead of the April 30th expiration of the homebuyer tax credit ($8,000 for first time buyers who made up close to half of the April sales tally (repeat buyers represented 36% of the pie last month -- they get a $6,500 tax credit). We already know what housing activity looked like following the April 30th deadline with mortgage applications for new purchases down to a 13-year low as of mid-May. Moreover, the one critical flying- the-ointment in April was the surge in supply — inventories climbed 11.5% to their highest level since July 2009 (+12.8% for single-family homes to their highest level since Nov/08) — and back up to 8.4 months' supply from 8.1 months in March. This excess supply casts a cloud over the outlook for home prices in coming months.

As a sign of just how sick the housing market really is, almost all (that is nearly 100%) of the mortgages issued last quarter were insured by the government under Fannie, Freddie and the FHA. In fact, FHA lending ($52.5 billion) actually exceeded the combined volume of government-supported Fannie Mae and Freddie Mac ($46 billion) in a home-lending market that's still a "government-financed market," David Stevens, the agency's head, said today at a conference in New York, citing research by consultant Potomac Partners.

"This is a market purely on life support, sustained by the federal government," he said at the Mortgage Bankers Association conference. "Having FHA do this much volume is a sign of a very sick system." And you thought we were bearish on the real estate backdrop.

And the strains are not limited to the single-family market. Defaults on apartment-building mortgages held by U.S. banks climbed to a record 4.6 percent in the first quarter, doubling from a year ago. This already exceeds the 3.4% S&L-induced peak seen in 1993.

The Chicago national activity index improved to +0.29 in April from +0.13 in March — the best tally since December 2006 and the first back-to-back positive readings since the opening months of 2007. The Chicago Fed suggests that we concentrate on the three-month smoothed index, which went from -0.09 in March to -0.03 in April — still underscoring a below-average pace of growth but you still have to go back to February 2007 to see the last time that the index was this “strong”.

Production and income are on an improving trend but we do see that the sales component has slowed for two months in a row. Not only that, but the consumption and housing segment actually fell to a three-month low and at -0.41 is actually still lower today than it was at the depths of the past five recessions One has to wonder what happens once the inventory cycle runs its course and the production index stops proving support.

Cities Selling Stuff to be Able to Balance the Budgets

08/24/10

“This article refers to this being done before in Australia and other places. It does not comment that this was done as the Aussie economy went through a massive recession in the 90's. See my previous posts for the prediction that this would occur in the States.”

-Aivars Lode

Facing Budget Gaps, Cities Sell Parking, Airports, Zoo
By Ianthe Jeanne Dugan, Wall Street Journal

Cities and states across the nation are selling and leasing everything from airports to zoos—a fire sale that could help plug budget holes now but worsen their financial woes over the long run.

California is looking to shed state office buildings. Milwaukee has proposed selling its water supply; in Chicago and New Haven, Conn., it's parking meters. In Louisiana and Georgia, airports are up for grabs.

About 35 deals now are in the pipeline in the U.S., according to research by Royal Bank of Scotland's RBS Global Banking & Markets. Those assets have a market value of about $45 billion—more than ten times the $4 billion or so two years ago, estimates Dana Levenson, head of infrastructure banking at RBS. Hundreds more deals are being considered, analysts say.

The deals illustrate the increasingly tight financial squeeze gripping communities. Many are using asset sales to balance budgets ravaged by declines in tax revenues and unfunded pensions. In recent congressional testimony, billionaire investor Warren Buffett said he worried about how municipalities will pay for public workers' retirement and health benefits and suggested that the federal government may ultimately be compelled to bail out states. "Privatization"—selling government-owned property to private corporations and other entities—has been popular for years in Europe, Canada and Australia, where government once owned big chunks of the economy.

In many cases, the private takeover of government-controlled industry or services can result in more efficient and profitable operations. On a toll road, for example, a private operator may have more money to pump into repairs and would bear the brunt of losses if drivers used the road less.

While asset sales can create efficiencies, critics say the way these current sales are being handled could hurt communities over the long run. Some properties are being sold at fire-sale prices into a weak market. The deals mean cities are giving up long-term, recurring income streams in exchange for lump-sum payments to plug one-time budget gaps.

The deals are threatening credit ratings in some cases and affecting the quality and cost of basic utilities such as electricity and water. Critics say many of the moves are akin to individuals using their retirement plans to pay for immediate needs, instead of planning for the future.

"The deals are part of a broader restructuring of our economy that carries big risks because of revenue losses over time," says Michael Likosky, a professor at New York University who specializes in public finance law.

Municipalities argue that the money they raise could help build more long-term assets, boost efficiency and avoid raising taxes. "The City of Los Angeles shouldn't be in the parking business," says Mike Mullen, senior adviser to L.A.'s mayor. Mr. Mullen was hired from Bank of Montreal to study selling some of the city's assets, including parking spaces, which bring in about $20 million annually.

In the U.S., selling public buildings and leasing them back got some attention in the 1980's, but those deals were largely done for tax benefits and the asset generally stayed in public hands.

The current deals are fundamentally different because control of the asset transfers to private hands. In such deals, "the private investor takes on operating risk," Mr. Likosky says.

In New York's Nassau County, officials last week began seeking buyers for the rights to rent on a former military base called Mitchel Field. The county would still own the 200-acre site, but would get an upfront payment from an investor who would collect the rent payments for up to 30 years—estimated at about $113 million. The county hopes to raise about $20 million to help fill a budget gap.

The most popular deals in the works are metered municipal street and garage parking spaces. One of the first was in Chicago where the city received $1.16 billion in 2008 to allow a consortium led by Morgan Stanley to run more than 36,000 metered parking spaces for 75 years. The city continues to set the rules and rates for the meters and collects parking fines. But the investors keep the revenues, which this year will more than triple the $20 million the city was collecting, according to credit rating firms. Chicago received $1.16 billion in 2008 to allow a consortium to run metered parking spaces for 75 years. After the deal, some drivers complained about price increases as well as meter malfunctions caused by the overwhelming number of quarters that suddenly were required.

Based on the new rates, the inspector general claimed the city was short-changed by about $1 billion. "The investors will make their money back in 20 years and we are stuck for 50 more years making zero dollars," says Scott Waguespack, an alderman who voted against the lease. A spokeswoman for Morgan Stanley declined to comment.

Thomas Lanctot, head of public finance at William Blair & Co., which advised the city on the leasing, says Chicago got a good price. The deal protects the city from economic risks, he said, such as drivers moving to mass transit. "This is not the crown jewels," he says. "This is asphalt."

The city said it is investing $100 million of the $1.16 billion in human infrastructure programs like a low-income housing trust fund, ex-offender and other job and social programs. About $1 billion has already been spent on operational expenses such as salaries and sanitation—a fact that came into the equation when Fitch Ratings in early August downgraded Chicago's bond rating to "AA" from "AA-plus."

The downgrade, which could raise borrowing costs, was due partly to Chicago's "accelerated use of reserves to balance operations," Fitch said.

Around the country, at least a dozen public parking systems are up for bid, including in San Francisco and Las Vegas.

Proponents say private businesses are better at balancing parkers with spaces, advertising and matching prices with demand. Critics claim the sales are garnering too little money, are driving up parking rates and removing a valuable revenue stream.

Besides, if a city wants to use a parking lot property for something else years down the road, it can't—the city is typically locked into parking for the lease's life unless it compensates the new operator for the long term revenue loss.

In Pittsburgh, the mayor is proposing to lease out the parking system for an upfront sum of about $300 million over 50 years and funnel the money into the pension system.
Bill Peduto, a city councilman, is fighting the plan. The spaces generate $35 million annually, and considering that the concessionaires are proposing doubling rates, he says, the city will ultimately lose $3.5 billion over the life of the lease.

"Even with the money from a sale, we'll have to put another $17 million annually into the pension fund—and we don't have that," Mr. Peduto says. He prefers raising parking rates slightly and floating a bond to stabilize the pension fund.

A spokesman for Pittsburgh's mayor didn't return calls for comment.
The privatization trend is being spurred by a cottage industry of consultants, lawyers and bankers. Allen & Overy, a New York law firm, dubs it "rescue investing" and recently provided investors a booklet on "jurisdictions of opportunity"—municipalities whose laws, budget woes and credit ratings make them most likely to make deals.

"More public-private partnerships for public infrastructure in the U.S. have reached commercial and financial close than during any comparable period in U.S. history," the booklet says.

Many municipalities have long done a poor job of running their roads, parking spaces and bridges, contends David Horner, a lawyer at Allen & Overy. Maintenance contracts, for example, are highly political and with revenues shrinking, infrastructure is increasingly deteriorating. Critics say buyers are taking advantage of municipalities at a vulnerable time and lack the incentive that governments have to maintain quality.

Among assets on the block all over the country are state and city office buildings. Arizona received national attention in late 2009—including a skit on the "Daily Show"—when it announced plans to raise more than $1 billion turning over control of public buildings and leasing them back. Much of the money is being used to plug the state's budget hole.

Such "one-time budget maneuvers" were cited in a Moody's Investor Services report recently to downgrade Arizona a notch.

"We view these asset sales as 1-shots…that create structural budget imbalances in future years, but that may be necessary actions to bridge the time gap until revenue stabilization or growth returns," says Robert Kurtter, a managing director at Moody's.

The California legislature recently released a report by its analyst's office entitled "Should the State Sell its Office Buildings?" California originally bought office buildings to save money, the report says. The cost of leasing them back "would exceed sales revenue," it said, making the sales "poor fiscal policy."

But "in the current budget environment," it added, such deals are necessary to balance the budget.

Water supply also is being sold to private interests. In Milwaukee, a consumer advocate called a plan to sell the water system "mortgaging Milwaukee's future." The report, by Washington-based Food and Water Watch, says private water service in general costs 59% more as new owners seek to recoup their investment. It adds: "Water users cannot vote private managers or state-appointed regulators out of office."

City Comptroller W. Martin Morics argues that the plan, which is on the back burner, could bring in more than $500 million through a lease over 75 to 99 years.

Airports also are being privatized under a limited federal program. Deals under consideration for lease include airports in New Orleans and Puerto Rico. In Lawrenceville, Ga., residents last month protested against the privatization of Gwinnett County, Ga., airport.

Their main concerns were noise and pollution, as a private owner aims to expand it into a commercial airport. The county and a private operator have said that the plan would free up revenues, now reserved for airport use only, for other purposes and create jobs.

Dallas is selling prized outdoor spaces. After turning over operation of the zoo to a private firm, the city is now hawking the Farmers' Market and Fair Park.

"It would be part of budget solutions and streamlining operations," says city spokesman Frank Librio, who notes that the city is doing what it can to close a budget gap and replenish reserves.

Cisco Systems Inc. Said It Will Begin Paying a Dividend

09/15/10

"In previous comments, I predicted 'Us corporations will start to pay dividends,' and this came to fruition."
- Aivars Lode

By Carri Tuna at the Wall Street Journal

Cisco Systems Inc. said it will begin paying a dividend, becoming the latest technology behemoth to start returning cash to shareholders as the companies have matured.

Cisco's dividend yield—or the payout as a percentage of the company's share price—will be 1% to 2%, said Chief Executive John Chambers during a meeting Tuesday with financial analysts.

The San Jose, Calif., networking-technology company will begin paying the dividend before the close of its current fiscal year ending July 31, 2011, he added.

The decision follows calls from investors for Cisco to return some of its cash hoard to shareholders. Cisco held $39.9 billion in cash as of July 31, up from $35 billion a year earlier.
Cisco shares rose 19 cents, or less than 1%, to $21.45 at 4 p.m. on the Nasdaq Stock Market.

In the past, the company has largely used its cash to make acquisitions and to repurchase its shares. Cisco has spent $65 billion on stock buybacks in the last nine years, said Chief Financial Officer Frank Calderoni.

Cisco is the latest large tech company to begin issuing a dividend. Historically, tech companies shunned dividends, viewing them as a trapping of mature companies, rather than young, fast-growing concerns.

But as growth rates of many of the tech giants have slowed over time, many have begun returning their cash through dividends.

Microsoft Corp. began issuing a dividend in 2003. Last year, Oracle Corp. began paying a dividend, even as companies in other industries cut back their dividend payouts amid the economic downturn.

Cisco's growth rate has slowed over the past decade. Whereas it once posted annual revenue growth of 30% to 60% during the dot-com boom, the company's annual growth rate for the past five fiscal years has averaged around 10%.

Cisco has said it is aiming for 12% to 17% annualized growth rates over the next three to five years and has broadened its portfolio of products to goose its growth.

Mr. Chambers had said repeatedly that Cisco would pay a dividend before his retirement. Following the dividend announcement, the longtime CEO said he would continue in his position for at least three to five more years.

Mr. Chambers said Cisco will decide in early 2011 whether the dividend yield will be closer to 1% or 2%, based on whether the U.S. government raises taxes on dividends at the end of 2010.

He added that the size of the dividend also will depend on whether the government eases taxes on the repatriation of corporate cash holdings overseas; a large percentage of Cisco's cash is outside the U.S.

Mr. Chambers reiterated his cautious view of the U.S. economy, which he outlined last month when Cisco reported its latest quarterly results. "It's getting a little bit bumpy," he said, before adding that he remains bullish about Cisco's prospects.

Microsoft Starts Increase of Dividends

09/23/10

"See my blogs on dividends from a couple of years ago about companies moving to pay out dividends and why, based upon what I saw in Australia in the early 90's."
- Aivars Lode

North America Equity Research

Microsoft: Updating Model for Dividend Increase and Debt Issuance
Neutral

We are updating our MSFT model reflecting the increase to the company's dividend (now $0.16 per quarter versus $0.13 prior) announced Tuesday night and yesterday's $4.75B debt issuance.

• Dividend Details. Tuesday night, MSFT announced it had increased its quarterly dividend to $0.16 from $0.13 prior, raising the dividend yield on MSFT shares to 2.6% from 2.1% prior based on yesterday's closing price of $24.61.

• Debt Issuance Details. MSFT's AAA/Aaa rated $4.75B debt offering is comprised of $1B of 0.875% notes due 2013, $1.75B of 1.625% notes due 2015, $1B of 3.0% notes due 2020, and $1B of 4.5% notes due 2040. MSFT plans on using the proceeds of the issuance for general corporate purposes, which may include funding working capital, capex, share repurchases, and acquisitions.

• Model Changes. Though offset somewhat by increased interest income on the debt proceeds, we reduced our EPS estimates slightly for fiscal 2011 and 2012 reflecting an increase in interest expense and reduced interest income stemming from the larger dividend. For F11, we reduced our EPS estimate to $2.41 from $2.42 prior. For the F12, we reduced our EPS estimate to $2.64 from $2.66 prior.

• We continue to rate MSFT Neutral with a $30 Dec-10 price target based on our DCF.

Investor Beware!

09/30/10

"After spending time in New York and in the investment world, I can appreciate that what is depicted in the latest Wall Street movie is pretty close to the mark. Solid stocks that have dividends or similar investments to that are the way to go."
-Aivars Lode

Inside the boiler room: 'Clients are Bambi - we shoot Bambi'

Explosive documents and phone tapes reveal an investor's worst nightmare about stockbrokers. Stuart Washington reports.

PETER McGUIRE is, by all appearances, the super-successful stockbroker fronting CWA Global Markets, with a fondness for $200,000-plus Mercedes cars. At the height of the boom his business was selling risky financial products like hot cakes, allowing its top broker to take home $45,000 a month in commissions. McGuire, 51, has also flourished, both professionally and personally. He is a regular performer on the US business television channel CNBC. In 2008 he added a $1.25 million semi in Coogee to two other eastern suburbs properties he owns.

In contrast to McGuire's smooth media manner, former staff portray him as a mercurial figure who demands a churn-and-burn mentality of his staff.

Or, as an October 2007 CWA presentation put it: "Clients are Bambi . . . we shoot Bambi."

If the team did not meet sales targets, former staff say, McGuire called them f---wits and dumb c---s.

Sensitive company documents and tapes of phone conversations obtained by the Herald paint a picture of a sales-driven business that repeatedly puts its customers last.

It is a well-known standard practice within the broking industry, including CWA, to tape and retain all telephone conversations for customer service and internal compliance purposes.

In a 2007 conversation taped through the internal system with CWA's top broker, Ben

Howarth, which later appeared on YouTube, McGuire says: “Can you spend whatever you have got in your [customers'] accounts?”

Asked by email about the claims against CWA, McGuire replied: "From the issues you raise I can say that you have been misinformed in a number of key respects."

He urged the Herald to take great care and seek legal advice if it was going to "publish vexatious or unfounded allegations and confidential materials".

The documents reveal a company that profited extensively in the mad-money days of late 2007 when investors were seemingly heedless of risk.

The documents show CWA investors often lost the lot, with one spreadsheet showing more losers than winners over a 2-year period.

A former employee, who requested anonymity, says of the culture within CWA: "There was an emphasis on extracting the money out of the client and placing it in the market without a consideration of the market."

CWA makes its profits by charging customers an extremely high price for financial products known as warrants. One undated company document shows CWA charged investors an extra 25¢ for every dollar of financial product they bought. CWA never told its investors about this charge in its sales documents.

CWA has left behind a trail of angry customers and disaffected staff. Customer anger has been captured in 17 minutes of internal recordings of repeated calls from a customer, Tony Michelutti, who lost $20,000 on a trade on cocoa.

"What a joke, f---ing joke, threatening me with the police and telling me he cancelled the account," Michelutti says at one point.

Former staff says McGuire frequently refers positively to a US movie about a ruthless broking firm, Boiler Room. Boiler room is US slang for a high-pressure brokerage selling worthless stock, usually staffed by impressionable youngsters.
McGuire is also said to regularly quote a movie about hard-driven and desperate real estate salespeople, Glengarry Glen Ross, using the line "ABC – Always Be Closing".

The October 2007 company presentation is full of the language of high-pressure sales tactics to “close” a sale, including: "Make no mistakes – we don't expect everyone to be here this time next year."
The presentation included sales targets and an exhortation: "Together we will hit the headline forecast."

The last line of the presentation states: "Focus on QUANTITY and $VALUE of trades: more trades = more commission $$$ for you."

McGuire's approach to his brokers is featured in the audio clip, once posted on YouTube, of his internal phone call to Howarth, the star broker.

McGuire: Benny, how are you son?

Howarth: Yeah, good mate, good.

McGuire: Um, can you just spend whatever – I know it's not hard for you because you are a very good spender of people's money – ah, can you spend whatever you have got in your accounts?

Howarth: Yeah.

McGuire: Can you spend whatever you have got in your accounts?

Howarth: Yeah, no, I'll try. Yeah, I'll try, I know.

McGuire: Just get it, exhaust it, because they are phoning me every day [asking], How are you going to [reach] budget?

Peter Dvorak, a former compliance officer with CWA, said customers lost money because "that's the nature of those [financial] products".

"The more you know about them the less you want to get involved in it," Dvorak said. "There was a comprehensive product disclosure statement but I think most people would not read it."

CWA has not escaped the notice of the corporate watchdog, the Australian Securities and Investments Commission. An internal complaints register shows ASIC contacting CWA three times in late 2005 and early 2006. The complaints were successfully addressed by CWA. In Glengarry Glen Ross, the empty pursuit of money is ruthlessly exposed. It appears McGuire has taken a leaf from his favorite movie to play “the man's game” – and it is the investors who have been burnt.

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Part 3

Currencies in Action

Introduction

I began my career in the early 80's, after earning an accounting degree, as a global commodity trader selling and buying beef for a Japanese trading company that at the time was one of the largest corporations in the world. I would match a buyer and a seller of beef and then consummate the deal by agreeing on the pricing, locking in the exchange rate, arranging the shipping insurance documentation letter of credit, etc. I had the entire risk of the transaction with only a percent to be made on the trade. I learned very quickly that one does not want to take any risks as profit can be very quickly eroded, thus leaving the trader broke. Currency risk was not something on which to speculate, and every day I would go forward on the Aussie dollar to the Yen, the USD or another currency.

I lived through the floating of the Aussie dollar and the Japanese yen and was thankful that I did not have exposure to the variations in rates as my profits would have been wiped out many of hundreds of times over. During that time, I made friends with many of the Forex traders, including one who was the market maker in the Aussie dollar and the Canadian Dollar. He and his firm possessed keen knowledge of the market and all of the trades that took place so they would manipulate trades in order to make a large profit. My father taught me that there was a golden rule: "He who has the gold, makes the rules." The equivalent in this case would be the market maker. Since he had the gold, he would make the rules.

I read news reports with great interest some years ago stating that Europe was more efficient and had less debt, which explained why the Euro was worth so much more than the USD. As I sat in a restaurant in St. Tropez three years ago, I questioned why the cup of coffee I was drinking was $8.00 versus the $2.00 I paid in the United States, especially as I knew that the cost on inputs was largely the same. If Europe was so efficient and much more productive, then my coffee should be cheaper. Well, having done business in most of the countries in Europe I know that the efficiency thing is a fallacy. Likewise, when you sit with one of the heads of the Ferragamo clothing empire in Italy and ask him how we should think about Italy, a country with 60 million people, and he says, "Communist," where is the efficiency? If you also knew that Greece had serially defaulted on debt between 1800 and the end of World War II, then you would know that not repaying debts was serially ingrained in the country's culture. In addition, you would realize that the market maker wanted you to believe the story that Europe was more efficient and had no debt. As they manipulated the currencies, they could make a huge profit.

Early this century, England gave up its rights to global currency to the United States, which was England's cheap labor outsourcer at that point in time. As U.S. internal demand took off and overtook that of the UK, just due to sheer volume of consumers, the USD became the global currency. Well, if you look at who started the industrial revolution, it was the UK, with 60 million people and the U.S. with 300 million current population. This is roughly the same ratio as the United States to China, which was the United States' cheap outsourcer. It is not hard to extrapolate that ultimately as internal demand in China takes over, there will be a tug for China's currency to be the global currency. When this will occur is anyone's guess as a lot of Chinese remember Mao Tse

Tung and Tiananmen Square. Really, if you want to have your money anywhere in the world where would you put it for the time being? Most likely, your decision would be to put your money in the United States. Likewise, if you were a Russian oligarch, would you leave your money in Russia where you may lose favor and be executed by one of your old KGB mates, or in a country in which at least you can visit your money and have a good time without risking it being confiscated by the government or your old mates?

Why is the Latvian Lat Worth More Than the US Dollar?

01/30/09

Dear Straight Dope: F

I was recently in the company of a person from Latvia who told me that their dollar has always been worth more than the American dollar. I found this hard to believe and looked it up and sure enough, it is almost double the U.S. dollar! How is that possible if we're the richest country in the world? How are currency rates determined? Why is the British pound always worth more than the U.S. dollar and what's up with *Latvia*'s dollar being worth more than ours?! Do they have a lot of gold in their hills? Is it oil? Has the whole world gone crazy? Please help, I'm . . .

— Losing It

Man, where to start? Just because a country's basic unit of currency is worth more than ours doesn't mean the country is richer. If you think that 100 pennies is "richer" than 10 dollars because the absolute number is bigger, then we're not going to have much luck dealing with foreign exchange rates.

Think of currencies as if they were units in different systems of measurement, like inches and centimeters. You can convert inches to centimeters because you know that 1 inch = 2.54 cm. That doesn't mean things measured in inches are bigger than those measured in centimeters. Same with foreign currencies. As of today (Sept. 1, 2003), 0.57 Latvian lats = U.S. $1, and U.S. $1.75 = 1 Latvian lat. In itself this means nothing. With me so far?

A common myth is that if a currency is worth less than $1, it's weaker than the U.S. dollar, and if it's worth more, then it's stronger. Your Latvian friend is trying to pull this on you, but it's nonsense.

There is no necessary relationship between the exchange rate of a foreign currency relative to the U.S. dollar and the strength of the issuing country's economy or its wealth. Consider a few examples. Some of the strongest currencies other than the U.S. dollar (that is, ones preferred by investors, because their value is stable) are the British pound (at 0.63 per dollar), the Japanese yen (at 116 per dollar), the Swiss franc (at 1.40 per dollar), and the European euro (at 0.90 per dollar). The yen is a particularly striking case. Although the Japanese have had their problems in recent years, they still have one of the largest economies in the world and are wealthy by any standard. Yet one yen is worth less than a penny.

Currencies worth more than a dollar include the Bahrain dinar (at 0.38 per dollar), the Maltese lira (at 0.38 per dollar) the Cayman Islands dollar (at 0.83 per dollar), the Omani reale (at 0.38 per dollar) and the Jordanian dinar (at 0.70 per dollar.) All of these are from small-to-tiny countries with economies to match and in some cases considerable poverty. The gross domestic product of Jordan, for example, was only U.S. $1,553 per capita in 1998. None of these currencies is a major factor in international trade.

Another way to think about currency exchange rates is that they're like stock prices. The fact that one company's stock price is higher or lower than another's doesn't necessarily tell you anything about which company is stronger or the better investment. You decide that based on the movement of the price over time.

That's the key, you see--the trend over time. It's fairly easy for a country to artificially boost the value of its currency in the short term. One way, often employed by countries plagued by hyperinflation, is to replace old simoleons with new ones at some fixed ratio--say, 100, 1,000 or even 10,000 to 1. That's what happened in Latvia. Up until 1991 Latvia was part of the Soviet Union and used the ruble. After independence Latvia issued its own rubles whose value was pegged to the Russian ruble. Economic conditions were unsettled and the value of the Latvian ruble soon tanked--at one point the exchange rate was 105 Latvian rubles to U.S. $1. In 1993 the Latvian government decided to replace the Latvian ruble with the lat at a rate of 200 to 1. That made the lat worth about $2, and it has devalued slightly since then.

After the government does its thing, the implacable forces of the market take over. Had inflation continued in Latvia, the value of the lat would soon have plummeted and today it might be worth only pennies. However, if you believe what you read on the Web--I know I believe everything *I* read--Latvia has pursued "sound money" policies over the past few years and the value of the lat in consequence has remained stable (and recently has increased) relative to the dollar. That's good, but it still doesn't mean Latvia is rich. Latvian citizens on average have only a quarter of the purchasing power of citizens of European Union countries.

I think that basically answers your question. But you may still wonder: Why do the values of currencies fluctuate relative to one another over time? How are rates determined? If you've taken Econ 101, you can guess the answer--it's all a matter of supply and demand.

Earlier I said you should think of different currencies as being like different systems of measurement, such as inches and centimeters. Unlike the conversion ratios for measurements, though, currency exchange rates are constantly shifting. The conversion rate for Latvian lats to dollars changes every day, in fact, more often than every day. What's more, there's not just one conversion rate, but different rates for different circumstances. To understand that, we need to start with how currencies work.

WHY ARE THERE DIFFERENT CURRENCIES?

Today we take it for granted that each country issues its own currency to facilitate trade. Centuries ago things were handled more casually. The U.S., for example, didn't declare the dollar the standard monetary unit until 1785 and didn't issue its own money until 1794--before then we used whatever foreign cash we could get our hands on. Now everyone's more organized. The U.S. has the dollar ($), in the U.K, it's the pound (£), in Japan, the yen (¥), etc. Many countries use the dollar sign ($) for their currency--in Mexico, for instance, prices are labeled $10 meaning 10 Mexican pesos. To avoid confusion, the international financial community has developed a set of initials: USD for U.S. dollars, GBP for British pounds, JPY for Japanese yen, MXP for Mexican pesos, and LVL for Latvian lats, for instance.

WHY DO YOU NEED TO EXCHANGE CURRENCIES?

You need to convert money because, generally speaking, in any given nation, only the local currency is legal tender for trade. A U.S. tourist cannot walk into a restaurant in Tokyo and pay with U.S. dollars--the cashier in all likelihood will only take yen. U.S. dollars are not recognized as legal tender in Japan. Fortunately, American tourists can stop at a bank or currency exchange kiosk that will exchange dollars for yen so they can buy things in Japan. Likewise, Japanese tourists exchange yen for dollars when they visit the U.S.

A few exceptions to the general rule, before we go on:

- In the early days of American independence, each state had its own currency. If you went from Philadelphia to New York, for instance, you needed to convert currency. For instance, by November 1777, Samclem tells me, it took two Pennsylvania dollars to buy one New York dollar. Fortunately, the U.S. Constitution established that currency be regulated by the federal government and not the states. Thus we now have one U.S. currency that is recognized and accepted in all states, greatly simplifying interstate commerce, I'm sure you'll agree.
- The European Union last year adopted a single currency, the euro (€), which is presently used in twelve European countries (more will join in future.) Back in the 1990’s, if you were traveling in Europe, you would buy things in France with French francs, in the Netherlands with Dutch guilders, and in Germany with deutschmarks. Now all those countries use the euro. The euro is also accepted in several other countries, such as Monaco and the Vatican.
- While the general rule is that you must buy things in a local currency, there are exceptions, and many countries will accept U.S. dollars as payment. These are usually third-world countries with weak economies and high inflation, and locals are willing to accept dollars. If you are travelling, you should check first to find out the situation--a French bookseller would be highly offended if you offered to pay in dollars, whereas a Kenyan bookseller might be quietly glad to take dollars.

Tourists, of course, are only minor players in the great game of currency exchange. Companies engaged in international trade and investment, on the other hand, must routinely convert enormous sums. For example, a company buying timber from Brazil must convert U.S. dollars into Brazilian reais. Large companies, and even small investors, can "play" the investment markets, gambling on currencies the way most investors gamble on stocks. An investor might convert funds from U.S. dollars into Swiss francs, for instance, to invest in (let us say) higher interest-paying accounts.

HOW ARE THE OFFICIAL EXCHANGE RATES DETERMINED?

As we said before, not only do rates change constantly, there are several different rates, just to make life confusing. No universal rules apply--it's basically a matter of barter. Factors affecting the official exchange rates include: (a) the market, (b) government policies, and less importantly, (c) history and (d) banks.

First, a quick definition. When two parties agree to exchange currency and execute the deal immediately (or that same day), the rate they agree upon is called a "spot rate." When you as a tourist convert your currency at a bank or kiosk, the bank uses the spot rate of the day.

Market factors

Exchange rates are primarily determined by the interaction of supply of and demand for one currency relative to another. If many people want U.S. dollars and few want Latvian lats, and there are lots of lats--I bet currency traders love saying that--then the dollar will appreciate against the lat. Things can go the other way, too. Browsing some more on the Web, I find that between early April and mid-June of 2002, the dollar depreciated against the lat from LVL 0.645 (roughly) to LVL 0.613. That trend has continued, since the dollar today is valued at LVL 0.57. So while the lat has depreciated a bit against the dollar since 1993, your Latvian friend can comfort himself with the thought that it has strengthened lately.

Government policies

The spot rates that banks use are generally based on published information. Each government announces its "official" exchange rate (these are the ones printed in the *Wall Street Journal* each day). The actual rates that banks use can vary from the published rates.

Governments have policies for setting their currency rates, some less logical than others. In times of inflation, for instance, a government tends to print more money, which raises the supply, making it easier to borrow money, causing a demand for more goods and services, and so the inflation spirals. By affecting the supply, the foreign demand, however, may decrease, and the currency will devalue over time. For instance, many Latin American countries, faced with hyperinflation in the 1980’s, tried to freeze their currencies. That didn't stop inflation or devaluation and was a pretty stupid policy, but there you go.

Governments that maintain too tight a rein on their currency run the risk that no one outside the country will want that currency. That was a problem with the Communist regimes before the fall of the Soviet Union--their local currencies were worthless on foreign markets. As I write, the U.S. government is requesting that China unfreeze its government-controlled currency, to allow market factors to affect the price.

History

Currency rates generally aren't completely arbitrary; they reflect history. As I've indicated, some countries change their currency in the face of hyperinflation. In the 1980's and early 1990's, Brazil changed its currency three times, from the cruzado to the cruzeiro to the reale, usually by dropping four zeroes. Other countries decide to stay with their currency, so you wind up with the Turkish currency being several hundred thousand to the dollar.

Banks

In some countries, official exchange rates are fixed, and every bank must (by law or by agreement) charge the same thing. In other countries, banks are free to charge what they wish, and different banks may offer different spot rates.

ARE THERE UNOFFICIAL EXCHANGE RATES?

The official exchange rate is set daily by the government, based on market factors and government policies. But there are other rates as well:

Long-term rates: Spot rates fluctuate daily, but businesses need more stability--they don't want prices to vary based on unpredictable factors. Hence, companies usually negotiate an exchange rate that they agree to use for a transaction, usually based on a 30-, 90-, or 180-day time frame for their deals. Dealing with the risk that a foreign currency will devalue against the dollar (for example) is a big-time business in the world of global finance.

Black market rates: "Black market" rates usually arise when governments freeze the exchange rates or otherwise try to manipulate the currency markets. In such cases a "black market" (sometimes called "free market") almost invariably springs up, buying and selling that currency at a market-driven rate rather than the official one.

Samclem of the Straight Dope Science Advisory Board tells me that if you went to Iraq before the war, you had to pay three U.S. dollars to buy one Iraqi dinar at the "official" rate. But if you purchased your Iraqi dinar in New York at the "unofficial" rate, your three U.S. dollars would have bought an astounding 5,400 dinar. On the other hand, I checked around and it appears there is no black market for the Latvian lat--the official rate is pretty much the same as the free market rate.

In some countries, unofficial (black market) currency exchange is illegal, so be cautious upon arriving in a country if someone offers you a better exchange rate than you'd get at the banks--you may be risking a fine or jail.

Purchasing power rates: Purchasing power parity (PPP) is an exchange rate that reflects a market basket of goods. This is sometimes called the "Big Mac" rate, the idea being that if you compare the price of a McDonald's Big Mac in different countries, you get a better idea of the true barter rate. The PPP rate is rarely used in actual transactions; it's more often used by economists trying to compare living standards. Sometimes companies use this rate to determine how much money their employees need when traveling or living abroad.

Circling back to the original question, the real way to measure whether the Latvian lat is "worth more" than the dollar is to ask how much it can purchase. Just for the helluvit, the Big Mac exchange rate as of January 15, 2003 in the *Economist* showed that a Big Mac cost $2.65 in the U.S. vs. £1.99 in the U.K., which would give an exchange rate of 0.75 rather than the actual rate of 0.63. In Japan, the cost of a Big Mac was ¥263, giving an exchange rate of 99 rather than the actual 115; and in Europe, the Big Mac was €2.75, giving an exchange of 1.03 rather than the actual 0.90. This suggests that the pound and euro are currently overvalued against the dollar, and that perhaps you could play the currency markets in the expectation of future depreciation.

IF I'M TRAVELING, HOW DO I FIND THE BEST EXCHANGE RATE?

The official spot rate published in major newspapers isn't necessarily the most attractive rate. There may be slight differences among banks, depending on the amount of regulation in that country. Usually the banks move together in setting their spot rates, due to market pressures, government regulation, or collusion. But not always. So you could do a little shopping. Be aware that the spot rate you get from an ATM is usually better than what you would get from a bank or currency kiosk. The spot rate at a hotel is usually worse.

Is shopping for the best rate worth the trouble? Depends. A tourist exchanging a few hundred dollars may lose a couple of dollars by not shopping for the best rates--big deal. But if you're a company converting millions of dollars, the extra decimal place in the conversion rates can certainly add up.

— Dex

<u>Where Else Would You or Russians Keep Your Money?</u>

04/16/09

"So many people have said that the United States was going to collapse, that people would buy other currencies, and that the States were done for. Well it looks like Russia is not a safe haven; what about China? Interesting that LP's (investors) have decided

they don't like Russia to invest in. After all what is not to like about a country where they kill dissidents just to send a message to other dissidents to shut up?!" -Aivars Lode

Limited Partners Flee Russia (from Private Equity Week)

Limited partners rated Russia as the least attractive region in which to deploy capital, according to a recent survey by U.K.-based secondary firm Coller Capital. Nearly three out of four investors surveyed said they would not invest in Russia or other ex-Soviet countries in the coming year.

"Confidence in Russia as an investment destination has declined markedly," says Coller Capital Partner Erwin Roex.

That may not be particularly surprising, given that the RTS Index, Russia's equivalent to the Dow Jones Industrial Average, has lost nearly 70% of its value since hitting a high point in May.

The hit to Russia's economy comes as lenders based outside the country have locked their coffers, credit lines have been called in and the global demand for oil has decreased. The Organisation for Economic Co-operation and Development, which tracks economic data, predicts Russia's gross domestic product will shrink 5.6% during 2009.

It is this kind of risk that has led investors to demand a premium return from funds investing there. LPs told Coller they would need a rate of return 8.6% more from a Russia-focused fund than from a similar U.S.-focused fund.

Some firms don't seem to be having any trouble securing commitments. Earlier this month, Siguler Guff & Co. closed $800 million for Russia Partners III, more than double the $355 million it had raised for Russia Partners II in 2004.

Data from Thomson Reuters (publisher of PEHub.com) suggests 22 private equity and venture capital funds have raised $6.9 billion over the past five years to invest in Russia. The actual number may be much higher though, as many firms with Russian funds have their headquarters in either New York or London.

Some of the firms that have been the most successful in their fund-raising efforts to invest in Russia over the past five years include Baring Vostok Capital Partners, which raised $1.5 billion for two Russia-focused funds; Renaissance Capital, which raised $660 million for one fund; and Alfa Capital Partners, which raised $626 million for three funds, according to Thomson Reuters.

Before the economic crisis hit, the Russian government had been working to stimulate the development of a domestic venture capital industry. In 2007, it created a $1.25 billion fund of funds, called the Russian Venture Company (RVC), which would buy a non-controlling interest in technology-focused funds investing in Russia.

The RVC backed several funds, including DFJ-VTB Aurora, Bioprocess Capital and Finance Trust—but has since fallen under government censure for the misuse of its funds. Last month, the Prosecutor General of Russia accused the RVC of funneling $222 million into U.S. banks and companies. Since the allegations, RVC CEO Alexei Korobov has stepped down.

People familiar with the matter believe the Prosecutor's case to be flimsy and say it may be the product of a less than full understanding of the venture capital financing process. The investigation into the Russian Venture Company may result in a restructuring of its operations that some feel may actually help the early stage investors there.

Although Russia has fallen out of favor among LPs in the Coller Capital survey, there has been no sign of private equity investors in emerging markets running for the hills. China and India remain strongly attractive to private equity investors. Brazil also comes out big in the survey.

For the second year in a row, investors in the survey ranked China as the most attractive destination for private equity in the next 12 months. Brazil jumped to second from number four. India was ranked third in the latest survey, down one notch from 2008.

Some 28% of LPs surveyed plan to either increase their investments in Brazil or begin investing there, Roex says.

Inflation: A Threat or Not?

08/29/09
By Dirk Hofschire, FidelityViewpoints

"In conversation I have asked why there is all this talk about inflation. I don't get it. Finally someone has articulated my thoughts about inflation. Whenever anyone told me inflation is just around the corner, I did not understand. The following article explains what caused my confusion. Enjoy!"

-Aivars Lode

Key Takeaways

Though rapid money supply growth and huge fiscal deficits represent potential inflationary pressures on the horizon, there remains little inflation in the near-term outlook due to a weak U.S. economy, deleveraging, and banks' unwillingness to increase lending.

•The timing and magnitude of future inflationary pressures will depend on the Federal Reserve's exit strategy and other uncertain factors, but there is greater risk that inflation rates rise from low current levels in the coming years.

•High unemployment makes the risks of a near-term return to a 1970's-style, wage-push inflationary outbreak unlikely, with a commodities-induced, early-2008 scenario more plausible.

•Investors may hedge against potentially higher inflation by allocating capital to asset categories that historically have held up better during times of high or accelerating inflation.

The rate of inflation in an economy -- increases in the prices for goods and services -- is of particular importance to investors because it erodes portfolio purchasing power and historically has affected the returns to stocks and bonds. This article provides answers to the following questions about inflation that many investors may be contemplating in the current environment:

1. Is inflation accelerating?
2. Why is higher inflation expected?
3. Why hasn't inflation occurred yet?
4. When will inflation return?
5. How high will inflation go?

1. Is inflation accelerating?

Despite all the headlines, actual inflation in the broader economy has remained muted, in large part due to the lingering impact of the global financial crisis and economic recession. In June, the U.S. consumer price index (CPI) declined 1.2% (on a year-over-year basis), representing the biggest fall in prices since 1950.1 Much of the decline is attributable to the steep drop in energy prices over the past year, which may reverse itself in the second half of 2009 if crude-oil prices remain near current levels. However, core CPI -- which excludes food and energy -- was less than 1.8% in June, demonstrating little inflationary pressure in general (see Exhibit 1 below).

Because there is typically a lag before inflationary pressures tend to show up in the final prices of goods and services, government measures such as the CPI generally offer little information about where inflation may be heading. Looking at a group of more forward-looking, market-based inflation indicators can sometimes provide better signals about the outlook for inflation and, as a group they demonstrate that investor inflation expectations have risen in 2009 (see Exhibit 1 below). Commodities such as gold and crude oil, which are real assets and tend to hold their value in an inflationary environment, have staged a broad-based rally from their lows in late 2008. Long-term Treasury bond yields have nearly doubled in 2009.2 The inflation rate over the next five years implied by the yield on Treasury Inflation-Protected Securities (TIPS) has climbed, showing a big increase from the five-year deflation predicted in late 2008.3
Exhibit 1: More forward-looking, market-based inflation indicators showed rising inflation expectations in 2009...

However, at these levels, the indicators do not appear to provide any support for the notion that the market expects a rapid shift to spiking inflation rates. The per-barrel price of crude oil is still 50% lower than at this point last year, 10-year Treasury bond yields remain near their lowest ever, and TIPS prices project only 1.4% inflation over the next five years.4 So far, the upward movement in these inflation indicators signaled only that investors believe the threat of deflation has abated in 2009.

2. Why is higher inflation expected?

Historically, inflation threats often have been associated with over-heating economies, where rising demand pushes up prices. With little evidence of economic strength or cost-push inflation today, the concern now is that the monetarist economic view of the world sees inflation clouds on the horizon. The godfather of modern monetarist economic thought, Milton Friedman, once stated, "Inflation is always and everywhere a monetary phenomenon." What Friedman meant was that money -- specifically changes in the supply and use of currency -- was the primary driver for changes to price levels in an economy. Friedman informally defined inflation as "too much money chasing too few goods and services." As a result, an excessive increase in the amount or use of money relative to economic output is the textbook prescription for inflation.

Today, the response by U.S. policymakers to the financial and economic crisis in late 2008 has left an aftermath of circumstances that does appear to raise the medium-term risks of inflation. Chief among them is the astronomical growth in the monetary base -- one measurement of money supply -- that the Federal Reserve (Fed) has propagated in its effort to prevent the collapse of the U.S. financial system. The U.S. monetary base has grown to roughly $1.7 trillion, more than double the level at the same time last year. The Fed took these extraordinary measures -- which include unconventional lending programs and outright purchases of mortgage and Treasury bonds -- to counteract the massive deflationary pressures building as a result of the U.S. financial crisis and consumer deleveraging. However, this level of credit is far and away more money than the economy needs for transactional purposes in a more normal environment.

Compounding the problem is the massive borrowing by the U.S. government to finance its large and growing budget deficit. Historically in other countries, huge borrowing needs have led to the temptation for central banks to inflate away the deficit, by excessively growing the money supply ("printing money") to make servicing the debt easier through the creation of cheaper money. The Fed has no doubt added to these fears of potentially monetizing the deficit by buying long-term Treasury bonds as part of its quantitative easing initiative. While monetizing the federal debt is probably not the Fed's objective, history has demonstrated on numerous occasions -- from Germany in the 1920’s to Zimbabwe in 2008 -- that massive government debt places tremendous political pressure on central banks to attempt to inflate their governments back to fiscal health.

3. Why hasn't inflation occurred yet?

Although a lot of money has technically been created, much of it so far is not being used. Economists refer to the term "velocity" of money to describe how quickly money changes hands as it is lent time and again throughout the financial system food chain. Inflation is a function not only of the amount of money, but also of its use, and a lack of velocity can offset an increase in money supply.

As shown in Exhibit 2 (below), the unprecedented expansion in the monetary base over the past year is largely comprised of a massive increase in banking reserves. Most of these reserves are "excess reserves" that represent extra money (above the required reserve ratio) that banks keep in deposit with the Fed. Bank reserves are often referred to as high-powered money because when they lend them out, they have a multiplying effect on the money supply. This can result in proliferating money expansion as the funds work their way throughout the economy by being lent out, spent, deposited, and lent out again.

However, for now, much of the increase in bank reserves is sitting idle on deposit with the Fed, which means the sharp drop in money velocity has blunted much of the dramatic rise in money supply.

Exhibit 2: The massive expansion in the U.S. monetary base (top) during the past year is largely due to an unprecedented increase in banking reserves (bottom), which could boost inflationary pressures but so far has yet to do so because banks in general have been cautious about making new loans.
Money velocity has fallen because banks remain cautious about making new loans. In general, their capital positions remain weakened, growing loan defaults continue to devour more of their profits, and restoring their balance sheets to health remains a higher priority than new lending. The excess bank reserves thus represent both the potential for future inflation as well as the explanation for why rapid money growth has yet to create current inflation.

Meanwhile, there remains considerable downward pressure on prices still in place, due to growing slack in the economy (i.e. underutilized resources, such as labor) and continued deleveraging by consumers and financial firms with heavy debt loads. With the unemployment rate at its highest level in 26 years and consumers saving more and spending less, there is little upward pressure on wages or prices for consumer goods.

4. When will inflation return?

In general terms, inflation is likely to pick up when the velocity of money stabilizes and banks start to lend out the extra reserves they currently hold with the Fed. Presumably, this will occur as an economic recovery gains traction, which should allow banks to rebuild their balance sheets through rising profits and provide a more favorable outlook for the creditworthiness of potential borrowers.

Whether the pick-up in money velocity leads to significantly higher inflation depends on how quickly the Fed pulls the reins back on the extraordinary credit it is currently providing. In theory, the Fed can take actions to reduce the size of its balance sheet and move back to a more appropriate level of money. In practice, due to the unprecedented expansion in the Fed's balance sheet, this will be a challenge.

On the one hand, as Fed Chairman Ben Bernanke described in Congressional testimony on July 21, the Fed has the power to end the extraordinary lending programs and liquidity facilities it put into place during the crisis, mop up the excess reserves in the banking system, and sell off the long-term securities (mortgage and Treasuries) it has purchased. On the other hand, the timing will be extremely tricky. If the central bank withdraws the support too quickly, it could push the economy back into a double-dip recession, similar to what happened in 1937-38. There will likely be considerable political pressure to make sure an economic recovery is in full bloom before the Fed taps on the brakes, but such timing increases the risk of leaving too much money in the system for too long. Given the sheer size of the balance sheet reductions that need to be made, perfect timing may be nearly impossible to achieve.

5. How high will inflation go?

Much will depend not only on the Fed but also on the overall economic backdrop. Given the high level of slack (i.e. underutilized resources) likely to remain in the economy during the next two years, there also could be offsetting deflationary pressures lingering in the system. For example, the unemployment rate is expected to rise above 10% and not peak until sometime in 2010. Industrial capacity utilization rates are at their lowest level on record, which means a lot of unused capacity in the manufacturing sector. This slack must tighten considerably before upward pressure is placed on wages and other prices. As a result of this downward pressure on wages, which remain the largest expense for corporations, it would appear a 1970's-style, double-digit inflation outburst remains unlikely in the short to medium term. Average weekly earnings for U.S. workers rose more than 7% annually during the period from 1975-1981 in which consumer price inflation averaged more than 9% and peaked at 14% in 1980.5 It is hard to foresee wage gains of that magnitude reinforcing inflation pressures during the next couple of years.

A more plausible scenario may be for prices to rise more quickly in markets where there is less slack, particularly for goods in growing demand from developing economies, such as China and India. Indeed, global commodity prices, such as crude oil, have been driven this decade more by incremental demand from emerging economies than wage growth in the United States. In mid-2008, the U.S. consumer price inflation hit an 18-year high of 5.4%, driven mainly by commodity price spikes, and despite the fact the U.S. economy had already been in a recession for six months.

As a result, if the Fed is not quick enough to withdraw liquidity as money velocity picks up, prices somewhere are likely to rise. Rampant, broad-based inflation may not occur if the U.S. economy remains well below its potential rate of growth, but the presence of continued slack is unlikely to completely prevent inflation from rising. The pattern, however, may look more like 2008 than the 1970's.

Investment implications

Exactly how long it takes inflation pressures to build in the U.S. economy and how strong those pressures become remains to be seen. Those who take comfort in current low levels of inflation may underestimate the potential pressures building, while those who assume a violent outbreak of inflation is imminent and inevitable may be ignoring important countervailing trends that could keep inflation lower for longer than many investors currently expect. At any rate, from current low or negative levels of inflation, the greater risk is clearly that price levels will rise in the coming years. Investors may want to hedge against this risk by adding asset categories to their portfolios that have historically held up better during times of high or accelerating inflation (see the MARE article, Real Return Strategy: Hedging Against the Risk of Higher Inflation).

Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

Investing involves risk, including risk of loss.
Past performance is no guarantee of future results.

1. The CPI -1.2% year-over-year decline in June 2009 was the lowest on record since February 1950. Source: Bureau of Labor Statistics, Haver Analytics, FMRCo (MARE) as of 6/30/09.
2. Source: Federal Reserve Board, Haver Analytics, FMRCo (MARE) as of 7/20/09.
3. The implied inflation rate -- or TIPS breakeven rate -- is the difference between the yield on a nominal Treasury bond and a comparable maturity TIPS bond. It provides a proxy for the market expectation for future inflation over the life of the (five-year) bonds.
4. Crude-oil price -- Light sweet crude oil (WTI, Cushing, OK) 1st expiring futures contract settlement. Source: Haver Analytics, FMRCo (MARE) as of 7/20/09.
5. Source: Bureau of Labor Statistics, Haver Analytics, FMRCo (MARE) as of 6/30/09. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. Core CPI includes all items less food and energy.

The Producer Price Index for Finished Goods tracks the average change in prices over time of domestically produced and consumed commodities. The index is comprised of prices for both consumer goods and capital equipment, but excludes prices for services. Core PCE deflator: Personal Consumption Expenditure price index that measures the average increase in prices for all U.S. personal consumption excluding food and energy. Brokerage products and services provided by Fidelity Brokerage Services, Member NYSE, SIPC, 300 Puritan Way, Marlborough, MA 01752.

Fed Makes Money on Swiss Government's 30% Excess Lending Money to UBS

08/31/09

"For all those that said that banks were not a good investment- In Aussie during the 90's collapse, the stocks that increased in value the greatest: BANKS!"
- Aivars Lode

Fed makes $14bn profit on loans provided during financial turmoil

By Francesco Guerrera in New York and Krishna Guha in Washington

The Federal Reserve has made a $14bn (£8.6bn) profit on loan programmes that provided hundreds of billions of dollars in liquidity to the financial system since the start of the crisis two years ago, according to Fed officials.

The internal estimate is based on the difference between the fees and interest on the lending facilities and the interest the Fed would have earned had it invested the funds in three-month Treasury bills.

The central bank earned about $19bn in income from charging interest and fees to financial institutions and investors that tapped the new facilities to obtain much-needed funds during the turmoil. The interest the Fed would have earned by investing the same amount in T-bills was an estimated $5bn, leaving a $14bn gain since August 2007.

The Fed assessment underlines the possibility that other central banks could make a profit on their crisis-fighting measures - at least before adjusting for the risk they assumed.

The calculation, which has neither been audited, published nor risk-adjusted, only deals with its liquidity facilities.

Those include discount window and Term Auction Facility loans to banks, currency swaps with other central banks, purchases of commercial paper and financing for investors in asset-backed securities.

The figure is not a complete picture of Fed finances as it excludes its company-specific bail-outs and purchases of long-term assets.

The central bank is still exposed to the risk of substantial losses on its Maiden Lane portfolios - pools of assets financed as part of the bail-outs of Bear Stearns and AIG.

And the estimates do not include unrealized gains or losses on the Fed's portfolio of mortgage-backed securities and Treasuries purchased as part of its $1,750bn asset purchase programme that provides an additional stimulus to the economy.

The central bank earns interest on these securities as it does on its loans. But it could face losses if it has to sell them when interest rates are higher than when it purchased them.

The Fed declined to comment.

Some politicians have criticized the Fed for using billions of dollars of public funds to support the market and stricken groups such as AIG and Bear. The Fed's balance sheet has ballooned from $800bn in 2007 to about $2,000bn.

The Diminishing Dollar

10/28/09

From *The Economist* print edition

Why it’s unlikely to turn into a dangerous collapse

ONE of the few calamities that has not befallen the world economy during the past two years is a dollar crash. During the bubble era that preceded it, many (including *The Economist*) fretted that foreigners, tiring of America’s gaping external deficits, would send the greenback slumping and interest rates soaring. In fact, the opposite occurred. The crisis began within America, and the deeper it became, the more the dollar strengthened as fearful investors sought safety in Treasury bills. Between September 2008 (when Lehman Brothers failed) and March 2009 (when America's stock markets hit bottom), the dollar rose by almost 13% on a trade-weighted basis.

That history is worth bearing in mind when assessing the latest bout of fretfulness about the dollar's future. For the past six months the greenback has been sinking steadily, hitting a 14-month low against a basket of leading currencies and $1.50 to the euro this week. The slide has unnerved policymakers in economies whose currencies are rising (see article), notably Brazil, where a 2% tax on foreign capital inflows has been imposed. Coupled with the extraordinary looseness of American policy, the weak dollar has also revived fears of a currency crash. With the budget deficit in double digits and the Federal Reserve's balance-sheet swollen, dollar bears are once again forecasting that the slide could become a rout and spell the end of America's status as the world's reserve currency.

This dollar declinism is overblown. It exaggerates the scale of the slide and misunderstands its cause. Much of the recent weakness simply reverses the earlier safe-haven flight to dollars, a sign of investors' optimism about riskier assets rather than their fears about America's currency. On a trade-weighted basis the dollar today is close to where it was before Lehman failed. Yields on Treasuries have not risen and spreads on riskier dollar assets continue to shrink. If investors were growing leerier of dollars, the opposite should have occurred.

Furthermore, a weaker dollar is what you would expect, given the relative cyclical weakness of America's economy. Thanks to the hangover from its financial crisis, America's recovery will be slower than that of other economies, especially emerging ones. That suggests America's monetary policy will stay looser for longer, pushing the dollar down. A weaker dollar should also assist global economic rebalancing by helping to reorient America's economy towards exports. So in general, it should help rather than hinder the global recovery.

Still worried after all these years

That does not mean the worriers' fears are baseless. Three dangers remain. First, the dollar's decline is distorted. The world's most buoyant big economy, China, has kept its currency tied firmly to the greenback. This is stymieing the adjustment of China's economy, fuelling dangerous domestic asset bubbles and placing an unnecessary burden on other, more flexible currencies. Second, America's fiscal and monetary policies are unsustainable. The public-debt burden is set to double and, on today's policies, will still be rising in a decade's time. Third, the financial crisis has accelerated the relative shift of economic heft away from America—which will hasten the eventual erosion of the dollar's dominance.

Even so, this is unlikely to provoke a sudden crisis. Although America's fiscal mess will last for years, it is not acute (see article). Inflation will not soar suddenly. With neither the euro nor the yuan yet ready to usurp it, the dollar will not quickly lose its reserve-currency status. The lesson of the past year is that it is still a currency to flee to, not from.

None of this absolves American policymakers from hard choices. But a dangerous collapse in the greenback is unlikely.

When Will the USD Lose its Reserve Currency Status?

03/14/10

"One of the better articles that I have seen that has explained the position of the USD."
-Aivars Lode

U.S. dollar is still the world's most trusted currency
By John Waggoner, USA TODAY

The U.S. will spend about $1.8 trillion more than it gets in revenue this year. Next year, it will add an estimated $1.2 trillion to the debt.

Expenses in the billions may not attract much attention these days, but when it gets to the trillions, people sit up and take notice. In a CNN/Opinion Research poll conducted in January, 83% of those polled thought the federal budget deficit was extremely important or very important. The debt and the deficit are enormous political issues and will likely play a big role in the 2012 elections.

IMPACT: What U.S. debt means to consumers
MONEY TIPS: Get our free Personal Finance e-mail newsletter
But there's one big group that's singularly unimpressed by the size of the deficit: the world financial markets.

As big as the U.S. debt is, it's not as bad as many other countries' debt, relative to gross domestic product. No other country has a currency as strong or as well-regarded as the U.S. has, even with its current fiscal woes.

Could the debt eventually push the U.S. away from its status as a reserve currency and into second-tier status?
"It's very difficult for a reserve currency to lose that status," says Kristin Lindow, vice president at Moody's Investors Service. "It takes another nation to take its place, and right now, there isn't one."

As long as the U.S. looks better fiscally than other nations, it will be able to finance its deficit. But that doesn't mean it can continue to bleed red ink forever. In the short term, interest rates are likely to remain low as the Federal Reserve tries to nurse the economy out of recession. In the long term, however, unchecked borrowing could lead to higher interest rates and slower economic growth. As such, the debt has serious implications for savers and investors.

Fears of dire economic consequences have mounted as the U.S. annual budget deficit has soared — and the warnings aren't just coming from Republicans. President Obama last month created a bipartisan panel to rein in the nation's deficits. In November, Treasury Secretary Timothy Geithner called the deficit too high. And Federal Reserve Chairman

Ben Bernanke is worried about the deficit, too. "We have a debt that will continue to grow," Bernanke told Congress in February. "It's important to look at the deficit as it goes forward."

But even though the nation's debt, relative to gross national product, is the highest since World War II, the financial markets seem unconcerned. Investors eagerly buy our debt and use the dollar as the premier trading currency worldwide.

Auctions tell a tale

To get some idea of the demand for Treasuries, just look at the most recent auction. On March 8, the government sold $136 billion in Treasury bills — short-term, government-backed IOUs. Of that, about $29 billion was new debt. The rest was rolled over from maturing debt.

You'd think that a borrower that added billions more to its debt each week would be getting the stink eye from lenders. But not when the borrower is the U.S. government. Monday's Treasury auction was an astonishing success: Investors bid $4.27 for every $1 of debt the government had to sell. The yield: a rock-bottom 0.15%. That same day, the dollar was in the middle of a two-month rally. A stronger dollar means a buck buys more of a given currency. A euro cost $1.37 on March 8, down from $1.51 on Dec. 3.

And the dollar remains the premier currency of world trade. Oil is bought and sold in dollars, for example, and more than a dozen countries, including China, peg their currencies to the greenback. About 61% of bank foreign reserves are denominated in dollars, according to the International Monetary Fund.

So far, there's no other currency that has the liquidity and acceptance of the U.S. dollar. "From the market's standpoint, other currencies and other economies have more serious and immediate fiscal concerns than we have here," says Brad Tank, chief investment officer for asset management firm Neuberger Berman.

Even though China may grouse about U.S. deficits, it doesn't have many other places to put its reserve currencies. And if China suddenly sold its $1 trillion in dollar holdings, its currency would soar, making its goods too expensive for the U.S., its largest trading partner.

Last year, the dollar got hammered vs. the euro. But the recent debt crisis in Greece is driving home the message that the euro has considerable drawbacks. Greece rattled the European Union by revealing that it had far more debt than previously thought and may need a $35 billion bailout to pay its debts. At the moment, there's no clear system for bailing out EU countries, and traders fear that the Greek problem will spread.

Problems all over

"The Greek problem is only part of the problem," says G. Kenneth Heebner, manager of CGM Mutual, one of the nation's top-performing mutual funds. "Other countries —

Spain, Italy, Ireland — have similar problems, and it will take some time to get those problems fixed."

Alternatives to the dollar have myriad drawbacks. The Chinese yuan, which most people feel is an eventual successor to the dollar as a reserve currency, is still pegged to the dollar, and it is not fully convertible to foreign currencies. The British pound, the world's reserve currency until the dollar took over, has its own problems: Britain has an even higher debt-to-GDP ratio than the U.S. does. Japan's debt-to-GDP ratio is nearly 100%, the worst among developed nations, and there simply aren't enough yen in the world to carry the burden of global trade.

What about gold? Although most banks have gold reserves — China and India have added to theirs recently — there just isn't enough of it to handle the world's $60.6 trillion GDP. Mankind has mined about 161,000 tons of gold, most of which is still in use. Those 161,000 tons are worth about $5.7 trillion at today's prices, less than half U.S. GDP.

But not forever. No country or currency stays on top forever, and some see signs that the dollar is already starting to slide.

"The entire sovereign sector is being challenged from the standpoint of deficits and supply going forward," says Pimco bond wizard Bill Gross. "The U.S. is at the top of the heap, but investors are beginning to worry whether the checks are unlimited."

One sign that caution is beginning to creep in: Insurance against U.S. Treasury default cost about a quarter of a percentage point before the 2008 credit crisis. It's now about half a percentage point, Gross says. Pimco writes some of that insurance, he says, because it thinks a U.S. default isn't going to happen. But the premiums are going up because more participants are growing wary.

If the dollar does fall out of favor, it will do so gradually: It took the British pound more than 60 years to lose its reserve currency status, says Moody's Lindow. For example, China remains one of the largest buyers — and holders — of Treasury securities. One reason it buys is to keep its own currency cheap vs. the dollar. But the Chinese have been net sellers of Treasuries in recent months, Gross says.

It's unlikely that the Treasury won't attract enough buyers at an auction, or that the dollar will collapse on the global currency markets, or that the Fed will flood the market with debased dollars to pay the debt. The Fed seems to have stopped pumping money into the system, says Richard Asplund, research director at Barchart.com, and it has stopped buying Treasury securities in the secondary market. Sooner or later, it will reverse course and start taking money out of the system, Asplund said. As a final step, the Fed will start to raise short-term interest rates to ward off inflation.

Even though politicians — and much of the public — are worried about the dollar, few on Wall Street or the world financial markets seem to be.

"You can say whatever you want, but the dollar is the currency of last resort," says Asplund. "It's the currency people want in a crisis."

The financial world is supporting the U.S. debt and the dollar because there's no reasonable alternative at the moment, but it may not be able to overlook the nation's fiscal condition forever.

"When debt to GDP reaches 90%, as it looks like it will, interest rates rise, growth slows and bad things happen," Gross says. "That's the potential going forward — not a default."

Greece Bail Out – We Have Not Learned From the Past

03/30/10

"This excerpt is taken from the preface of the book <u>This Time It Is Different: Eight Centuries of Financial Folly, An Empirical Study and Database of Financial Crisis</u>.

> ***"From 1800 until well after World War 2 Greece found itself virtually in continual default of its sovereign debt obligations"***

The book discusses that many countries that have previously been in default end up in the same place again as the lending is justified as 'this time it will be different.' How many times have we heard that before? I wonder if that is why there is a saying 'Beware of Greeks bearing gifts?'"
-Aivars Lode

Europeans Agree on Bailout for Greece.

BRUSSELS—Leaders of the 16-nation euro zone, bridging sharp philosophical divides that tested the decade-old currency bloc, backed a deal under which they and the International Monetary Fund would jointly bail out Greece should the country's debt troubles intensify.

The agreement won't immediately trigger a Greek rescue, but it lays the groundwork for both the first intervention by the IMF in a euro-zone country and a major relaxation of the tight restrictions on country-to-country bailouts that have been a feature of the currency union since its birth. The accord suggests Greece's financial travails are forcing the euro zone further along a path to greater economic coordination that has been resisted by national governments.

France gets on board for a possible Greek aid package as a senior Chinese central bank official criticizes the handling of the Greek debt crisis.

The European Union has been riven for weeks by disagreements over how to handle the troubles with Greece, which is running heavy budget deficits and struggling to refinance its hefty debt.

Germany, Europe's largest economy, made the IMF's involvement a condition of its own participation in any Greece bailout. Voters and lawmakers in fiscally frugal Germany are loath to open their wallets to bail out more free-spending peers, and the IMF would absorb a chunk of the cost. France saw turning to the IMF—normally a route for developing nations—as an embarrassment to the wealthy bloc, but it dropped its objections in exchange for Germany's agreement to lay out explicit arrangements for a rescue.

Only one western European nation—Iceland, in 2008—has received aid from the IMF since 1976, when the U.K. took a humbling loan from the fund.

French President Nicolas Sarkozy and German Chancellor Angela Merkel hammered out the compromise here Thursday just hours before a meeting of all 27 EU nations. Under the terms of the deal, EU nations would direct any bailout—and provide a majority of its funding through direct loans—and the IMF would play a supporting role. The Franco-German accord was backed later in the evening by all 16 members of the euro zone.

Mr. Sarkozy said the agreement "represents an insurance policy for Greece, allowing it to implement the courageous reforms that it has entered into without being penalized by speculation and irrational behavior by the markets."

In unusually frank acknowledgments, EU leaders said the inclusion of the IMF was a practical necessity. "It was the only way to reach consensus," European Commission President José Manuel Barroso said.

The European portion of the aid for Greece wouldn't be automatic, the text of the accord said, and would come only as a last resort, in the vaguely defined event that "market financing is insufficient." Greece has more than €20 billion ($27 billion) in debt coming due in April and May, and Greek officials hope they'd be able to get access to at least that much.

The Franco-German compromise gives Greece long-sought specific assurances of European aid—but also preserves for Ms. Merkel a veto over pulling the trigger: Euro-area countries must agree unanimously before dispensing any aid, according to the agreement.

Greece has argued for weeks that the interest rates of more than 6% that it must pay to borrow money from bond markets are unacceptable. Prime Minister George Papandreou has been pressing his EU peers to help reduce Greece's borrowing costs.

But a senior German official said high borrowing costs wouldn't be enough to trigger the package. "'Insufficient' [market financing] should not be understood to mean 'uncomfortable' or 'burdensome,'" the official said.

"The fact that the euro group and the IMF are saying that they are guaranteeing that they will not abandon Greece should be enough to lower spreads," EU President Herman Van Rompuy said.

European Central Bank President Jean-Claude Trichet continued to voice reservations about a prominent IMF role in a Greek rescue. "If the IMF or another body exercises responsibilities in place of the Eurogroup or governments, this would obviously be very,

very bad," he said in an interview with Public Senat television. Later, Mr. Trichet described himself as "extremely happy" that the euro zone reached a deal.

After his initial comments were reported, the euro slipped below $1.33, touching new 10-month lows, a sign that the leaders' agreement may not immediately restore financial-market confidence in the euro zone.

Loans from EU countries would be at rates high enough to prod Greece to raise money in the capital markets, according to the agreement, which gave no figures and said nothing about the size of any financing package. The IMF, which lends under its own rubric, would almost certainly provide better terms for its tranche. The IMF on Thursday declined to comment.

Earlier Thursday, several European leaders, including Spanish Prime Minister José Luis Rodríguez Zapatero, the prime minister of the Netherlands and the finance minister of Austria, had signaled they'd be open to a joint EU-IMF plan.

While aid is deeply unpopular in Germany, others, like France and Luxembourg, which regard the euro as the bloc's greatest creation, see defending the currency's stability as an end worth paying for.

The Greek turmoil and Europe's slowness to stem it have raised questions about the currency's future.

Euro-zone countries have struggled for more than a month to figure out the means of providing aid, after saying, vaguely, in February that they would do something if necessary.

There is no instruction manual for rescuing a euro-zone country nearing default, and the EU's treaties contain provisions restricting countries from assuming their troubled peers' obligations.

Those provisions were installed at the common currency's birth largely to placate Germany, which worried that it might one day be pressured to use its hard-won economic muscle to help a less-frugal peer.

Precisely that situation came to pass this year when it became clear Greece, saddled with mounting debt and deficits, might not be able to refinance its heavy debts.

Germany, reluctant to risk its taxpayers' money for financially wayward Greece, held out against aid. But it signaled last week that it would lend support to a last-resort system of loans from stronger countries to Greece. Its price: The IMF had to be involved, too.

A month ago, that was anathema to many on the continent—particularly the French, who saw it as an admission that the euro zone couldn't handle its own affairs. Luxembourg premier Jean-Claude Juncker, president of the council of euro-zone finance ministers, called the idea of IMF involvement "absurd," hypothetically comparing it with the U.S.'s turning to the fund for a bailout of California.

But in a sign of Germany's economic sway over the bloc, Berlin got its way.

Ms. Merkel, before leaving for Brussels Thursday morning, told the German parliament that she was in favor of an aid plan that "in an emergency" would include both loans from EU countries and "substantial" help from the IMF.Ms. Merkel, before leaving for Brussels Thursday morning, told the German parliament that she was in favor of an aid plan that "in an emergency" would include both loans from EU countries and "substantial" help from the IMF.

Ms. Merkel also said that after Greece's debt woes have abated, the euro zone must reopen EU treaty negotiations to impose tough new measures and sanctions to prevent such problems in the future.

"We've seen that the euro zone's current instruments are inadequate," Ms. Merkel said.

Greece's government deficit hit nearly 13% of gross domestic product last year, way over the 3% limit prescribed by euro-zone rules. Its debt was 113% of GDP, against a 60% limit. Years of efforts by EU officials to nudge Greece into changing its ways have had little effect.

Ms. Merkel said she supported German Finance Minister Wolfgang Schäuble's proposal for a European Monetary Fund, and the power to exclude profligate countries from the common currency bloc—both radical new measures that would require a lengthy ratification process and the approval of all 27 EU member states.

"I will also champion the necessary treaty changes," Ms. Merkel said.

The troubles in Greece, which represents just 2% of the EU's economy, have weighed heavily on the common currency. The euro is off about 7% against the dollar since the beginning of the year.

—Andrea Thomas and Adam Cohen contributed to this article.

The Economic Woes of the Euro

04/12/10

"Thanks Aivars Senior for this little gem. Remember a little while ago the press talked about why the Euro was stronger than the USD? You can already feel that there is a story brewing about why the Euro is now weaker than the USD. Who will make money from this? The Traders!"

-Aivars Lode

Here is a new angle on the economic woes of the EU.

Speaking of weak European countries, here's what's really going on there: the beer drinking countries - Germany, Austria, Switzerland, Scandinavia – are beating the pants off the wine drinkers – Greece, France, Italy, Spain, Portugal.

The sovereign debt crisis is just a symptom of the deeper problem in Europe - that the Maastricht Treaty of 1992, which established the European monetary union and led to the creation of the euro, brought together cultures that were too different to be under the same monetary roof.

The beer drinkers are far more competitive than the wine drinkers, and now, 18 years after Maastricht, those differences have created impossible pressures on the union, with the first expression of this in the form of a Greek budget crisis. The problem is that Greece can't devalue its currency to regain competitiveness, and without that there is no obvious solution apart from politically unacceptable long term fiscal austerity. Last night the euro rose strongly against the US dollar and investors rushed back into Greek shares on talk that a deal had been struck in Brussels to allow Greece to draw down an emergency loan from the EU. But the interest rate will be close to bond market yields for Greece, so that there is "no subsidy" (a stipulation of the Germans).

But there can be no end to this. Unless the rich European countries (the beer drinkers) make large and constant "welfare" transfers to the poor ones (wine drinkers), they will continue to be abandoned by bond markets, with resulting occasional crises and countries are forced to restructure their debt because they can't raise any at reasonable yields.

So why does beer lead to greater competitiveness than wine? It must be the alcohol content – 5 per cent versus 13-14 per cent. Remember that Russia is hopelessly, irredeemably, uncompetitive and its citizens guzzle vodka (40-50 per cent alcohol) like there is no tomorrow.

So there it is: the secret of national competitiveness – the subject of endless books and academic study – has been solved. It's all about the booze you drink.

Debt Caused Euro to be Worth More Than USD

05/03/10

"Well turns out that they had debt! I wonder if the consequence will be the Euro losing ground on the USD?"
-Aivars Lode

I.M.F. Promises More Aid for Greece as European Crisis Grows
By Landon Thomas Jr. and Nicholas Kulish
Published: April 28, 2010

Hoping to quell its biggest crisis since the Asian woes of 1997, the International Monetary Fund promised on Wednesday to increase the 45 billion-euro aid package for Greece to as much as 120 billion euros over three years.

The fund is racing to conclude an agreement for more painful austerity measures from Greece by Monday, clearing the way for the government to receive funding and reassuring investors worldwide that European debt is safe. On Wednesday, Dominique Strauss-Kahn, the I.M.F.'s forceful managing director, made the higher aid pledge in a private meeting with German legislators. The package would be the equivalent of up to

$160 billion and would come from both the I.M.F. and from other countries using the euro.

But as has frequently been the case during Europe's debt crisis, the promise of help was overshadowed by more disturbing news — in this case a cut in the debt rating of Spain by a major agency just a day after downgrades for Portugal and Greece.

The growing fear is that the fallout from Greece and even Portugal — which together compose just 5 percent of European economic activity — could be a mere sideshow if Spain, with its much larger economy, has difficulty repaying its debt.

While major stock markets stabilized after Tuesday's sell-off and the cost of insuring the debt of Portugal and Spain declined, the euro slid further on the news of Spain's downgrade by Standard & Poor's. Banking stocks in some of the smaller European economies were among the biggest losers on the day. Major stock indexes in the United States rose slightly, with the Dow Jones industrial average ending up 53 points, at 11,045.27.

In many ways, the current troubles in Europe go to the heart of the fund's new mission to serve as a firewall in the financial crisis — an objective that was bolstered by $750 billion in fresh capital from Group of 20 countries last year.

Unlike its previous efforts in smaller, emerging economies in Asia in 1997, and more recently in Hungary, Romania, Latvia and Iceland, the fund has been hamstrung in its efforts to act quickly and decisively by political concerns within the European Union, which insists on assuming a leading role.

"It is a problem," said Alessandro Leipold, a former acting director of the I.M.F.'s European department. "It should not be that difficult — they did it in Hungary and Latvia. But the egos are different in industrialized countries."

A case can be made that if Greece had sought help from the fund late last year after the forecast for its budget deficit doubled, the amount of support needed to reassure investors would have been much less than the 120 billion euros that even now might not be enough.

In that vein, Mr. Leipold said Portugal and Spain should ignore any stigma associated with an I.M.F. program and make the case to the European Commission in Brussels that asking proactively now for aid would soothe skeptical markets and save Europe billions in the future.

"The market has seen its worst fears come true," he said. "What it needs is a surprise on the upside."

Concerns have already surfaced in Congress that the broad demands of the sovereign debt crisis will quickly exhaust the I.M.F.'s reserves and leave the United States, the fund's largest shareholder, with the bill.

Representative Mark Kirk, a Republican from Illinois, said such a drain could occur if Portugal, Ireland and Spain sought I.M.F. aid at the same time. Mr. Kirk worked at the World Bank during the 1982 debt crisis in Mexico, which came close to depleting the fund's reserves.

"We have seen this movie before," he said. "Spain is five times as big as Greece — that would mean a package of 500 billion."

Mr. Kirk sits on the House Appropriations Committee that oversees I.M.F. funds and said that he had already asked for hearings on the fund's ability to handle a European collapse. In Athens, the Greek government had no choice but to seek an I.M.F. solution after its costs of borrowing skyrocketed, but that has not made the negotiations for aid any easier. The fund has sent one its most senior staff members, Poul Thomsen, who has overseen complex fund negotiations in Iceland and Russia, to assist Bob Traa, the official responsible for Greece, to work out a solution.

According to people who have been briefed on the talks, the aim is to secure from Greece a letter of intent for even deeper budget cuts than the tough measures imposed so far, like reductions in civil service pay, in exchange for emergency funds.

Steps being discussed include closing down parts of the little-used Greek railway system, which employs 7,000 people and is estimated to lose a few million euros a day; limiting unions' ability to impose collective bargaining agreements, which lead to ever-higher public sector pay; cutting out the two months of pay that private-sector workers get on top of their annual pay packages; increasing the retirement age and cutting back on pensions; and opening up the country's trucking market in an effort to lower extremely high transportation rates that have hindered the country's competitiveness.

With Greece now shut out of the debt markets, it has little leverage to resist — especially in light of the 8 billion euros it needs to repay bondholders on May 19. Analysts expect a deal by next week at the latest.

But whether a Greek resolution calms investor fears about the ability of Portugal and Spain to repay their own maturing debt remains unclear.

In a recent note to investors, Ray Dalio, founder of Bridgewater Associates, one of the world's largest hedge funds, described the market concern as intensely focused on Spain.

"Spain's cash flows (current-account and budget deficit) are extremely bad," Mr. Dalio and his colleagues wrote in a February letter. "Spain's living standards are reliant on not just the roll of old debt, but also on significant further external lending. For these reasons, we don't want to hold Spanish debt at these spreads."

Matthew Saltmarsh and Sewell Chan contributed reporting.

The US Dollar Index Quickly Approaches Key Resistance

05/12/10

"From Olson Global Markets USD strengthening, see previous articles discussing why this would occur."
-Aivars Lode

Financial unease triggered by soaring yields for Greek, Portuguese and Spanish debt along with worries over possible sovereign debt "contagion" send the Euro sharply lower last week triggering a race to buy gold and the U.S. dollar. Civil unrest in Greece combined with a growing perception that the ECU is being run "by committee" added to an accelerated shift toward the greenback.

While the recent panic has not yet been quelled, measures announced on Friday suggesting that Euro land's leaders plan to create a financial facility to defend the euro and create a pool of capital aimed at bringing down interest rates in its weaker sovereign economies may help to reduce fears heading into this week's trading sessions.

Technically, the U.S. Dollar Index (DXY) has soared and now appears to be aimed at a test of key trend line resistance at 86.50 while in an overbought condition on weekly charts. Due to the DXY's recent inverse relationship to U.S. equity markets, it appears that while the dollar likely has a bit more upside ahead of it (before hitting resistance at 86.50), U.S. equity markets may experience further weakness near-term.

If resistance at 86.50 halts the upward path of the dollar index however, equity prices might once again find their footing and resume their move toward higher levels.

By Jim Donnelly, Olson Global Markets

China in Trouble as the Euro Falls!

05/19/10

"Many articles posted (including October 2009) support my belief that the USD was not in trouble and that the Euro was likely to fall as the cost base was not more productive than the US, and we had not seen the debt fallout yet from Europe. Well, now we have the European debt crisis and the Euro is starting to slide. Watch how the currency manipulators incorporate the volcano eruption into the story to explain why the Euro is not worth as much as the USD."
-Aivars Lode

Europe's Debt Crisis Casts a Shadow Over China
By Qilai Shen, Bloomberg News

HONG KONG — The pain of the European debt crisis is spreading as the plummeting euro makes Chinese companies less competitive in Europe, their largest market, and complicates any move to break the Chinese currency's peg to the dollar.

The China Import and Export Fair in Guangzhou last month. The euro's slide is a threat to inexpensive Chinese exports.

Chinese policy makers reached a rough consensus early last month about breaking the dollar peg and letting the currency, the renminbi, rise in value somewhat, according to people close to Chinese currency policy makers. Uncoupling the currencies would make American goods more competitive against Chinese products. But for various reasons, China has not yet put that policy into place.

And in light of the euro's nose dive, such a move could be difficult. Letting the renminbi rise against the dollar would also mean a further increase in the renminbi's value against the euro, creating even more problems for Chinese exporters to Europe.

The euro has plunged against the renminbi in recent weeks, at one point Monday reaching its lowest level since late 2002.
The steep rise of the renminbi prompted a Commerce Ministry official in Beijing to warn Monday that China's exports could be threatened.

The official's comments were the most explicit yet on the implications for China of Europe's recent financial difficulties. The comments also suggest that even China — the world's fastest-growing major economy and increasingly the engine of global growth — is not immune to the crisis that started in Greece and threatens to spread across much of Europe.

"The yuan has risen about 14.5 percent against the euro during the last four months, which will increase cost pressure for Chinese exporters and also have a negative impact on China's exports to European countries," Yao Jian, the ministry's spokesman, said at a news conference in Beijing, according to news services, using another term for China's currency.

It is a potentially awkward moment. The American secretary of commerce, Gary Locke, is in China this week leading the first cabinet-level trade mission of the administration of President Obama.

Some economists warn that China may face more problems. The biggest reason Chinese exports plunged early last year was not weakening demand in industrialized countries but a sudden, temporary disappearance of trade finance from Chinese and foreign banks. The availability of trade finance could easily become a serious problem again soon, said Dong Tao, the chief Asia economist at Credit Suisse.

Chinese exporters rely very heavily on bank letters of credit to finance their shipments. The availability of the letters of credit is closely linked to overnight lending rates between banks. When banks have trouble borrowing money themselves — as has been happening as a result of worries about European banks' possible losses from the region's sovereign debt crisis — they tend to cut sharply the issuance of letters of credit for trade finance.

The banks see that as a quick, easy way to conserve cash without violating the terms of other financial obligations, like established lines of credit for big corporations.

Interbank lending rates surged late last week and on Monday and must now come back down very quickly to persuade banks to keep issuing letters of credit, Mr. Tao said. “Without trade finance, trade won’t happen,” he said.

The Shanghai stock market plunged Monday, with the composite index falling 5.1 percent on worries about global demand as well as concerns about possible further moves in China to limit a steep rise in real estate prices this spring.

Some Chinese companies are already running into difficulty because of the euro’s fall against the renminbi.

“We have been receiving calls from some European clients who signed contracts with us earlier this month, and they all want to cancel their orders, since the depreciation of the euro has eroded all their margins and then some,” said Elvin Xu, the sales manager of Guangdong Ouyi Electrical Appliance in Zhongshan, China, which makes gas stoves, heaters and water heaters.

“They say they cannot increase the prices at their end to their customers, given intense competition in their marketplace,” Mr. Xu added.

The renminbi is rising along with the dollar against the euro. The Chinese government has continued to intervene heavily in currency markets in recent weeks to prevent the renminbi from rising against the dollar, maintaining an informal peg of 6.827 renminbi to the dollar, the level since July 2008.

Because American companies in particular compete in the Chinese market with European companies in many industries, the euro’s weakness against the renminbi is putting American companies at a disadvantage. The American commerce secretary, Mr. Locke, said Monday in Hong Kong that Mr. Obama’s goal was to double American exports by 2015. Short-term currency fluctuations do not detract from that goal, he said in an interview, adding, “Who knows what the euro will be next month, six months from now or a year from now?”

Steve Jennings, one of the American executives traveling with Mr. Locke, said that the weakness of the euro would help European companies compete against American companies in export markets all over the world.

Gary Locke, the United States commerce secretary, on Monday with Rita Lau, his counterpart in Hong Kong. He said President Obama’s goal was to double American exports by 2015.

“As the euro continues to decline, they’re going to have some advantages,” said Mr. Jennings, the chief marketing officer of BPL Global, a company based in Oregon that manufactures electricity monitoring equipment.

Chinese leaders reached a consensus in early April to break the renminbi's peg to the dollar. That ended a dispute that had spilled into public view in March when Commerce Ministry officials warned in speeches and interviews in Beijing and Washington about the dangers of any change in the renminbi's value. The ministry halted those warnings immediately after the consensus was reached, and Chen Deming, the commerce minister, even reversed himself publicly by saying that China's trade deficit in March was nothing to worry about.

But events since then have delayed adoption of the consensus, including public attention paid to a visit to Beijing by the United States Treasury secretary, Timothy F. Geithner, followed by the Qinghai earthquake and now the euro's slide.

The United States is far from alone in calling for China to let the renminbi rise.

Government officials in Singapore, India and Brazil have also called publicly in the last three weeks for the Chinese government to break the renminbi's peg to the dollar.

Continued Chinese inaction would antagonize many commercial rivals of China, and could fuel pressures in Washington for Congress to draft trade legislation threatening restrictions on Chinese exports.

The euro's difficulties have also inflicted tens of billions of dollars in losses on the value of China's $2.4 trillion in foreign exchange reserves, according to Western economists. China had been trying to limit its dependence on United States Treasury securities for those reserves in recent years, fearing that the United States might someday suffer from budget problems or inflation, and did so by expanding its holdings of European government bonds.

But China's State Administration of Foreign Exchange, which administers the reserves, does not have to mark them to market daily — record their fluctuating value — so it is not clear what effect, if any, the losses will have on policy.

The Euro Turns Radioactive!

05/20/10

"As more of these headlines come out, what do you think will happen to the value of the Euro vs. the USD"?
-Aivars Lode

The Euro Turns Radioactive
Longer-Term Investors and Companies, Not Just Hedge Funds, Shun the Currency

By Mark Gongloff, Alex Frangos and Neil Shah

Some of the world's largest money managers and central banks have become increasingly skeptical of the euro, presenting a threat to the common currency's prospects.

In an interview with Dow Jones Newswires, John Lipsky, first deputy managing director of the International Monetary Fund, speaks about reactions to the global recession, comparisons between Greece and Japan, and plans for fiscal adjustment in Japan.

So far during the euro's months-long descent, attention has been focused on hedge-fund selling of European assets but central banks and large managers have a much-larger influence on foreign-exchange markets. Even if they don't dump euro assets, a mere pause in their buying could weigh heavily on the currency.

The euro on Wednesday rose to $1.2385, bouncing from $1.2143, its lowest level against the dollar in four years hit during the day, and from $1.2210 late Tuesday in New York. It was only the second gain in seven days against the dollar for Europe's shared currency, which has slumped nearly 15% against the dollar this year.

South Korea's central bank, which has about $270 billion in foreign-currency reserves, among the biggest in the world, said this month that the euro zone's sovereign debt problems make the euro, used by 16 nations, less attractive as a reserve currency. Iran's central bank chief this week said that country may rethink its reserves, which the Central Intelligence Agency estimates around $81 billion. And Russia, with $400 billion in foreign-currency reserves, said it shifted its mix of reserves away from the euro last year.

Mutual-fund data show that in recent weeks, European and U.S. investors have shifted out of euro-zone equity funds. Asia's largest bond fund, Kokusai Asset Management's Global Sovereign Fund with $40 billion under management, lowered its euro allocation from 34.4% in March to 29.6% on May 10, according to a company manager. And portfolio managers with huge money pools, such as Allianz SE's Pacific Investment Management Co., or Pimco, and Baring Asset Management, expressed caution on the euro in interviews with The Wall Street Journal.

To be sure, not all money managers are selling euros, and some see the currency's weakness as a buying opportunity. An adviser to China's central bank, the biggest player in currency markets with more than $2 trillion in reserves, said this week it planned to keep diversifying its vast dollar holdings, which has in the past involved buying euros.

Recent euro weakness is a sign that longer-term investors and companies, not just hedge funds, are heading toward the exits. The shift is causing worries that central banks could be next. WSJ's Mark Gongloff discusses.

China, Russia and large emerging-market holders of currency reserves have tried in recent years to shift their mix of holdings in favor of euros, expressing worries about the fiscal health of the U.S. While China's may still diversify, many banks began paring their euro exposure late last year, and the wariness has lately become more apparent.

"The program of diversifying out of dollars has come to a screeching halt," said Collin Crownover, managing director and global head of currency management for State Street Global Advisors. "If the downward progression of the euro continues, then you see outright selling of euro-zone assets, and it snowballs and gets worse."

Money flowed out of Europe at an annualized pace of $50 billion in the first two months of 2010, according to Jens Nordvig, managing director of currency research at Nomura Securities International. That pace has likely increased in recent months, contributing to the euro's recent decline.

That outflow is likely due almost entirely to large investors, partly because hedge funds likely have reached the upper limit of their ability or desire to place bets against the euro, suggests Mr. Nordvig. "Somebody new is selling now," he said.

And unlike speculative investors, long-term investors likely won't quickly change their recent behavior even if the euro enjoys a respite.

"It's too early in the evolution of this particular crisis to assume all's well and investors should jump back into places that have burned them in the past few weeks," said Scott Mather, head of global portfolio management at Pimco, the world's largest bond-fund manager.

Many "real money" investors that might be expected to buy the euro on dips in value are staying on the sidelines given Europe's discouraging economic outlook and persistent grumblings in Germany over the cost of bailing out crisis-racked Greece.

"It's making a few people think, 'What am I getting into?' " said Colin Harte, director of fixed-interest and currencies at the London office of Baring, which has more than $47 billion under management. "What if you buy the euro and the Germans vote with their feet and leave" the currency union?

While Mr. Harte would normally buy the euro at its current rate, he says he can't really predict where the euro will go from here. His forecast ranges from $1.10 to $1.34 by year-end.
Central banks, which held a combined total of around $7.5 trillion in reserves at the end of last year, form the backbone of the currency markets. Their slow and steady shifts out of the dollars they generally receive from trade or commodities exports, and into other currencies, play a big role in determining exchange rates.

Reserve managers wouldn't need to sell euros at this point to hit the currency hard. Instead, they would merely need to slow down the pace of euro purchases, and that risk is needling market watchers now.

Central banks "are not as active as they had been," said Adam Reynolds, co-head of currencies and fixed income at Societe Generale in Hong Kong. His firm, like others, processes currency trades on behalf of central banks, sovereign-wealth funds and private investors.

—Katie Martin, Andrew Monahan and Min Zeng contributed to this article.

Looks Like the US Government is Making Money From TARP!

07/10/10

" This is inconclusive; however, for all the pundits that talked about the USA printing money and likening it to Argentina and Germany after the war, it would appear that there is not much of a comparison and in contrast it appears there are a number of good investments. In line with my previous posts … Did the USA really print the money? Where are the government's investments in companies like AIG and GM recorded? Where in the USA's balance sheet and what is the value of those investments?

-Aivars Lode

Large Cap Banks July 6, 2010 Melissa A. Roberts
KBW TARP Tracker - 66th Edition

Summary—

Financial Reform legislation approved by the House of Representatives last week includes provisions to end the TARP program early, prior to its planned October 3, 2010 end date. In addition, Congress appears set to address the need for a Financial Crisis Recovery fee on banks designed in part to offset the cost of the TARP program. As a result, we are updating our TARP Tracker to review the cost and returns to the Treasury to date from the TARP program. Specifically we review the TARP CPP program, the primary program supporting banks.

Key Points--Overall, TARP CPP investments appear to provide positive returns to the Treasury. To date, Treasury invested $205B in 707 banking institutions, received repayments totaling $137B, earned income of $13B from 61 banks that fully repaid CPP (inclusive of warrant disposition), and posted losses of $2.3B. The Treasury currently has $65B remaining in outstanding CPP capital investments in 632 banking institutions. There have been missed interest payments on less than $4B of this $65B in remaining CPP capital investments.

For the 61 banks that fully repaid CPP, Treasury's average Return on Investment (ROI) is 10.3%, with six investments yielding ROIs >=20%: First ULB Corp. (29%), Centra Financial Holdings (28%), FPBF (26%), AXP (23%), FMWC (21%) and GS (20%). SBIB's $125M CPP TARP investment has the lowest ROI of 2.9%. n Banks that fully repaid CPP outperformed the S&P 500 Financials Index since disposal of the warrants. On average, these banks gained 5.5% relative to the S&P 500 Financials Index since disposal of the warrants through 7/2.

Since the 65th edition of the TARP Tracker, four repayments were made: Boston Private Financial Holdings (BPFH) - $104M, Lakeland Financial Corp. (LKFN) - $56M, First Southern Bancorp (FSOF) - $11M, and FPB Financial Corp. (FPBF) -$2M. Also, two banks auctioned their warrants: SIVB ($6.8M) and SBIB ($3.0M), and two repurchased their warrants: FSOF ($0.5M), and FPBF ($0.2M).

The Treasury Posted $2.3B Loss on CPP Investments in CIT and Pacific Coast National Bancorp. On 12/10/09, under CIT's bankruptcy reorganization plan, Treasury's preferred stock and warrant CPP investment were replaced by contingent value rights (CVRs), which later expired without value on 2/8. As a result, the Treasury's $2.3B investment in CIT is a loss. Further, on 2/11, Pacific Coast National Bancorp dismissed its bankruptcy proceedings with no recovery to the Treasury for the $4.1M in TARP it received.

Three TARP recipients (UCBH Holdings, Pacific Coast National Bancorp, Midwest Bank Holdings) are failed institutions. Ninety-eight institutions (including AIG) failed to make the most recent TARP dividend payments due in May. For further details please refer to our 6/14 edition of the KBW TARP Dividend Payments Tracker - 5th Ed.

So the Euro Should be Worth More Than the USD?

09/07/10

"In Europe, science collides with the bottom line."
-Aivars Lode

By Anthony Faiola, Washington Post Staff Writer

IN MEYRIN, SWITZERLAND Using a machine kept colder than space, scientists at the world's most ambitious international research facility are puzzling out the questions of the universe, working to re-create the cosmic soup served up by the Big Bang. But the famous institute is also facing a far more earthly conundrum: how to pay the bills.

An era of fiscal austerity is sweeping over Europe, with governments moving to slash record budget deficits and avoid a Greek-like debt crisis by cutting everything from aid for single mothers to once-sacred state jobs.

Under mounting political pressure, some countries are now balking at the mega-price tags of lofty regional cooperation projects such as the European Organization for Nuclear Research (CERN), home to the "Big Bang Machine" that sprawls for miles across this complex straddling the picturesque border of Switzerland and France.

Under orders from European governments to cut costs, CERN officials say, the institute is planning to mothball all nine particle accelerators at the facility beginning in 2012 - saving $25 million on electricity alone. The move will mean a critical period of lost opportunities for visiting research fellows and a year without fresh data for projects, including one on the cusp of trapping an atom of antimatter to better understand the early formation of the universe.

"It will now take a little longer to answer some of these questions," said Rolf-Dieter Heuer, CERN's director general.

The pressure on European science, observers here say, is yet another legacy of the financial crisis. Nations that overextended themselves in the past decade, taking on more and more debt, are now facing liabilities so large that politicians in a growing number of European countries have decided that dramatic cuts in public spending are the only answer. That stands in sharp contrast to the United States, where government spending - including on science and technology - continues to steam ahead despite the record U.S. deficit.

Some here fear that Europe could fall behind in the highly competitive world of scientific research, where it now goes head-to-head with the United States and Japan.

The new coalition government in Britain, European science officials say, is leading the austerity charge, but other nations including Italy and Spain are also warning of empty pockets curbing their contributions to science.

Britain, for instance, has said it may not be ready to commit in December to funding for a second, far more powerful European telescope on a mountaintop in Chile that could discern atmospheres on incredibly distant planets. Science officials warn that domestic cuts in Britain set to be laid out in October might also force the temporary closure of one of two high-tech national facilities near Oxford - the Diamond Light Source particle accelerator or the Isis neutron source.

To maintain programs at the European Space Agency, Germany - which has vigorously protected science and technology spending at home - is stepping in to cover shortfalls from other nations, such as Spain. But even so, the space agency is set to cut internal and administrative costs by 25 percent to cope with fiscal pressures and is waiting to see whether European governments will agree to new funding to help sustain the international space station until at least 2020.

Meanwhile, the European Synchrotron Radiation Facility in Grenoble, France - where researchers used X-ray fluorescence to illuminate the genius of Leonardo da Vinci's brush strokes and to study the skulls of ancient hominids - has been asked by government donors to assess the impact of potentially sharp cuts to its annual budget.

"We are all impacted, we are all living on the same planet as our member states," said Jean-Jacques Dordain, the space agency's director general. "And we cannot ignore that most of our member states now have budget constraints."

For years, science research in Europe has been somewhat of a sacred cow - an area in which the zeal to pioneer knowledge for commercial and academic gain spawned jointly funded mega-projects. Indeed, science officials here say they see the current fiscal pressures as temporary, with European governments remaining strongly committed to long-term research.

But the pain of austerity is particularly acute at CERN, the European atomic physics complex whose almost-mystical research - at temperatures approaching absolute zero, or minus-273 degrees Celsius - has been dramatized in books such as Dan Brown's "Angels and Demons."

A Cold War-era construct from the 1950’s, CERN was in part formed to get European nations working together again in the spirit of science. Today, much of CERN's drama centers on the Large Hadron Collider, a $10 billion particle accelerator buried 30 stories below green pastures 20 minutes west of Geneva.

Switched on in 2008, the machine made headlines for what it could potentially do - create mini black holes, even search for new dimensions - and for what it could not - which was, namely, work. Ten days after starting operations, it broke down, forcing a costly refit of its super magnets and towering circuitry that funnel along a 17-mile circular track.

Fully functional since only last March, the collider was already scheduled to go down in 2012 for year-long upgrades, leaving the center's other eight particle accelerators for its 2,000-plus researchers to work with. But with European governments now demanding budget cuts of $135 million over five years, Heuer made the decision to put all the accelerators on hiatus.

Delaying the projects for a year, he said, would avoid the need to eliminate them and give scientists time to review mountains of data collected this year and next.

The 2012 shutdown will be even more severe than the last time the center powered down many experiments in 2005, also for budgetary reasons. "Do we want to do this? No," Heuer said. "But it's the best option I had."

Reactions here have ranged from grudging acceptance to frustration. Inside a warehouse-like lab in the heart of CERN, for instance, scientists are tantalizingly close to achieving a milestone - the ability to trap an atom of antimatter long enough to study it, getting closer to an understanding of why so much of it disappeared at the dawn of time, leaving matter to spread across the universe instead.

If the project has not succeeded by the end of 2011, the 12-month delay, researchers say, will seem like an eternity, too. "It's like a 50-meter race where the runners are told to stop running," said Michael Doser, a leading antimatter research physicist at CERN.

"You can imagine what that does to the race."

Staff writer Marc Kaufman in Washington contributed to this report.

Have We Moved to More Speculators Than Real Traders?

09/22/10

"The following is from a prospectus highlighting the growth in the spot market. I wonder if this means that there are more speculators in the market now than before. I traded beef and locked in my trades by going forward on currency; this was before it was called derivatives. Trade is constant around real products being bought and sold, but spot markets are more speculative?"

- Aivars Lode

Global foreign exchange market turnover was 20% higher in April 2010 than in April 2007, with average daily turnover of $4.0 trillion compared to $3.3 trillion. The increase was driven by the 48% growth in turnover of spot transactions, which represent 37% of foreign exchange market turnover. Spot turnover rose to $1.5 trillion [per day] in April 2010 from $1.0 trillion in April 2007.

The US is Not Printing Money

09/28/10
Forbes

"See my previous comments that raise the question, 'Did the USA print the money?' Thanks, Bill, for the contribution."
- Aivars Lode

The Myth and Mistake of Quantitative Easing
Last week, the Federal Reserve said that it was "prepared to provide additional accommodation if needed to support the economic recovery." This was a signal about the potential for more Quantitative Easing (QE). The original QE took place between September 2008 and mid-2009, when the Fed's balance sheet ballooned from $900 billion to roughly $2.4 trillion. Now, some are calling for QE-2, with a few market participants calling for another trillion dollars. This would be a colossal mistake. Quantitative Easing does not boost real economic activity or inflation – it is not an injection of new money, like traditional monetary easing. Quantitative Easing is a wrongheaded approach to monetary policy that was born in the midst of a panic. It was only necessary because strict mark-to-market accounting rules made it difficult or impossible for private companies to hold risky assets. Now that these fair value accounting rules have been corrected, there is no further justification for QE. So far this year, the Federal Reserve has earned $68 billion in profits from its portfolio. More than half of this should have been earned by the private sector. These profits, which rightly belong to the private financial system, could help explain why the economy is having a difficult time recovering. At its root, the Fed's balance sheet is really no different than any other balance sheet. It has liabilities and assets and it can expand in one of two ways – through growth or by using debt. In the private sector, growth equals profits or income.

For the Fed, growth means printing money. Currency is an organic liability, created by the Fed, which is then used to purchase assets. This is the traditional means of money expansion – the creation (or printing) of new money. So-called quantitative easing uses borrowed money – which is not the creation of new money. The two largest sources of borrowed funds for the Fed are bank reserves and Treasury cash. Banks now earn interest on reserve balances and hold roughly $1 trillion at the Fed. At the same time, the Fed is borrowing $277 billion from the Treasury. It uses these funds to buy mortgages or Treasury bonds.So, the Fed is borrowing money from banks and the Treasury to buy assets. All this does is shift what would have been held in the private sector onto the Fed's books. This is not the creation of new money and therefore does not create inflation or lift aggregate demand.

To understand how foolish some of this is, follow this link to see a chart of Fed liabilities on our blog which shows that bank reserves peaked in February 2010, at $1.2 trillion, and have since fallen by $252 billion. Banks seem to be taking back these funds to make loans or buy bonds. The Fed should let this process shrink its balance sheet, but instead has increased its Treasury borrowing by $239 in the past seven months, in order to keep the balance sheet size the same.

In other words, the Fed is borrowing money from the Treasury Department to buy Treasury bonds. This makes absolutely no sense and it is a myth that somehow this is providing a lift to economic activity. Milton Friedman is spinning in his grave.

Quantitative easing is not the reason the economy has returned to growth. Its efficacy is a myth and its use was a mistake. Zero percent interest rates are enough. The Fed grabbed power during the crisis and should give it back.

Part 4

The Games Played With Commodities

Introduction

One of the most fascinating observations I have made recently relates to a mention in a previous chapter regarding how I traded beef globally. I understand that trade is reasonably stable with a certain percentage of growth every year. Yes, there are swings and roundabouts on production based upon seasonal variances; however, man is very creative, and during the last decades we have worked to drive out as much variability as possible.

One of my partners is a sugar trader on the ICE exchange, and he says that sugar is one of the most manipulated commodities around. I reference back to the market makers in Forex and the golden rule that, "He who has the gold, makes the rules." Recently, JP Morgan and the Australian merchant bank Macquarie have been toughing it out in the market by each playing blind man's bluff to see what sort of positions they can create before one of them caves. They do not have enough gold to play the game in the same manner as any card game.

By watching the booms and busts of a number of commodities, I started to see a pattern emerge and a common story evolving as follows:

1. Individuals in a foreign land do something that will create a shortage of the commodity. Then, they get experts to comment in the press.

2. A group of individuals, generally foreigners, create excess demand that leads to further shortage of that commodity.

3. The country that is disadvantaged is the United States.

The market makers create a market and a story, as stated above, drive the prices up around 230 percent from a base, and then step out of the market.

So here is how the story for oil panned out:

1.Saudi's overstating their reserves

2. Chinese demand so large that there would be a shortage of oil

3. Prices of a barrel went to $100?

Then the price collapsed and now there are articles talking about an oversupply of oil from further reserves being found.

The story for sugar:

1. India changed the subsidy for farmers, thus leading to a shortage.
2. In response to the desire for energy independence from oil producers and the Chinese, demand increases astronomically. The United States needs to produce ethanol, which is creating increased demand for sugar ethanol; therefore, demand is hugely increased.
3. Prices increased 215 percent and then collapsed.

The Story for cocoa? is my favorite:

1. Ivory Coast individuals turned to pirating as it is more profitable than growing cocoa; therefore, there is a shortage of cocoa.
2. Demand for cocoa increases astronomically because of a move to eating more dark chocolate for health reasons.
3. We are still waiting for the collapse as prices had been driven up 180%.

So, do you get the picture? They did the same for building materials during the building boom to explain the increase in prices. You could build the same quality house in Oklahoma for $120 a square foot whereas the same speculative home in Naples, Florida was $320 a square foot. Why? All of my developer mates told me that the concrete timber and steel were all going to China even though concrete is abundantly available close to most major building sites all across the globe. When the housing starts stopped in the United States, the timber felling decreased measurably which suggested that demand was domestically based and not China-based.

The final snippet outlines how much annual production of gold goes into jewelry a year – yes, more than 70 percent. So, how could gold ever replace a currency like the USD?

Is Chrysler Illiquid?

12/22/08

"Most people think it is. Do most people realize that the car industry in the US recognizes revenue on car sales for the manufacturers when the car is shipped to the distributor? Strange how in the early 2000's in the computer industry and other industries, this was called stuffing the channel. Amazing how a few of the right lobbyists and appropriate donations can get GAAP accounting changed for the car industry. When I saw Cerberus buy Chrysler I wondered (as I have worked with Cerberus) what gap in GAAP had they found in the car industry. Cerberus only focus on cash flow, so immediately they cut car models, shuttered plants and focused on cash not revenue. Novel concept? No, this is where the focus for the United States will be in the future. I for one will be eager to watch Chrysler's progress."
- Aivars Lode

Crisis Leaves Europe in Slow Lane

10/19/09

"I remember lots of people here in Naples telling me that the reason why cement was so expensive was that it was going to China. Well, cement was not being transported to China like that! Likewise, after being in France this year, I was pondering why my cappuccino cost twice what it did in the United States. Many people told me that it was because Europe was more efficient than the United States; that Europe did not have the debt of the United States, and that European countries were not printing money like drunken sailors etc. With that backdrop, enjoy reading the following article." – Aivars Lode

By NELSON D. SCHWARTZ and MATTHEW SALTMARSH

PARIS — Two years ago, Europe was growing more rapidly than the United States, and the Old Continent finally seemed prepared to tackle longstanding economic challenges like rigid labor markets, runaway government spending and a rapidly aging population.

Chancellor Angela Merkel of Germany has said there is no alternative to relying on exports for growth instead of consumers.

Worldwide trade imbalances have declined by almost half since the recession's beginning.

But as Asia and the United States emerge from the global economic crisis, Europe appears likely to be the world's laggard, threatening a return to the dark days of "Eurosclerosis." Leaders who once spoke optimistically of fundamental changes aimed at enhancing productivity have turned to the more prosaic tasks of protecting jobs and avoiding painful political choices.

"It's worse than being back to Square 1," said Gilles Moëc, a senior economist in London for Deutsche Bank.

And just when it is needed most, the political will to address Europe's bigger economic problems seems absent, according to many experts across the region and around the world.

When he was elected president of France in 2007, Nicolas Sarkozy spoke of the need for a "rupture," including the loosening of a highly regulated labor market to better compete in the global economy.

But now, "President Sarkozy has gone, if not 180 degrees, then at least 90 degrees in the opposite direction," said Charles Wyplosz, director of the International Center for Monetary and Banking Studies in Geneva. "The things he talked about then still need to be done if we want to have growth, but the crisis has slowed some of the impetus for change."

In Germany, Angela Merkel, who was elected last month to a second term as chancellor, has also avoided taking on the country's powerful unions and its regional banks. She has embraced the "social market economy" and has insisted there is no alternative to relying on exports rather than consumers to drive growth.

In addition, her government has come under withering attack from elsewhere in Europe for providing billions of euros in aid to keep the automaker Opel at the possible expense of workers in Belgium, Britain and Spain.

With Europe plagued by huge manufacturing overcapacity, other automakers are likely to suffer further losses. After surging this year on cash-for-clunkers incentives in many countries, car sales in Western Europe are expected to drop 5 to 6 percent next year, according to Credit Suisse.

In Germany, where the automobile industry is as much a symbol as beer at Oktoberfest, Credit Suisse projects that sales to individual buyers will fall 21 percent, in contrast with an expected 18 percent increase in the United States.

It is not just the auto sector that is threatened: analysts also contend that recent stress tests applied to the Continent's banks were not as effective as those used in the United States.

Despite losses on both American subprime debt and local loans in boom-to-bust economies in Spain, Ireland and the Baltics, "the banking system has not really been restructured," said Nicolas Véron, a research fellow at Bruegel, a policy center in Brussels. As a result, Europe runs the risk of repeating Japan's "lost decade" in the 1990's, when huge losses clogged bank balance sheets and inhibited new lending.

The slowdown is an abrupt reversal from the period leading up to the crisis. Ireland's economy grew 5 percent a year from 1999 to 2007 and became known as the Celtic Tiger, while unemployment fell during sustained growth in Europe's biggest economies, Germany and France.

Underscoring the new pessimism, new statistics released Wednesday showed a 0.2 percent contraction in the euro zone in the second quarter, worse than forecast.

"The Europeans are losing out," said Simon Johnson, a professor at the Sloan School of Management at the Massachusetts Institute of Technology. "The Europeans are the biggest losers of the economic crisis, even though the home of subprime madness was the U.S."

To be sure, the American economy is not out of the woods yet, either, with unemployment still on the rise, homeowners still burdened by mortgage debts and Washington offering few details about how it will cure its own huge government deficits.

But the euro's recent surge against the dollar mostly reflects higher interest rates on the Continent rather than optimism about Europe's prospects, and the stronger currency actually makes European exports less competitive globally.

Already, the euro zone's share of world trade has slipped to 28 percent in 2008 from 31 percent in 2004, according to the World Trade Organization.

Economies in Spain, Ireland and Greece are all expected to keep shrinking in 2010, while the region's economic powerhouse, Germany, ekes out a 0.3 percent gain, according to a bleak new outlook from the International Monetary Fund.

And there are signs that Europe's anemic economic performance will translate into less political power. European countries had an outsize voice in the Group of 7, the world's principal economic forum since the mid-1970's. But late last month, world leaders said that elite club would soon be eclipsed by the Group of 20, a much more global assembly that includes emerging economic giants like Brazil, China and India.

Though symbolic, the shift from the G-7 to the G-20 crystallized fears that the world economy would actually be steered by what C. Fred Bergsten, director of the Peterson Institute for International Economics, calls the G-2 — the United States and China. "Ideally, it would be the G-3, but Europe doesn't speak with a single voice and they can't coordinate and function the same way the U.S. and China can," Mr. Bergsten said.

What is more, the economic crisis has also paralyzed European efforts to come to grips with longer-term factors inhibiting growth, like an aging work force and slowing population growth in many countries.

Over the next 25 years, Western Europe's population is expected to increase just 0.7 percent, to 189.8 million, from its current 188.5 million, compared with a 20 percent increase in the United States over the same period, according to the United Nations. At the same time, the overall population is getting older across the region, from the Russian border to the Atlantic.

The best way to compensate for an aging population — and therefore fewer workers — is higher productivity. But that indicator, too, has been moving in the wrong direction. After rising smartly in the 1970's and 1980's, productivity in the last decade and a half has inched up 0.9 percent annually in Europe, compared to 1.7 percent in the United States, Mr. Moëc said.

"Productivity growth in the U.S. has not been spectacular lately, but it's been much better than Europe, and the U.S. doesn't have this massive demographic problem," he said. "Until now, we thought of the demographic issue as theoretical, but it's starting to bite."

Over the long term, that is likely to require workers to rethink the generous social benefits, long vacations and early retirement plans they once took for granted.

Louise Richardson, 65, had planned to retire now as chief executive of the Older Women's Network, a charity based in Dublin. She will now have to delay that at least two years because of the toll the financial crisis has taken on her retirement savings.

"I can't retire. I can't afford to," said Ms. Richardson, a widow whose savings have dropped to 80,000 euros, or $118,000, from 240,000 euros over the last decade. "My pension's been completely knocked off its trolley. The money was just swallowed up."

Sugar Prices Collapse- So What?

03/23/10
Wall Street Journal

"My mate is a sugar trader and one day, a few months ago, he said there were new traders in the pit, and things had started to go crazy. Next I read an article about how there was going to be a shortage in sugar. It occurred to me that the same events had occurred in the past few years with oil trading. New traders entered the market, stories filled the papers about the Saudi oil reserves being less than stated, and experts said we were running out of oil. Well here is what really happened….market makers came into the market, ran it up 230% then stepped out …and the market crashed. Sugar just followed the same pattern… it was run up 210% from its base value, then the market makers stepped away and guess what? Sugar price collapsed. WOW no shortage! I wonder where the market makers are headed next."

-Aivars Lode

The coming Brazilian harvest and slack demand triggered selling, pushing prices down 7.1% Tuesday to a nine-month low. Sugar prices plummeted 7.1% to nine-month lows as the coming Brazilian cane harvest and slack demand triggered selling.

Tuesday, nearby May world raw sugar on the ICE Futures U.S. exchange settled down 1.27 cents, to 16.57 cents a pound, after touching a bottom of 16.40 cents, the contract's lowest price since June 17.

Sugar prices have fallen 43% since reaching a 29-year high Feb. 1, when May futures hit 29 cents a pound. Prices had soared on expectations of diminished output for the 2009-10 crop in the world's top producer and exporter, Brazil, and the No. 2 sugar producer and top consumer, India. However, when Brazilian and Indian output turned out better than expected, sugar futures began a nose-dive.

Beverage manufacturers and confectioners have been reluctant to buy sugar at such expensive levels, and that lack of demand also has contributed to the declines. End users will wait for prices to stabilize before returning to the market, analysts said.

"At the moment, the market is coming off of its sugar high pretty badly. Today's big blowout drop will probably beget more selling," said Sterling Smith, market analyst at Country Hedging in St. Paul, Minn.

May sugar could trade as low as 15 cents to 16 cents a pound before the bearish momentum turns, Mr. Smith said.

"Every time the market bounces a little, selling comes into the market and keeps [it] from building momentum to try to correct," said Alex Oliveira, sugar broker and analyst at Newedge USA, a branch of global brokerage Newedge, in New York.

Production in Brazil is expected to ramp up quickly as the 2010 harvest begins officially on April 1. The Brazilian Sugarcane Industry Association projects sugar-cane output in the main central-south region of the country may rise 10% this season to more than 580 million metric tons.

World sugar production is expected to fall short of demand by 9.4 million tons in the 2009-10 crop year, but the balance in the 2010-11 season could be a surplus of a million tons, the International Sugar Organization said in February.

Cocoa Price Being Driven Up By Market Makers

03/25/10

"Sugar was driven up by market makers and then the price collapsed once they stepped out of the market. It would appear that the same thing is happening with cocoa as happened with oil and sugar. Let's see if there is a price collapse any time soon?"
-Aivars Lode

World chocolate shortage ahead?

Cocoa futures are near three-year highs as a drought in Africa combines with changing consumer tastes to pressure the chocolate supply.

By Elizabeth Strott

It's every chocolate lover's nightmare: a chocolate shortage.
A drought in Western Africa and unrest in the Ivory Coast -- the world's biggest cocoa producer -- has combined with rising consumer taste for cocoa-rich dark chocolate to raise concerns about a shortage in supply.

As a result, cocoa futures have been trading at three-year highs, with prices rallying since the beginning of the year.

"In the last few months, cocoa prices have rallied on expectations for a smaller crop from the Ivory Coast and Ghana," said Boyd Cruel, a senior analyst at Alaron Trading who covers the cocoa market.

World production of cocoa is down 5.5% on a year-over-year basis from 2005-2006, according to the International Cocoa Organization -- and cocoa's price has risen 44% since November 2005.

But don't fret over $5 Snickers bars just yet: Cruel said that markets have already factored in the supply issue. The highs reached this week are technical in nature, he said, because news of the drought has been out for months. Another commodities analyst agrees.

"On the fundamental side, we don't expect to see changes in demand," Barclays' Sudakshina Unnikrishnan told Bloomberg News from London. "Going into the second quarter, the real wild card continues to be based on the conditions and political situation in Ivory Coast."

Blame the trend?
Part of the problem, say chocolate experts: As customer taste has shifted from milk chocolate to dark, demand for cocoa has risen; the darker the chocolate, the more cocoa is required for production.

Dark chocolate has recently been considered the "healthier" of the chocolates, with high levels of flavonoid antioxidants; it has also been found to lower blood pressure.

Chocolate manufacturers have been happy to encourage the trend, as dark chocolate is also a higher-margin product.

"Consumers are very interested in the goodness benefits of chocolate, including the antioxidants found naturally in dark chocolate," said Michele Buck, Hershey (HSY, news, msgs) chief marketing officer, in a statement today. "This interest is driving explosive growth in dark chocolate."

In the U.K., dark chocolate bars are outselling their milk chocolate relatives in the retail chain Woolworths for the first time ever. In the United States, retail sales of chocolate have climbed about 3% every year since 2000, the National Confectioners Association has reported, with dark chocolate one of the fastest-growing categories.

"Two years ago the hot thing in chocolate was white. Now dark is the flavor of the month," Woolworths CEO Trevor Bish-Jones told British paper The Independent. "Consumers are doing the same thing in chocolate as in the rest of the food market. They are trading up and being more discerning about what they buy," Bish-Jones said.
Should candy companies worry?

In the short term, candy companies like Hershey and Cadbury Schweppes (CSG, news, msgs) should be able to absorb the boost in price as they hedge aggressively for the volatile cocoa market.

"In terms of resell prices, this won't have a major impact immediately," Alaron Trading's Cruel said.

But there could be problems down the road if the drought continues.

Nestle, Hershey and Cadbury did not return calls for comment. Three million tons of cocoa, worth $5.1 billion, are produced around the world each year.

Trader's Cocoa Binge Wraps Up Chocolate Market

07/28/10

"I wonder how much longer before cocoa prices collapse the same way sugar prices did?"
-Aivars Lode

By Julia Werdigier and Julie Creswell

LONDON — To some, he is a real-life Willy Wonka. To others, he is a Bond-style villain bent on taking over the world's supply of chocolate.

In a stroke, a hedge fund manager here named Anthony Ward has all but cornered the market in cocoa. By one estimate, he has bought enough to make more than five billion chocolate bars.

Chocolate lovers here are crying into their Cadbury wrappers — and rival traders are crying foul, saying Mr. Ward is stockpiling cocoa in a bid to drive up already high prices so he can sell later at a big profit. His activities have helped drive cocoa prices on the London market to a 30-year high.

Mr. Ward, 50, is not some rabid chocoholic, former employees say. He simply has a head for cocoa. And, through his private investment firm, Armajaro, he now controls a cache equal to 7 percent of annual cocoa production worldwide, a big enough chunk to sway prices.

"Globally, he is unmatched in his knowledge of cocoa," said Tim Spencer, a former Armajaro executive.

Armajaro maintains offices in West Africa, helping Mr. Ward keep tabs on major cocoa crops. "We even have our own weather stations — our very own that no one else has in some parts of the world," Mr. Ward, soft-spoken and tan, said in a video interview this year with a financial news service.

Now, traders here are buzzing that Mr. Ward has placed an audacious $1 billion bet in the London market for cocoa futures. This month, he bought 241,100 metric tons of beans, they say. His play has some people up in arms. While some see it as a simple bet that cocoa prices will rise on falling supply, others say Mr. Ward has created a shortage of cocoa simply to drive up the price himself.

The German Cocoa Trade Association and others wrote an angry letter to the London exchange on which cocoa is traded, demanding that it take action against what the association characterized as a "manipulation."

The British news media has christened Mr. Ward "Chocolate Finger," a nod to the Bond villain Auric Goldfinger. And on Facebook, someone has created a "Choc Finger" page featuring Mr. Ward's face superimposed on a pig that is bellying up to the trough.

The fear is that Mr. Ward will become the go-to source until the annual cocoa harvest, which starts in October. With candy makers starting to stock up for the holiday season, they may be forced to pay him ever-higher prices — and cocoa has already jumped 150 percent since 2008.

"The squeeze was really timed perfectly," said Eugen Weinberg, an analyst at Commerzbank in Frankfurt.

Mr. Ward and his firm, which has not acknowledged buying the cocoa contracts, declined to comment for this article.

Attempts to corner a particular market come and go in the rough-and-tumble world of commodities trading. During the 1970's, Nelson Hunt and his brother, William, tried but failed to corner the world market in silver.

While Mr. Ward lords over the world of cocoa, he is a bit of a mystery outside of that universe. Former employees, acquaintances and peers say that, in person, he does not fit his villainous nickname, and characterize him as friendly and intelligent.

Despite rattling the markets with large investments, Mr. Ward prefers to keep a low profile.

After working as a motorcycle courier, Mr. Ward was introduced to commodities in 1979, when he became a trainee for the tea, rice, cocoa and rubber operations at the conglomerate Sime Darby.

He first made his mark in cocoa with a big bet in the mid-1990's, when he was at Phibro, then the commodity trading arm of Salomon Smith Barney.

Mr. Ward opened his own firm in 1998 with another founder, Richard Gower. Its name, Armajaro, is a mixture of their four children's names.

Mr. Ward's appetite for risk extends beyond the cocoa market. He is also an avid rally racer who once drove a red 1947 Allard sports car thousands of miles in a race from London to Cape Town. He plans to race in a similar rally in January in a 1971 Ford Escort.

His fellow driver will be Mark Solloway, who was badly injured in a crash involving Mr. Ward in 2002 in Poland. When Mr. Solloway ended up in a local hospital, a distraught Mr. Ward, who had been driving their car, arranged for a private jet to fly him to London for treatment.

"He's the greatest and most generous person," Mr. Solloway said.
Mr. Ward lives with his wife and two sons in a four-story red-brick town house in the upscale Mayfair district of London. A brisk, 15-minute walk away are Armajaro's

offices, housed in a Georgian mansion with marble floors, soaring ceilings and a courtyard.

At first, Armajaro focused solely on cocoa. Later, it started trading coffee and then other agricultural commodities.

Today, Armajaro manages more than $1.5 billion in assets, mostly in hedge funds. But through another business, it remains one of the world's largest suppliers of cocoa. It has buying operations in the Ivory Coast, Indonesia and Ecuador.

By most accounts, Mr. Ward profited handsomely by orchestrating a similar cocoa squeeze in 2002. That move, which earned him his chocolate-themed nicknames, caught the attention of financial regulators here, but their findings were never made public.

This time, seeing an even bigger investment, some cocoa organizations complained to the exchange, threatening to take their trades elsewhere. In a letter, the exchange said its investigations had turned up "no evidence of abusive behavior." A spokesman for the exchange declined to comment further.

In any case, chocolate lovers should not worry too much, analysts said. Cocoa accounts for only about 10 percent of the price of most ordinary chocolate bars. The situation could change, however, if the next cocoa harvest falls short of expectations — or if Mr. Ward keeps buying.

"That really scares us. That he would double up the bet and buy more September contracts," said a London cocoa trader who asked that his name not be used because he might want to do business with Armajaro in the future. Still, the trader seemed in awe of Mr. Ward's play, adding: "If I had the guts and money, I would do that, too."

Julia Werdigier reported from London, and Julie Creswell from New York.

Wild Trading in Metals Puts Fund Manager in Cross Hairs

08/20/10

"On the back of the articles that I have posted previously discussing manipulation of sugar, oil and cocoa, this article describes manipulation in the metals market and investigations that the regulators have begun."

-Aivars Lode

By Susan Pulliam

Christopher Pia was the quintessential hedge-fund success story: a hard-charger from a working-class New York City neighborhood whose trading prowess earned him a top job at fund giant Moore Capital Management. He bought a sprawling house in Armonk, N.Y., and tooled around town in an orange Lamborghini.

But his 18-year relationship with Moore Capital and its founder, hedge-fund tycoon Louis Bacon, came to an abrupt end in late 2008. Mr. Bacon forced out his onetime head trader, friend and protégé, and Mr. Pia launched his own fund.

The story behind the rupture is only now surfacing, and it involves allegations of a kind of improper trading that regulators worry is becoming more widespread. The Commodity Futures Trading Commission is investigating whether Mr. Pia's trading at Moore involved market manipulation, according to a person close to the situation. Specifically, CFTC investigators are looking into whether Mr. Pia improperly tried to push up prices of platinum and palladium, possibly to boost Moore's returns and his own compensation, this person says.

In late April, the CFTC filed a civil complaint against Moore claiming that an unnamed former portfolio manager attempted to manipulate prices in the futures markets. People familiar with the case say the former manager is Mr. Pia. Moore paid a $25 million fine to settle the matter, without admitting or denying wrongdoing, but the investigation of Mr. Pia is continuing. A spokesman for Mr. Pia declined to comment.

The hedge-fund industry has been rocked over the past year by allegations that fund managers reaped illegal profits by trading stocks based on inside information. The investigation of Mr. Pia and the case against Moore suggest that commodities trading also can be an insider’s game—a market where big investors may be able to throw their weight around to move prices to their advantage.

Prices in the futures markets for commodities help determine how much consumers pay for everything from a carton of orange juice to a gallon of gas. Cases involving investors trying to artificially move commodities prices are nothing new. But abusive trading practices have become more prevalent, says Bart Chilton, a CFTC commissioner, because regulators, until recently, have lacked the tools needed to aggressively go after and punish wrongdoers.

Over the long term, supply and demand dictates prices in the commodities markets. What concerns regulators, for the most part, are efforts to move prices over the short term. The growing number of large investors speculating in commodities has created "aberrations" that can present the "opportunity for foul play," says Mr. Chilton.

The recently enacted financial-reform bill, Mr. Chilton says, will give the CFTC more enforcement tools to pursue more cases involving disruptive trading practices in the commodities markets, and to levy stiffer penalties.

One way investors bet on commodities is through the futures market, where they enter into contracts to buy or sell raw materials at a set price on a specified date. In its complaint against Moore, the CFTC said the unnamed portfolio manager engaged in a practice known on Wall Street as "banging the close." That involves trying to move the price of futures contracts by inundating the market with orders just before trading ends.

Moore's aim, the CFTC said, was to push up prices of platinum and palladium futures contracts. The CFTC didn't say why the unnamed trader engaged in the alleged behavior, or whether Moore or the trader made money on it. If Mr. Pia was banging the close, it could have lifted the value of his existing portfolio of futures trades, which in turn might boost his compensation, according to people close to the situation.

Moore also settled charges that it failed to properly supervise its trading operations. In a statement, Moore said no one else has "been accused of any wrongdoing" in the matter. Mr. Bacon declined to comment.

The regulatory action was a black eye for Mr. Bacon, who has a long track record of heady returns and has appeared on published lists of the highest-paid people on Wall Street. It came on the heels of another unwelcome incident. In March, a Moore trader in London was arrested by British authorities for alleged insider trading. Moore said it doesn't believe any funds managed by Moore are involved in that matter.

Mr. Pia, 44 years old, grew up in the Astoria neighborhood of Queens and met Mr. Bacon when both were working at Shearson Lehman Brothers. When Mr. Bacon, 54, launched Moore Capital in 1990, he asked Mr. Pia to join.

Moore is a "macro" hedge fund, making broad bets on the economy and the markets by trading in commodities, currencies and various securities. The fund company grew rapidly and now manages roughly $15 billion. Mr. Pia eventually oversaw its trading operations.

Mr. Pia liked to tell colleagues about his modest upbringing, and that he is a devout Catholic. He complained about hedge-fund managers he considered elitist. On the trading floor, he often twirled a string of rosary beads. Callers to his cell phone heard the Batman theme song.

Moore's success turned Mr. Bacon into a billionaire. From 1990 through last year, Moore's flagship fund notched an average annual return of 20.5%, after fees.

Mr. Bacon bought a house in London with a squash court, another in the Hamptons with a polo field and a golf-driving range. He had homes in Manhattan, Paris and the Bahamas. He and Mr. Pia would go duck hunting together on a 145-acre island Mr. Bacon bought off the coast of Long Island.

At Moore, Mr. Pia had enormous amounts of capital at his disposal, and he was known to deploy it in complex trading maneuvers.

In 2008, for example, Mr. Pia entered into a trade under which Moore would get a $25 million payout if the New Zealand dollar rose to a certain level. Goldman Sachs Group Inc. was on the hook to make the payout. If that level wasn't hit, Moore stood to lose $1 million.

As the trade's expiration date approached, the New Zealand dollar was trading about 25 cents below the price at which the contract would pay out. Mr. Pia got clearance from top

Moore officials to spend billions buying New Zealand dollars, hoping the currency would hit the set price, according to the person with knowledge of the trade. Fifteen minutes before the contract expired, Mr. Pia began buying billions of New Zealand dollars, lifting the currency to the price at which Moore was able to collect the $25 million, the person says.

Gary Cohn, Goldman's president, later congratulated Mr. Pia on the trade, the person says. A spokesman for Moore declined to comment on the matter.

Over the years, there have been several notable cases of attempted manipulation of the commodities markets. In the 1980's, regulators accused the brothers Nelson Bunker and William Herbert Hunt of attempting to corner the silver market. In 2007, the CFTC charged the now defunct hedge fund, Amaranth Advisors, with attempted manipulation in the futures market for natural-gas contracts. That case remains unresolved.

"As you get down the scale to commodities like palladium, futures markets are almost by definition less liquid and more susceptible to this kind of conduct," says Scott Early, a securities lawyer and former general counsel of the Chicago Board of Trade. But it becomes easier for regulators to catch such activity in thinly traded markets, he says.

Closing prices in futures markets are set differently than they are in the stock market, where they are determined by the last trade each day, at 4 p.m. In the futures market, the "settlement," or closing price, is the weighted average of all trades during the last few minutes of trading. For palladium, for example, the "closing period" is from 12:58 to 1 p.m., and for platinum, it is 1:03 to 1:05 p.m.

Traders can push settlement prices around by inundating the market with orders during the last two minutes of trading. Trying to push prices higher in that way—banging the close—is in some cases considered market manipulation under commodities laws. It is loosely akin to an illegal stock-market practice known as "pump and dump," where traders push up the price of thinly traded stocks by disseminating misleading information, then sell shares before the price falls again.

In 2008, several traders complained to the New York Mercantile Exchange about someone entering the market near the close and aggressively buying platinum and palladium futures contracts, two people familiar with the matter say. Around the same time, the CFTC began detecting unusual trading patterns in the two markets. CFTC enforcement lawyers began questioning Mr. Pia about his trading, says one of the two people.

The CFTC complaint against Moore doesn't specify the day or days on which the trades in question took place, nor does it disclose whether Mr. Pia was the trader involved. Often, at 12:58 p.m., two minutes before the close of the palladium market, the unnamed trader—Mr. Pia, according to people familiar with the matter—or an associate would send instant messages to a trader in that market with "directions that indicated that he wanted to push prices higher," according to the CFTC complaint. That trader waited until the last 10 seconds of trading to relay the high-priced orders to a floor clerk in the trading pit of the New York Mercantile Exchange, the complaint said. Moore sometimes repeated the sequence during the closing period for platinum futures, the complaint said. Fewer than 10 traders typically participate in the thinly traded market for palladium, the CFTC said, and the Moore trades accounted for most of the volume in the two markets during the closing period.

In a series of interviews, CFTC investigators asked Mr. Pia whether he intended to push prices higher through the trading in question, according to one person familiar with the matter. Mr. Pia denied doing anything wrong. He admitted to waiting until the last minute to place the orders, but said he simply was buying what the floor traders were selling and the market would go up, this person says. Mr. Pia said his last-minute timing was intended to thwart rival traders who often would try and buy ahead of Moore's orders, this person says.

The ongoing CFTC investigation is looking into whether Mr. Pia tried to boost his compensation through the trades in question, according to a person familiar with the investigation. Among the questions being examined by the CFTC is whether Mr. Pia was trading ahead of Moore's commodities orders through a portfolio he managed within the firm, possibly in an effort to increase his pay, this person says. Such tactics can give traders an unfair advantage because pending orders—which aren't known to the public—can affect prices when executed.

Mr. Bacon grew concerned about Moore's liability in the matter, according to another person familiar with the matter. Soon, Mr. Pia left the firm.

A Moore spokesman declined to comment on the firm's commodities positions. He said Moore has "been unable to ascertain any economic motive for the end-of-day platinum and palladium futures trading as described in the CFTC order. The trading did not result in any artificial price or any improper gain or loss."

The month after it settled the case, Moore's flagship fund notched its largest monthly loss ever, dropping 9.2% in May. It is down 4.46% for the year, through Aug. 5, in part because of misjudgments concerning the financial turmoil in Europe.

After leaving Moore, Mr. Pia launched Pia Capital Management. Like his former employer, it is a "macro" hedge fund. The new fund, headquartered in Greenwich, Conn., has about $500 million under management, and is down 0.6% for the year, through Aug. 6. There are no indications that his new fund is under investigation.

As Gold Climbs, So Do the Deals

09/05/10

"In reading this article the use of the word "investors" is prevalent. My question is could "investors" be a substitute for the word speculators? Every time there is a run up, there is a crash. I wonder when that time will come?"

-Aivars Lode

As Gold Climbs, So Do the Deals
Metal's Price, at Near-Record $1,249.20 an Ounce, Has Mining Companies Hunting for Prey.

By Carolyn Cui, Liam Pleven and Ray Brindal

Gold prices are edging up toward a high, triggering multibillion-dollar deals by miners doubling down on the staying power of bullion's nearly decade long rally.

India Takes Control on Gold Market
Gold Heads for the Fifth Weekly Advance.
Dow Jones International News

The run-up is being driven by investors who bought more than half of all gold sold in the second quarter—only the second time that has happened since 1979, according to analysts. Normally the majority of gold is bought for jewelry and other uses.

Large gold miners seeking to feed that demand are gobbling up rivals. On Friday, Goldcorp Inc. said it would buy Andean Resources Ltd for $3.4 billion, a month after Kinross Gold Corp. agreed to pay $7.1 billion for Red Back Mining Inc.

Gold prices are responding, too. In August, gold futures prices rose 5.6% as investors added 20.2 metric tons to the holdings of the $52-billion SPDR Gold Shares, the world's largest gold exchange-traded fund. By contrast, investors liquidated 38.2 metric tons in July, and prices fell 5.1%.

On Friday, prices fell $2.30 per troy ounce, or 0.18%, to settle at $1,249.20 at Comex, the metals division of CME Group. They are now 0.64% below the Comex-high settlement price of $1,257.20, hit on June 18, but up 14.1% this year.

Historically, investors accounted for a relatively small portion of gold demand, with the majority driven by demand by jewelers, dentists and electronics manufacturers.

When the World Gold Council, a trade group, started breaking out investor demand as a separate category in 1998, investors represented 6.9% of demand and during the tumultuous year of 2009, they accounted for 39% of demand. In the second quarter of this year, investors accounted for 51% of demand, second only to the first quarter of 2009, when the stock market was at its nadir and investors accounted for 60% of demand.

Now, investor demand increasingly overwhelms other fundamental factors, such as jewelry purchases and ore production. This spring, investors turned to gold as a haven against the threat of European sovereign-debt defaults, and this summer it benefited from fears of a double-dip recession.

"Gold is a multipurpose security blanket," said Kevin Norrish, managing director of commodities research at Barclays Capital, and the interest reflects "the lack of trust some investors have in governments and their abilities to solve their structural problems," he said.

At the same time, the rise of the investor in the gold market also means that bullion prices and gold-mining companies are increasingly subject to the same risk, that positive changes in the macroeconomic picture could lead investors to reverse course and sell gold in droves.

Jewelry owners are slow to sell due to an emotional tie with their gold, said John Stephenson, a portfolio manager at First Asset Investment Management, Inc. and author of "The Little Book of Commodity Investing."

Goldcorp's bid for Andean Resources topped a lower offer from Eldorado Gold Corp. The deal is the latest in a series of gold-sector tie-ups as producers vie to secure resources.

Especially tempting to miners are smaller exploration-focused companies like Andean that have proven themselves adept at the financially risky work of revealing new gold veins. Goldcorp was drawn by Andean's Cerro Negro project in Argentina, which the company said in July could produce up 285,000 ounces of gold a year over its first five years, starting in 2012.

Goldcorp CEO Chuck Jeannes called it "a truly exceptional asset by any reckoning," in a conference call with investors on Friday, saying such discoveries are "becoming exceedingly rare."

The EurekaWest vein outcrop is seen at Andean Resources' Cerro Negro gold exploration project.

Under the terms of the deal, each common share of Andean will be exchanged for either 0.14 share of Goldcorp or a cash payment of C$6.50 a share, up to C$1 billion in cash. The offer represents a 35% premium to Andean's Toronto-listed closing share price on Sept. 2. The transaction was unanimously approved by the boards of both companies, but requires majority Andean shareholder approval. Shareholders representing 21% of Andean's capital have already agreed to vote in favor of the deal.

Eldorado isn't giving up, however, saying Friday it will pursue its bid, valued at C$6.36 a share, with shareholders.

Shares of Andean were recently trading up 46% at $7.04 apiece on the Toronto Stock Exchange, indicating investors reckon another rival bid may be forthcoming.

While investors have assumed the dominant role in the gold market, jewelry-makers' sway is weakening. The demand for gold for fabrication plummeted by 40% from 1998 to 2009, and represented 38.5% of total demand from January to June of this year, according to World Gold Council data.
Investors have "swamped out some of the historic trading relationships in gold," said Mr. Stephenson.

Investor-led gold rallies often end in sorrow. In the first quarter of 2009, when the stock market hit a low amid the financial crisis and investor demand was at its recent peak, gold surged 24%. Prices then fell 13% in the following quarter.

A more-sustained run-up in gold prices will be driven by "sheer income growth" in emerging countries, said Martin Murenbeeld, chief economist of DundeeWealth Inc., a Canadian wealth manager that has about $70 billion in client assets.

Chinese and Indian investors are buying gold bars and coins at an unprecedented pace. During the second quarter, China's investment demand for gold jumped 187% in dollar terms to $1.4 billion, while India's rose 38% to $1.6 billion, according to the World Gold Council.

—Andy Georgiades contributed to this article

Stories on Gold

09/05/10

"Reading stories like this which sound a little bizarre, as 70% of gold production goes into jewelry, makes me think that there is a bubble about to burst in gold."
-Aivars Lode

Malaysian Muslims Go for Gold, But It's Hard to Make Change
A Scot Who Converted to Islam Agrees With Ron Paul About Printing Money
By James Hookway

KOTA BHARU, Malaysia—Umar Vadillo bounds into a hotel room here in northern Malaysia with several stacks of gold and silver coins in his hands and slaps them down on a coffee table. "This," Mr. Vadillo says, "is what it means to be free."

A quarter century ago, this Spanish-born Muslim convert set to work with other European Muslims to find a substitute for the U.S. dollar and other paper currencies.

Pricing goods in greenbacks, they argued, was unfair. Many countries earn their income from finite resources like oil and other minerals, they said, while the U.S. and other countries can crank up their printing presses to pay for them—especially after Richard Nixon helped break the Western world's historical dependence on gold as a measure of value by taking America off the gold standard in 1971.

Last month, Mr. Vadillo's solution took shape when the local Muslim-led government in Malaysia's Kelantan state joined forces with Mr. Vadillo to introduce Islamic-style gold dinar coins as alternative currency.

Mr. Vadillo and the Kelantan government have persuaded more than a thousand businesses here in the state capital, Kota Bharu, to paste stickers in store windows saying they accept the coins.

Ordinary people can also pay taxes and water bills in gold and silver instead of paper money.

"Our lands are being subjugated," says Mr. Vadillo, a powerfully built 46-year-old with a shiny suit, swept-back hair and a tidy goatee. "Today, in Kelantan, we're fighting back."

Plenty of people have their doubts about the dollar, as well as other currencies that aren't backed by gold or silver.

American libertarians such as Ron Paul frequently call for the reintroduction of a gold-backed currency, arguing that the Federal Reserve's ability to print money causes inflation and destroys savings.

Gold bulls have developed a cult following among investors who worry that precious metals are the only reliable store of value during rocky economic times.

If there's a utopia being formed for the globe's gold bugs, though, it's happening in a few unexpected outposts in the Muslim world like Kelantan.

Mostly that is because some Islamic thinkers teach that using currencies whose value is declared by governments is a form of usury. A piece of paper, they say, is just an IOU.

But with the global economy showing fresh signs of faltering, some believers think there's also a strong financial incentive to switch to gold dinars or the silver coins, known as dirhams.

At the Peter Libly tailor shop in central Kota Bharu, proprietor Ariffin Yusof reckons the new dinars "save people from exploitation."

Husam Musa, Kelantan state's economic policy chief, says he saves half his salary in dinars and believes it to be a good investment. "Its value is stated not by the World Bank, but by Allah," Mr. Husam says.

An initial run of coins worth about $640,000 and ranging from one dirham—containing about $4 worth of silver at current prices—and one dinar—worth $189—to an eight-dinar coin worth $1,518 sold out quickly, prompting Malaysia's political leaders to say the paper-based ringgit, worth around $3.13, is still the country's legal currency.

"Gold is money because people make it money. Paper money is money because governments make it money," says Peter Schiff, President of Euro Pacific Capital Inc. in Westport, Conn., and a notable dollar bear. "But what happens if people lose their faith in governments, and the U.S. government in particular?"

This latest quest to wean the world off dollars actually began in Adam Smith's homeland, Scotland, when an aspiring actor named Ian Dallas left his home near Glasgow to seek out the bright lights of London in the 1960's.

Mr. Dallas, now 79 years old, fell into the hippie circuit and played a telepath in the Federico Fellini movie "8½" before ultimately converting to Islam in Morocco. Mr. Dallas took the name Abdalqadir al-Sufi and set up his own sect, the Murabitun—or "the people of the outposts"—before settling into a wind-blasted mansion named Achnagairn near Inverness in the Scottish highlands.

There, Mr. Dallas and his followers surrounded themselves with banks of computers and began work on creating an Islamic currency to replace the dollar and help speed up the collapse of the West's credit-driven financial system.

When Mr. Vadillo joined the mission, the Murabitun fine-tuned their thinking and began minting gold dinars—the same currency used in the early days of Islam.

The first coin was stamped in 1993 with a Jacobite sword in honor of one of Mr. Dallas's Scottish ancestors who fought against the English army at the Battle of Culloden in 1746. A silver dirham was minted with the Dallas family crest.

"People laughed at us," says Mr. Dallas, who now lives in South Africa and dressed up in an Afghan cap and navy blazer in a video recently released to mark the arrival of the new dinar in Malaysia. "People thought we were going back to the past. Now, the whole atmosphere has changed."

"1,400 years ago, a chicken cost one dirham. Today, it still costs one dirham," Mr. Vadillo says.

Mainstream economists are skeptical about how quickly Malaysians will take up dinars.

Tim Condon, chief Asia economist at ING in Singapore, says he regards gold enthusiasts as "monetary cranks."

He points out that central banks around the world have by and large managed to contain the worst ravages of inflation.

Paper money can also help economies avoid tough periods of deflation, which some economists associate with rigidly backing currencies with gold.

Either way, getting people to use dinars and dirhams regularly isn't easy, and already there are some teething problems in Kota Bharu.

Some people see dinars as a way to save rather than a means of exchange. Others aren't sure what to do with them or worry about how to store them safely.

Snack vendor Ros Abdul Rashid confesses she wouldn't know what to do if somebody tried to buy a bag of peanuts with gold or silver. "I'm not sure how it's supposed to work yet," she says.

One white-robed dinar dealer, 68-year-old Awaludin Mohal, has to offer paper bank notes as change when customers buy his gold and silver coins.

In Other Words, Get Ready for $50 Oil

09/12/10

"Does it not strike anyone as bizarre that just a couple of years ago experts predicted a shortage of oil and massive price increases? These sort of stories follow run ups in commodity prices and tend to support the hypothesis that there is significant manipulation of commodities prices."

-Aivars Lode

What Peak Oil? Why An Oil Glut is Ahead

By Richard Martin

FORTUNE -- In May, less than a month after the blowout of the Deepwater Horizon oil rig in the Gulf of Mexico, a key milestone was achieved with little notice: Total U.S. supplies of petroleum and products refined from it (including the Strategic Petroleum Reserve) surpassed 1.8 billion barrels, reaching the highest level in the last 20 years. Since then the total has continued to edge upward, hitting 1.87 billion barrels in the week ended August 27, according to the Energy Information Administration.

Despite the Iraq War and the resulting production disruptions, despite the moratorium on drilling in the Gulf, despite turmoil in Nigeria and ongoing cross-border transshipment quarrels in Central Asia and the multiple, repeated declarations that "peak oil" has arrived and supplies will inevitably dwindle, the United States has more petroleum on hand today than it has had since at least the beginning of the first Gulf War.

Part of that surplus comes from increased oil and gas production, particularly from ongoing production in the non-OPEC countries (including the U.S., where a "shale gas boom" has created a natural-gas glut). It also comes from flat demand due to the stumbling economic recovery and changing consumer behaviors. Neither of those factors is guaranteed to last. But as the summer driving season passes and students head back to school, awareness has gradually dawned that we may be looking at an oil surplus for years to come.

"In the last 18 months we've seen this big trend emerge," says David Kirsch, research director at PFC Energy in Washington, D.C. "We spent five to 10 years in a supply-constrained market, characterized by the growth of the BRIC countries [Brazil, Russia, India and China] and concerns over the security of supplies."

Now, Kirsch remarks, because of the financial crisis and the time it will take to pare down the debt of the major OECD nations, demand growth over the next decade is likely to be lower than previously forecast.

A new forecasting model

Official estimates of future oil supplies don't yet reflect this emerging consensus. Believing that "world oil prices will rise slowly as world oil demand increases because of projected global economic growth, slower growth in non-OPEC oil supply, and continued production restraint by members of the Organization of the Petroleum Exporting

Countries (OPEC)," the EIA forecasts that the spot price for West Texas Intermediate crude will start climbing again, averaging $81 per barrel in the fourth quarter of this year and $84 per barrel in 2011.

If government experts are wrong, though, we could see persistent surpluses and an oil price drifting toward $50 a barrel or even lower -- far below the $75-per-barrel that King Abdullah of Saudi Arabia called a "fair price for oil" last year. Economists and policymakers have only begun to contemplate what that means.

New oil supplies are coming primarily from Central Asia and Iraq, where nearly a dozen major contracts have been finalized with foreign producers in 2010. The largest prize is the Rumaila Field, in southeast Iraq near the head of the Persian Gulf, with proven reserves 18 billion barrels. BP and China National Petroleum have signed a contract to jointly develop Rumaila. A report from the U.S. Special Inspector General for Iraq Reconstruction, issued in July, said that Iraqi production, currently around 2.4 million barrels per day (bpd), could reach 12 million bpd by 2017. Saudi Arabia currently produces around 8 million barrels a day.

In Central Asia, the grandiose predictions for the Caspian Sea basin heard in the late 1990’s - "another Saudi Arabia" - are finally approaching reality. Kazakhstan, home of the two largest oil finds in recent decades -- the super-giant Tengiz and Kashagan fields - is building more pipeline capacity heading east, to the vibrant markets of East Asia, rather than west, through the tangled pipeline politics of the Caucasus.

Even Israel, long one of the biggest oil importers in the Middle East, is getting into the act. Last year the U.S. Geological Survey reported that Israeli waters in the Eastern Mediterranean contain more than 120 trillion cubic feet of recoverable gas reserves -- and new discoveries have added another potential 24 trillion or so since that report came out.

Questioning peak oil

At the same time, consumers have finally responded to higher gas prices and, perhaps, concern over the environmental impacts of burning fossil fuels. Miles driven by U.S. motorists have fallen over the last couple of years for the first time since such statistics have been collected, indicating that the American love affair with the automobile could be waning. And gasoline demand in China, the world's largest automotive market, may not skyrocket after all, as the government ramps up its drive to replace internal combustion engines with electric vehicles.

An Israeli economy running on, and exporting, large domestic supplies of natural gas is only the most glaring of the geopolitical game-changers that $50-per-barrel oil would entail. Big growth in Iraq's oil industry would lead that country into discussions, and possible disputes, with Saudi Arabia over OPEC's production quotas. The worldwide gas surplus has already reduced the incentive and ability for Vladimir Putin's Russia to engage in power games with gas importers in Eastern Europe. And, of course, cheaper oil from non-OPEC nations could limit the political focus in the U.S. on foreign oil supplies -- and reduce Congress's urgency to pass a comprehensive clean-energy bill.

More than anything, though, the looming oil surplus calls into question the concept of peak oil, at least in the near future, along with the whole science of forecasting future oil supplies. Adam Brandt, a professor at Stanford's Department of Energy Resources Engineering, released a study last month examining the various models that have been used to predict the future of world oil supplies. "Data do not support assertions that any one model type is most useful for forecasting future oil production," Brandt concludes. "In fact, evidence suggests that existing models have fared poorly in predicting global oil production."

Gold is a Religion Masquerading as an Asset Class

09/14/10

"Interesting conversation about gold. Is it another commodity heading for a bust?" -Aivars Lode

By Joe Weisenthal

Gold remains close to its all-time high, as fears over government money printing, solvency, and general economic fears make the shiny yellow metal more popular than ever.

Experts recommend that you have a substantial chunk of your investments in this asset class. But gold is not an asset class. It's a religion. Here's why.

Gold has been popular for thousands of years- Gold's devotees like to point out that it's been around for ages and ages, just like the world's major religions.

People have literally worshiped gold- The ancient peoples once worshiped golden calves, before god implored them not to.

People think gold can punish corrupt governments- Because paper money allows governments to print currency beyond their means, it lends itself to corruption, goes the argument. Gold imposes discipline, and thus, just like a higher power, can supersede or punish corrupt leaders.

People love to evangelize gold- Glenn Beck -- who is also a Mormon, and thus familiar with evangelism -- has been a major pumper of the metal. There are many, many others.

Gold has its own saints and demigods- There are plenty of folks who have become celebrities for their tireless advocacy on behalf of gold over the years.

Nobody ever changes their mind about gold- Being a gold bull is usually a lifelong commitment. Nobody ever goes un-bullish, unless they experience some kind of major change of thinking.

Gold has different sects- Just like Christianity is divided into so many sects, so too is gold: You've got the hard bullion people, the people who invest in the miners, the ETFs, and even spinoff precious metals, like silver. You also have the really out-there, cult-like folks who think Fort Knox is empty, or filled with tungsten.

Gold offers a promised land- Traditional religions believe in an afterlife, where those who believed are rewarded immensely. They also frequently expect apocalypse, and punishment for those who don't believe. Gold fans believe in a coming collapse and huge rewards for those who had the foresight to own gold.

Gold is infused with politics- Just like with religion, there is frequently a consistent set of beliefs that goes along with being into gold.

Part 5

Climategate and Other Bubbles

Introduction

This topic engenders a lot of emotion. Let me say right off the bat that man should be a good steward on this planet by constantly striving to reduce pollution and waste to a minimum where economically feasible. My fascination with climate started at very early age. I started diving at eight years old and I needed to understand the weather to know if we could go diving or not. I monitored whether the water would be flat enough to dive. Then, whether I was hiking, climbing, kayaking, skiing or learning to fly, weather also played an important role.

I was a ski instructor just after I graduated from college, and I would hear from the old-timers that there used to be more snow on the mountain in the early days before development of lodges on the mountain. Interestingly, the mountain right next door still receives the same snowfall, and it has no development. I would sit in Pension Grimes wondering if the heat that was being produced out of these lodges was creating a micro climate effect that was reducing the amount of snow fall. Funny, while living in Florida I recently read an article by a scientist that had written a paper describing that very effect. Whilst living in Canada, I had a holiday home in a place called Muskoka where the locals talked a lot about the great Canadian Granite shield and that it was pre Cambrian and the oldest in the world. Over the next few years, I learned that this granite shield was actually the base of a mountain range that was as high as the Himalayas and that it was worn down to nothing by glaciers that were two miles thick and that had melted many thousands of years ago. So, where was man's influence on global warming then? In the book by a Pulitzer prize-winning author called "Guns Germs and Steel," he looks at the evolution of man over the last 60,000 years and documents how Australia and Papua, New Guinea were populated by humans many thousands of years ago when there was a land bridge as the sea level was 600 feet lower. Where was the influence of man on global warming to have caused the rise in sea levels? What effect do sunspots have on global warming? Do we understand the effects? Do most people realize that Skylab in the 70's crashed to earth after sunspot activity heated the outer atmosphere of earth and caused the atmosphere to expand, thus resulting in the increase of earth's atmosphere to reach Skylab and pull it back to earth?

Did you know that Al Gore and Bill Clinton, along with the head of Goldman Sachs, were on the board of The Climate Exchange created in Chicago? Al Gore is now the first Carbon Billionaire because of his investments in climate change related industries. Along with the revelation that data was erased deliberately to prove scientists' findings in global warming, can we be definitive as to the effect that man has on global warming?

It's Hot, But Don't Blame Global Warming

01/30/09

"I used to be a ski instructor in the mid 80's in Australia on Mount Buller. Listening to all the old timers talk about how the snow had been better when they were younger, I wondered about the urban development and if all the heat that was now generated by the new buildings would have any effect on the amount of snow that would fall. Mount

Buller's snow was marginal at best, alternating between rain and snow in the span of 10 minutes. I only had to wait 20 years to find out part of my answer with proof from academics. I wonder what that will mean for the carbon markets that are and continue to be established?"

- Aivars Lode

By: Cynthia Barnett

Some Florida cities are getting hotter, but the evolution has more to do with bulldozers and pavement than global warming.

Morton D. Winsberg fell in love with Florida more than 50 years ago, but the Illinois-born geographer never quite got used to the dog days of summer.

In recent years, the Florida State University professor emeritus and author of a book called "Florida Weather" began wondering: Is global climate change making Florida's hot season longer and hotter? With help from geography students and researchers at FSU's Population Center and Florida Climate Center, Winsberg and co-author Melanie Simmons gathered and analyzed temperature data from 57 Florida weather stations going back six decades.

Their research showed that the hot season in Florida has gotten a lot hotter — and longer — in some places, but not at all in others. The change, however, is unrelated to global warming, the increase in the average temperature of the earth's atmosphere. Rather, they found, it's a function of the lesser-known phenomenon of local warming. The analysis "shows that weather can be very local," says Winsberg, "and also that weather can be a function of population growth."

Winsberg found the most notable climate changes along the state's southeastern coast, where development and wetlands drainage have been heaviest. In most areas he analyzed, the heat is getting more intense. Of the 57 weather stations, 49 saw an increase in the number of days with an average temperature of 80 degrees. When it came to the length of the hot season, the biggest increase was in Hialeah, with a 72-day increase, followed by Miami, with a 45-day increase.

Neither the intensity of the heat nor the increasing number of hotter days was related to water temperatures in the Atlantic and Gulf, a fact that surprised Winsberg. The heat trends also weren't consistent across the state. In fact, some areas, notably in the northeast part of the state, saw a shorter hot season and a decrease in the number of dog days.
That evidence leads Winsberg and FSU meteorologists to blame the hot spots on local land-use changes that accentuate the urban "heat-island" affect — the pools of heat that large, dense concentrations of people produce in their local climates. Cutting down trees, draining wetlands and pouring concrete all make a place hotter, as anyone who's walked across an asphalt parking lot on a summer day knows, Winsberg says.

Contagious Energy
Geographer Morton Winsberg retired a decade ago, but you wouldn't know if from his

teaching load, his research output and the hours he spends on the Florida State University campus.

At 78, Winsberg no longer worries about getting his work published or being recognized by fellow academics. He had even been teaching Latin American and Florida geography at FSU for free until last year, when FSU put him back on the payroll. Winsberg is happy taking advantage of office space, grad students and GIS equipment so he can keep digging into weather and other interests.

“I don’t play golf,” he explains. “I prefer to play with aggregate data.”

Winsberg spent his career traveling the globe and writing about 100 research papers on topics as diverse as Jewish agricultural colonization in Argentina and Irish suburbanization in Boston, Chicago and New York. His favorite trip: Backpacking across northern Spain, following a medieval pilgrimage route to Santiago de Compostela, reputed to be the burial site of St. James.

Winsberg says he dreaded becoming the sort of retiree “who kept up with the world via nytimes.com.”

“I wanted to keep feeling useful and to be useful,” Winsberg says. He passed up royalties from his “Florida Weather” book so it would be more affordable ($16.95 at upf.com). In addition to his work on weather, his post-retirement writings include the book “Atlas of Race, Ancestry, and Religion in 21st-Century Florida.” He is currently researching the locations of megachurches, particularly those within metropolitan areas.

Colleagues say he’s the only “emeritus” professor they know who spends as much time on campus as he did before retiring. “I’ve never talked to Mort about weather when he was not extremely excited about it,” says Melissa Griffin, Florida’s assistant climatologist. “He has this energy that flows out of him, seeps out of him, and other people catch it.”

On a regional level, state climatologist David Zierden says, historical records show that southeastern Alabama, Georgia and north and central Florida have not experienced steady warming, but rather relatively warm periods, such as the 1930’s through the 1950’s, followed by relatively cool periods, such as the 1960’s through the 1980’s.

Heavily drained or developed areas bucked those trends, however. The most dramatic example in Winsberg’s study is the difference between Belle Glade, in a part of the Everglades drained for sugar production, and undeveloped Everglades City. Since 1950, Belle Glade has seen a 32% increase in its number of dog days, while Everglades City has seen a 3% decrease. The transformation of swampland around Belle Glade to farmland appears to have caused a significant rise in temperatures. “The draining of the Everglades and the upturning of all that black soil has really changed the local climate in that area,” says Zierden.

The idea of local climate change may seem contrarian at a time when scientists and policy-makers focus on global warming and its causes, primarily the release of carbon dioxide and other greenhouse gases into the atmosphere. But Florida's top global warming scientists, including Harold Wanless, chairman of geological sciences at the University of Miami, agree that greenhouse gases don't seem to be impacting Florida's temperatures. When it comes to global warming, Wanless says, sea-level rise — caused by warming elsewhere, particularly the Arctic — is the chief threat to Florida. Wanless predicts Florida's seas will rise three to five feet by century's end.

As state and national policy-makers work to mitigate damages from the rising seas, Winsberg says he hopes local officials and Floridians will use his data to think more wisely about land-use changes and wetlands drainage.

"People just dread when the hot season begins, and they are so relieved when it's over," says Winsberg. "We don't want to extend the suffering."

Who Created the Carbon Trading Market and Why?

03/04/09

"Do you know why Al Gore was able to jump on the bandwagon of global warming? Because this guy Richard Sandor created the market for carbon out of nothing. Nothing short of brilliant! Now before you tell me that man is responsible for warming, see the book Guns Germs and Steel for a narrative on how people like the aborigines walked to continents like Australia and then became stranded from the rest of civilization when the sea level was 500 feet lower. They have discovered standing trees in Lake Ontario at a depth of 120 feet that are radio carbon dated as 12,000 years old. Anyway, the brilliance of some people to create a market where there was none and nothing is produced is nothing short of brilliance. Enjoy."

-Aivars Lode

Staff - Richard L. Sandor, Ph.D., Dr. Sc.h.c.

Richard L. Sandor is chairman and CEO of the Chicago Climate Exchange, the world's first and North America's only voluntary, legally binding integrated greenhouse gas emissions reduction, registry and trading system. Dr. Sandor is also a research professor at the Kellogg Graduate School of Management at Northwestern University and a Member of the International Advisory Council of Guanghua School of Management at Peking University. While on sabbatical from the University of California, Berkeley in the early 1970's he served as Vice President and chief economist of the Chicago Board of Trade. It was at that time that he earned the reputation as the principal architect of the interest-rate futures market. Richard L. Sandor was honored by the City of Chicago and the Chicago Board of Trade for his contribution to the creation of financial futures and his universal recognition as the "father of financial futures". In October 2007, Dr. Sandor was honored as one of TIME Magazine's "Heroes of the Environment" for his work as the "Father of Carbon of Trading."

In August 2002 Dr. Sandor was first chosen by Time magazine as one of its "Heroes for the Planet" for his work as the founder of the Chicago Climate Exchange. In November

2004, Dr. Sandor was the recipient of an honorary degree of Doctor of Science, *honoris causa*, by the Swiss Federal Institute of Technology (ETH) of Zurich, Switzerland for his pioneer work in the design and implementation of innovative and flexible market-based mechanisms to address environmental concerns. In May 2005, Dr. Sandor was named by "Treasury and Risk Management" magazine as one of the "100 Most Influential People in Finance."

During 1997 and 1998 Dr. Sandor served as Second Vice Chairman - Strategy for the Chicago Board of Trade. His responsibilities included both electronic trading and new products. Richard Sandor is currently a director of ICE Futures, and American Electric Power. He is also a member of the design committee of the Dow Jones Sustainability Index. Prior to the creation of the Chicago Climate Exchange, Dr. Sandor held senior executive positions in the financial services industry. He was a senior financial markets executive with Kidder Peabody, Banque Indosuez and Drexel Burham Lambert.

Dr. Sandor has been a faculty member of the School of Business Administration at the University of California, Berkeley, and held a faculty position at Stanford University. He was a visiting professor of Finance at Northwestern University, and was named the first Martin C. Remer Visiting Distinguished Professor of Finance in the Graduate School of Management. He was recently Distinguished Adjunct Professor at Columbia University Graduate School of Business where he taught a course on Environmental Finance.

Dr. Sandor has served on numerous committees and boards including the Chicago Board of Trade, the Chicago Mercantile Exchange, the London Financial Futures Exchange, the Banking Research Center of Northwestern University, the Columbia University Futures Center and the Board of Visitors of the International Program Center at the University of Oklahoma. He assisted the New York Mercantile Exchange on the design of the options contract for crude oil. He was also a member of the International Advisory Board of the Marché à Terme International de France (MATIF), the Financial Products Advisory Committee of the Commodity Futures Trading Commission. Dr. Sandor was an expert advisor to the United Nations Conference on Trade and Development (UNCTAD) on tradable entitlements for the reduction of greenhouse gas emissions. He was also a participant in the working group for the Regional Clean Air Incentives Market for the South Coast Air Quality Management District, Los Angeles.

Cheap Housing and Green Space in Florida

08/13/09

"It is interesting that these cities are trying to stem the flow of people leaving. In Florida, there are record numbers of vacant homes and apartments now at prices that are way more affordable, thanks in part to the foreclosure process and the overbuilding that occurred here. We even have Aussies coming here to buy houses as they say that they cannot buy a home in Australia as cheaply. People are getting over the global warming thing so the threat of Florida flooding to oblivion is moving further from their minds. People are recognizing that hurricanes provide warning so you can do something about it. Houses and condos that have been built are done so to hurricane-

proof standards. With the drive to dividends companies will move headquarters to states that have no state tax like Florida. The flood from the northern cities I predict will not abate but increase as we have all this brand new infrastructure built here that is underutilized, as well as great weather 12 months a year! The cities up north have old infrastructure that is crumbling and horrible weather at least six months a year."
-Aivars Lode

'Fastest Dying Cities' Meet for a Lively Talk

DAYTON, Ohio -- Here's an idea for saving Rust Belt cities: Tell bloggers and radio stations to stop calling your town a basket case.

That was one suggestion from representatives of eight of the 10 cities labeled last year as America's fastest dying. They met at the Dayton Convention Center last weekend to swap ideas about how to halt the long skid that's turned cities like Detroit, Cleveland and Buffalo, N.Y., into shorthand for dystopia.

The city representatives lunched on $6 sloppy Joes and commiserated through Power Point strategy sessions: Lure back former residents, entice entrepreneurs and artists, convert blighted pockets into parkland.

On the Ropes

What emerged was a sense of desperation over the difficulty of rebounding from both real problems -- declining populations, dwindling tax bases -- and perceived woes.

Valarie McCall expressed frustration at marketing a city that still echoed the image of the polluted Cuyahoga River catching fire. "That was 1969," said Ms. McCall, Cleveland's chief of governmental affairs. "Come on, I wasn't even born then."

Last year, Forbes.com used long-term trends of unemployment, population loss and economic output to devise a list of "America's Fastest Dying Cities." A few months later, Peter Benkendorf was eating chicken tacos when he hatched the idea for the symposium.

Mr. Benkendorf, a 47-year-old Dayton resident, said he was angry the article ignored efforts by the cities to attract small businesses and entrepreneurs. He thinks these cities are poised for reinvention.

"For a long time, people thought granddaddy was going to come back and make everything all right again," said Mr. Benkendorf, referring to the manufacturers that decades ago built the economies of cities like Dayton. "People have begun to realize that's not going to happen."

Mr. Benkendorf, who directs an arts program affiliated with the University of Dayton, named the symposium, "Ten Living Cities." Dayton skeptics called it "Deathfest."

One was college student Joe Sack, 22. "It's like a gambling addict [trying] to help an alcoholic," he said while at work in a coffee shop. "It's hard to see what they can learn from each other."

Dayton, which has a population of 155,000, has since 1970 has lost more than 1,000 manufacturing jobs a year and a third of its residents. NCR -- the cash-register and ATM maker -- once employed more than 20,000 here. This summer the company said it would move its headquarters and 1,000 jobs to Georgia.

The cities' meeting began Saturday with Forbes reporter Joshua Zumbrun telling the city representatives and about 100 visitors that his story was among his most popular. Then he apologized for any hurt feelings.

Representatives of Dayton, Detroit, Cleveland, Buffalo; Canton and Youngstown, Ohio; Flint, Mich.; and Charleston, W.Va., took turns talking about their plans. There was little discussion of how cities might pay for the initiatives.

Dayton Mayor Rhine McLin ran to the podium for her talk. "If you look under the surface, you will see that we are developing a boutique city," she said. She didn't elaborate on what she meant.

But the city is working with hospitals, universities and a U.S. Air Force base to rebuild neighborhoods. About 500 abandoned structures will be razed this year with $3.5 million in federal stimulus money. Neighbors can annex the empty lots or the city will plant prairie grass and call them parks, said John Gower, Dayton's director of planning and community development.

"We can't go back and recreate the neighborhoods of the 1950’s and 1960’s, but we have a huge opportunity to create a new form for our cities," Mr. Gower said. "People want to live in beautiful places near green space."

In a historic reversal, the cities are embracing plans that emphasize growing smaller. In Buffalo, where more than a third of the students drop out of high school, Michael Gainer, executive director of Buffalo ReUse, is putting young people to work dismantling some of the thousands of abandoned homes and selling the scrap materials.

A councilman from Charleston described how the city lured "The World’s Strongest Man Competition." It was shown several times on ESPN, she said.

Matt Bach, public relations manager for Flint's convention and visitors bureau, said the image most closely linked to Flint was a scene from Michael Moore's 1989 documentary "Roger and Me": a woman skinning a rabbit to make a fur coat. The Dayton audience groaned in sympathy.

Mr. Bach described how he is fighting back. After a Canadian radio station aired a "This Ain't Flint" campaign to cheer up listeners depressed about Ottawa's economy, Mr. Bach orchestrated a letter-writing and email effort to stop the ads. The station awarded Flint more than $60,000 in free radio time that Flint used to air spots about vacationing in Michigan.

Youngstown Mayor Jay Williams talked of helping startup companies. This month, his city was named by Entrepreneur Magazine as one of the 10 best in the U.S. to start a business.

Mr. Williams, a tall 37-year-old with a background in banking, argued that some who have moved out of Youngstown may consider moving back. A University of Pittsburgh demographer is tracking former residents with the idea of telling them about the city's new direction. "We don't want to force anything on them," said John Slanina, a Youngstown native working on the project. "But we want people to know, 'Hey, Youngstown is changing, take a look.'"

Mr. Slanina said he's optimistic about the future of his hometown. But for now he lives in Columbus, Ohio, and has no plans to move back

By DOUGLAS BELKIN

The Cost of Global Warming

08/28/09

"How much of that will be in Al Gore's Pocket?"
-Aivars Lode

Technology Can Fight Global Warming Marine cloud whitening, and other ideas.

By BJORN LOMBORG

We have precious little to show for nearly 20 years of efforts to prevent global warming. Promises in Rio de Janeiro in 1992 to cut carbon emissions went unfulfilled. Stronger pledges in Kyoto five years later failed to keep emissions in check. The only possible lesson is that agreements to reduce carbon emissions are costly, politically arduous and ultimately ineffective.

But this is a lesson many are hell-bent on ignoring, as politicians plan to gather again—this time in Copenhagen, Denmark, in December—to negotiate a new carbon-emissions treaty. Even if they manage to bridge their differences and sign a deal, there is a strong likelihood that tomorrow's politicians will fail to deliver.

Global warming does not just require action; it requires effective action. Otherwise we are just squandering time.

To inform the debate, the Copenhagen Consensus Center has commissioned research looking at the costs and benefits of all the policy options. For example, internationally renowned climate economist Richard Tol of Ireland's Economic and Social Research Institute finds that a low carbon tax of \$2 a metric ton (1.2 tons U.S.) is the only carbon reduction policy that would make economic sense. But his research demonstrates the futility of trying to use carbon cuts to keep temperature increases under 2 degrees Celsius (3.6 degrees Fahrenheit), which many argue would avoid the worst of climate change's impacts.

Some economic models find that target impossible to reach without drastic action, like cutting the world population by a third. Other models show that achieving the target by a high CO_2 tax would reduce world GDP a staggering 12.9% in 2100—the equivalent of \$40 trillion a year.

Some may claim that global warming will be so terrible that a 12.9% reduction in GDP is a small price to pay. But consider that the majority of economic models show that unconstrained global warming would cost rich nations around 2% of GDP and poor countries around 5% by 2100.

Even those figures are an overstatement. A group of climate economists at the University of Venice led by Carlo Carraro looked closely at how people will adapt to climate change. Their research for the Copenhagen Consensus Center showed that farmers in areas with less water for agriculture could use more drip irrigation, for example, while those with more water will grow more crops.

Taking a variety of natural, so-called market adaptations into account, the Carraro research shows we will acclimatize to the negative impacts of global warming and exploit the positive changes, actually creating 0.1% increase in GDP in 2100 among the member countries of the Organization for Economic Cooperation and Development. In poor countries, market adaptation will reduce climate change-related losses to 2.9% of GDP. This remains a significant, negative effect. The real challenge of global warming lies in tackling its impact on the Third World. Yet adaptation has other positive benefits. If we prepare societies for more ferocious hurricanes in the future, we also help them to cope better with today's extreme weather.

This does not mean, however, that we should ignore rising greenhouse-gas emissions. Research for the Copenhagen Consensus Center by Claudia Kemfert of German Institute for Economic Research in Berlin shows that in terms of reducing climate damage, reducing methane emissions is cheaper than reducing CO_2 emissions, and—because methane is a much shorter-living gas—its mitigation could do a lot to prevent some of the worst of short-term warming. Other research papers highlight the advantages of planting more trees and protecting the forests we have to absorb CO_2 and cut greenhouse gases.

Other more speculative approaches deserve consideration. In groundbreaking research, J. Eric Bickel, an economist and engineer at the University of Texas, and Lee Lane, a researcher at the American Enterprise Institute, study the costs and benefits of climate engineering. One proposal would have boats spray seawater droplets into clouds above the sea to make them reflect more sunlight back into space—augmenting the natural process where evaporating ocean sea salt helps to provide tiny particles for clouds to form around.

Remarkably, Mr. Bickel finds that about $9 billion spent developing this so-called marine cloud whitening technology might be able to cancel out this century's global warming. The benefits—from preventing the temperature increase—would add up to about $20 trillion.

Climate engineering raises ethical concerns. But if we care most about avoiding warmer temperatures, we cannot avoid considering a simple, cost-effective approach that shows so much promise.

Nothing short of a technological revolution is required to end our reliance on fossil fuel—and we are not even close to getting this revolution started. Economists Chris Green and Isabel Galiana from McGill University point out that nonfossil sources like nuclear, wind, solar and geothermal energy will—based on today's availability—get us less than halfway toward a path of stable carbon emissions by 2050, and only a tiny fraction of the way towards stabilization by 2100.

A high carbon tax will simply hurt growth if alternative technology is not ready, making us all worse off. Mr. Green proposes that policy makers abandon carbon-reduction negotiations and make agreements to seriously invest in research and development. Mr. Green's research suggests that investing about $100 billion annually in noncarbon based energy research could result in essentially stopping global warming within a century or so.

A technology-led effort would have a much greater chance of actually tackling climate change. It would also have a much greater chance of political success, since countries that fear signing on to costly emission targets are more likely to embrace the cheaper, smarter path of innovation.

Cutting emissions of greenhouse gases is not the only answer to global warming. Next week, a group of Nobel Laureate economists will gather at Georgetown University to consider all of the new research and identify the solutions that are most effective. Hopefully, their results will influence debate and help shift decision makers away from a narrow focus on one, deeply flawed response to global warming.

Our generation will not be judged on the brilliance of our rhetoric about global warming, or on the depth of our concern. We will be judged on whether or not we stop the suffering that global warming will cause. Politicians need to stop promising the moon, and start looking at the most effective ways to help planet Earth.

Mr. Lomborg teaches at the Copenhagen Business School and is director of the Copenhagen Consensus Center. He is the author of "Cool It: The Skeptical Environmentalist's Guide to Global Warming" (Knopf, 2007.)

Windmills Are Killing Our Birds

09/10/09

“Yet another double-standard in environmentalism.”
-Aivars Lode

By ROBERT BRYCE

On Aug. 13, ExxonMobil pleaded guilty in federal court to killing 85 birds that had come into contact with crude oil or other pollutants in uncovered tanks or waste-water facilities on its properties. The birds were protected by the Migratory Bird Treaty Act, which dates back to 1918. The company agreed to pay $600,000 in fines and fees.

ExxonMobil is hardly alone in running afoul of this law. Over the past two decades, federal officials have brought hundreds of similar cases against energy companies. In July, for example, the Oregon-based electric utility PacifiCorp paid $1.4 million in fines and restitution for killing 232 eagles in Wyoming over the past two years. The birds were electrocuted by poorly-designed power lines.

Yet there is one group of energy producers that are not being prosecuted for killing birds: wind-power companies. And wind-powered turbines are killing a vast number of birds every year.

A July 2008 study of the wind farm at Altamont Pass, Calif., estimated that its turbines kill an average of 80 golden eagles per year. The study, funded by the Alameda County Community Development Agency, also estimated that about 10,000 birds—nearly all protected by the migratory bird act—are being whacked every year at Altamont.

Altamont's turbines, located about 30 miles east of Oakland, Calif., kill more than 100 times as many birds as Exxon's tanks, and they do so every year. But the Altamont Pass wind farm does not face the same threat of prosecution, even though the bird kills at Altamont have been repeatedly documented by biologists since the mid-1990’s.

The number of birds killed by wind turbines is highly variable. And biologists believe Altamont, which uses older turbine technology, may be the worst example. But that said, the carnage there likely represents only a fraction of the number of birds killed by windmills. Michael Fry of the American Bird Conservancy estimates that U.S. wind turbines kill between 75,000 and 275,000 birds per year. Yet the Justice Department is not bringing cases against wind companies.

"Somebody has given the wind industry a get-out-of-jail-free card," Mr. Fry told me. "If there were even one prosecution," he added, the wind industry would be forced to take the issue seriously.

According to the American Wind Energy Association, the industry's trade association, each megawatt of installed wind-power results in the killing of between one and six birds per year. At the end of 2008, the U.S. had about 25,000 megawatts of wind turbines.

By 2030, environmental and lobby groups are pushing for the U.S. to be producing 20% of its electricity from wind. Meeting that goal, according to the Department of Energy, will require the U.S. to have about 300,000 megawatts of wind capacity, a 12-fold increase over 2008 levels. If that target is achieved, we can expect some 300,000 birds, at the least, to be killed by wind turbines each year.

On its Web site, the Wind Energy Association says that bird kills by wind turbines are a "very small fraction of those caused by other commonly accepted human activities and structures—house cats kill an estimated one billion birds annually." That may be true, but it is not much of a defense. When cats kill birds, federal law doesn't require marching them to our courthouses to hold them responsible.

During the late 1980's and early 90's, Rob Lee was one of the Fish and Wildlife Service's lead law-enforcement investigators on the problem of bird kills in Western oil fields. Now retired and living in Lubbock, Texas, Mr. Lee tells me that solving the problem in the oil fields "was easy and cheap." The oil companies only had to put netting over their tanks and waste facilities.

Why aren't wind companies prosecuted for killing eagles and other birds? "The fix here is not easy or cheap," Mr. Lee told me. He added that he doesn't expect to see any prosecutions of the politically correct wind industry.

This is a double standard that more people—and not just bird lovers—should be paying attention to. In protecting America's wildlife, federal law-enforcement officials are turning a blind eye to the harm done by "green" energy.

—Mr. Bryce is the managing editor of Energy Tribune. His latest book is "Gusher of Lies: The Dangerous Delusions of 'Energy Independence'" (Public Affairs, 2008).Printed in The Wall Street Journal, page A19

The Effect of Sunspots on Global Warming

09/20/09

Global warming and the sun
Jonah Goldberg

On the last day of August, scientists spotted a teeny-weeny sunspot, breaking a 51-day streak of blemish-free days for the sun. If it had gone just a bit longer, it would have broken a 96-year record of 53 days without any of the magnetic disruptions that cause solar flares. That record was nearly broken last year as well.

Wait, it gets even more exciting.

During what scientists call the Maunder Minimum -- a period of solar inactivity from 1645 to 1715 -- the world experienced the worst of the cold streak dubbed the Little Ice Age. At Christmastime, Londoners ice-skated on the Thames, and New Yorkers (then New Amsterdamers) sometimes walked over the Hudson from Manhattan to Staten Island.

Of course, it could have been a coincidence. The Little Ice Age began before the onset of the Maunder Minimum. Many scientists think volcanic activity was a more likely culprit. Or perhaps the big chill was, in the words of scientist Alan Cutler, writing in The Washington Post in 1997, a "one-two punch from a dimmer sun and a dustier atmosphere."

Well, we just might find out. A new study in the American Geophysical Union's journal Eos suggests that we may be heading into another quiet phase similar to the Maunder Minimum. Meanwhile, the journal Science reports that a study led by the National Center for Atmospheric Research has finally figured out why increased sunspots have a dramatic effect on the weather, increasing temperatures more than the increase in solar energy should explain. Apparently, sunspots heat the stratosphere, which in turn amplifies the warming of the climate.

Scientists have known for centuries that sunspots affected the climate; they just never understood how. Now, allegedly, the mystery has been solved.

Last month, in another study, also released in Science, Oregon State University researchers claimed to settle the debate over what caused and ended the last Ice Age. Increased solar radiation coming from slight changes in the Earth's rotation, not greenhouse gas levels, were to blame.

What is the significance of all this? To say I have no idea is quite an understatement, but it will have to do.

Nonetheless, what I find interesting is the eagerness of the authors and the media to make it clear that this doesn't have any significance for the debate over climate change. "For those wondering how the [NCAR] study bears on global warming, Gerald Meehl, lead author on the study, says that it doesn't -- at least not directly," writes Moises Velasquez-Manoff of The Christian Science Monitor. "Global warming is a long-term trend, Dr. Meehl says. This study attempts to explain the processes behind a periodic occurrence."

This overlooks the fact that solar cycles are permanent "periodic occurrences," a.k.a. a very long-term trend. Yet Meehl insists the only significance for the debate is that his study proves climate modeling is steadily improving.

I applaud Meehl's reluctance to go beyond where the science takes him. For all I know, he's right. But such humility and skepticism seem to manifest themselves only when the data point to something other than the mainstream narrative about global warming. For instance, when we have terribly hot weather, or bad hurricanes, the media see portentous proof of climate change. When we don't, it's a moment to teach the masses how weather and climate are very different things.

No, I'm not denying that man-made pollution and other activity have played a role in planetary warming since the Industrial Revolution. But we live in a moment when we are lectured and harangued that if we use the wrong toilet paper or eat the wrong cereal, we are frying the planet. But the sun? Well, that's a distraction. Don't forget your reusable shopping bags, but pay no attention to that burning ball of gas in the sky -- it's just the only thing that prevents the planet from being a lifeless ball of ice engulfed in darkness. Never mind that sunspot activity doubled during the 20th Century, when the bulk of global warming has taken place.

What does it say that the modeling that guaranteed disastrous increases in global temperatures never predicted the halt in planetary warming since the late 1990's? What does it say that the modelers have only just discovered how sunspots make the Earth warmer?

I don't know what it tells you, but it tells me that maybe we should study a bit more before we spend billions to "solve" a problem we don't understand so well.

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Is Global Warming Created by Man Other Than Al Gore?

11/25/09

IBD Editorials
E-Mails Of Climate Researchers Buttress Case Of Warming Fraud

Junk Science: Hacked e-mails from Britain's Climate Research Unit are only the latest evidence of climate fraud. Just ask NASA's James Hansen about the faking of climate data or EPA employees about the suppression of climate fact.
For years, noted scientists and other global warming skeptics have been accused of being on the take, their research tainted and funded by grants from Big Oil and other fossil-fuel interests. Now, it turns out, it's the warm-mongers who are fudging the numbers and concealing the inconvenient truth.

We don't know who "Deep Throat" is. But according to an interview in Investigate Magazine's TGIF edition with Philip Jones, director of the Hadley Climate Research Unit at Britain's East Anglia University, the incriminating e-mails documenting collusion and fraud among top global warming scientists, including a few from Jones himself, are genuine.

In one e-mail sent to Michael Mann, director of Penn State University's Earth System Science Center, Raymond Bradley, a climatologist at the University of Massachusetts, and Malcolm Hughes, a professor of dendrochronology at the University of Arizona's Laboratory for Tree-Ring Research, Jones speaks of the "trick" of filling in gaps of data in order to hide evidence of temperature decline:

"I've just completed Mike's Nature trick of adding in the real temps to each series for the last 20 years (i.e., from 1981 onwards) and from 1961 for Keith's to hide the decline." Hide the decline? "Keith" is Keith Briffa of the Climate Research Unit, also involved in the bogus manipulation of data.

An e-mail from scientist Mick Kelly to Jones also speaks of manipulating data to hide the fact that Earth is actually cooling: "I'll maybe cut the last few points off the filtered curve before I give the talk again, as that's trending down as a result of the end effects and the recent coldish years."

In another e-mail to Mann from Kevin Trenberth of the National Center for Atmospheric Research, copied to Dr. James Hansen of NASA, Trenberth says: "Well, I have my own article on where the heck is global warming. We are asking that here in Boulder where we have broken records the past two days for the coldest days on record. We had 4 inches of snow."

Trenberth also says: "The fact is that we can't account for the lack of warming at the moment, and it is a travesty that we can't." He goes on to say that "the data is surely wrong. Our observing system is inadequate."

Well, that much is true. We have reported on information obtained by Anthony Watts of WattsUpWithThat on the inaccuracy of temperature-monitoring stations around the country and the screwy places these scientific stations are located. Daily temperature data are gathered by NOAA's National Climatic Data Center and the 1,221 or so weather observation stations it monitors around the country.

Watts and a few volunteers decided to check a few of them out. They found one station in Forest Grove, Ore., that stands just 10 feet from an air-conditioning exhaust vent. Another station in Roseburg, Ore., is on a rooftop near an AC unit. In Tahoe, Calif., one is near a drum where trash is burned.

When bad numbers aren't enough to show global warming, it's okay to just make them up. Hansen, the NASA scientist who began the climate scare, was himself caught fudging the numbers when he declared October 2008 the warmest October on record.

This despite the National Oceanic and Atmospheric Administration's registering of 63 local snowfall records and 115 lowest-ever temperatures for the month, and ranking it the 70th-warmest October in 114 years.

So how did Hansen claim it was the warmest October ever? As Christopher Booker wrote in the U.K.'s Telegraph: "The reason for the freak figures was that scores of temperature records from Russia and elsewhere were not based on October readings at all. Figures from the previous month had simply been carried over and repeated two months running."

As it turns out, Mann is the creator of the discredited "hockey stick" graph used in reports from the U.N.'s Intergovernmental Panel on Climate Change.

Bradley and Hughes were also involved in the famous graph, which purports to show a sudden and sharp spike in global temperatures the day man first dreamed of taking an SUV to the mall.

Canadian researchers and others have thoroughly debunked the hockey stick, finding serious problems with the study, including calculation errors, data used twice and a faulty computer program that produced a hockey stick out of whatever data were fed into it.

Their study also totally ignored major events such as the widely recognized Medieval Warm Period (about A.D. 800 to 1400) and the Little Ice Age (A.D. 1600 to 1850).

The warming debate was never over, only censored. We have noted how the Environmental Protection Agency has engaged in an ongoing cover-up of its own analyses of climate change and discouraged public dissent.

EPA lawyers Laurie Williams and Alan Zabel produced a video in which they said cap-and-trade is a "Big Lie" and carbon offsets are a "Big Rip-off." At the EPA's insistence, Zabel and Williams took down the video from their Web site, but not before it was copied and widely circulated.

Alan Carlin, senior research analyst at the EPA's National Center for Environmental Economics, dared to say, in essence, that Emperor Al Gore and his toadies at EPA were wearing no clothes.

After examining numerous global warming studies, Carlin, who holds a doctorate in economics with an undergraduate degree in physics, said his research showed that "available observable data ... invalidate the hypothesis" that humans cause dangerous global warming.

Timothy Ball, a former climatology professor at the University of Winnipeg who has received death threats for citing how Earth's history doesn't quite jibe with current prophecies of doom, says: "CO2 never was a problem, and all the machinations and deceptions exposed by these files prove that it was the greatest deception in history, but nobody is laughing."

Ball says he has "watched climate science hijacked and corrupted by this small group of scientists." "Surely," he says, "this is the death knell for the CRU, the IPCC, Kyoto and Copenhagen and the carbon credits shell game."

These inconvenient truths may be just the tip of the iceberg.

Climate Scientist Steps Down- Is This a Case of 'Where There's Smoke There's Fire?'

12/02/09

"Boy this is almost as good as the Tiger Woods Drama!"
-Aivars Lode

Climate Scientist Steps Down
British Researcher Leaves Post Temporarily Amid Probe Sparked by Hacked Emails

By KEITH JOHNSON, JEFFREY BALL and GAUTAM NAIK

The British scientist at the heart of a scandal over climate-change research temporarily stepped down Tuesday as director of a prominent research group amid an internal probe that follows the release of hacked emails involving him and other scientists.

People in Copenhagen form the logo of a campaign to cut carbon emissions to 350 parts per million.

The University of East Anglia in the U.K. said Phil Jones, head of the university's Climatic Research Unit, had decided to step aside from the director's post.

The announcement comes less than a week before world leaders are set to meet for a climate summit in Copenhagen. The two-week conference, sponsored by the United Nations, is supposed to come up with tougher policies to curb greenhouse-gas emissions and slow global warming.

The need for such action has been buttressed in large part by research by Dr. Jones and his colleagues in East Anglia and around the world. But hackers recently stole emails and documents from the East Anglia center that suggested Dr. Jones and other like-minded scientists tried to squelch the views of dissenting researchers and advocated manipulating data.

John Holdren, President Barack Obama's top science adviser, supports the view that global warming is man-made.

The fallout from the hacked emails is spreading beyond the U.K. Also Tuesday, Penn State University confirmed that Michael Mann -- a climate scientist on its faculty who figures prominently in the emails -- is under "inquiry" by the university.

Dr. Mann's work reconstructing historic global temperatures has, over the past decade, become a focal point of debate. Penn State said in a statement that its inquiry, which stems from disclosed emails written by Dr. Mann, is a preliminary step to determine whether a full investigation is needed. He didn't respond to requests for comment.

Sen. Barbara Boxer also supports the view that global warming is man-made.

On Wednesday, President Barack Obama's top science adviser -- John Holdren, a climate scientist who sent one email among those hacked and posted -- is due to testify on Capitol Hill. The House committee holding the hearing has billed it as a way to explore "the urgent, consensus view...that global warming is real, and the science indicates that it is getting worse." Dr. Holdren's office declined to comment. Dr. Holdren has long spoken of the "overwhelming" evidence of man-made global warming.

The emails have led to calls for probes into the state of climate science from U.S. politicians skeptical that humans are causing global warming. They have also drawn criticism from some high-profile environmentalists.

In one email, Dr. Jones suggested to Dr. Mann that they should try to keep out of scientific journals the research of scientists who challenge the idea of man-made global warming. We "will keep them out somehow -- even if we have to redefine what the peer-review literature is!" the email says.

The East Anglia institute that Dr. Jones headed has become a key player in building evidence for the U.N.'s argument that humans are behind global warming. In statements released by the institute in recent days, Dr. Jones has defended the integrity of the institute's scientific work, while saying that he and his colleagues "accept that some of the published emails do not read well."

On Tuesday, Dr. Jones said the East Anglia institute couldn't continue to do its work with him as its director amid the controversy. "What is most important is that CRU continues its world leading research with as little interruption and diversion as possible," he said in the statement. "After a good deal of consideration," he wrote, he decided to step down from the director's job pending the investigation.

Longtime critics of the premise that humans are responsible for climate change cheered word of the move by Dr. Jones and the inquiry into Dr. Mann. "I think we're making headway," said Oklahoma's James Inhofe, the senior Republican on the Senate Environment and Public Works Committee.

On Tuesday, Mr. Inhofe sent a letter to the chairwoman of the Senate Environment and Public Works Committee, Barbara Boxer (D., Calif.), that called for hearings on whether any U.S. laws were broken by the scientists, or "any taxpayer-funded research deliberately obscured or manipulated." A spokesman for Ms. Boxer didn't immediately respond to a request for comment.

—Stephen Power contributed to this article.

More on Climategate

12/03/09

Climategate: Follow the Money
Climate change researchers must believe in the reality of global warming just as a priest must believe in the existence of God.

By BRET STEPHENS

Last year, ExxonMobil donated $7 million to a grab-bag of public policy institutes, including the Aspen Institute, the Asia Society and Transparency International. It also gave a combined $125,000 to the Heritage Institute and the National Center for Policy Analysis, two conservative think tanks that have offered dissenting views on what until recently was called—without irony—the climate change "consensus."

To read some of the press accounts of these gifts—amounting to about 0.00027% of Exxon's 2008 profits of $45 billion—you might think you'd hit upon the scandal of the age. But thanks to what now goes by the name of climategate, it turns out the real scandal lies elsewhere.

Climategate, as readers of these pages know, concerns some of the world's leading climate scientists working in tandem to block freedom of information requests, blackball dissenting scientists, manipulate the peer-review process, and obscure, destroy or massage inconvenient temperature data—facts that were laid bare by last week's disclosure of thousands of emails from the University of East Anglia's Climate Research Unit, or CRU.

But the deeper question is why the scientists behaved this way to begin with, especially since the science behind man-made global warming is said to be firmly settled. To answer the question, it helps to turn the alarmists' follow-the-money methods right back at them.

Consider the case of Phil Jones, the director of the CRU and the man at the heart of climategate. According to one of the documents hacked from his center, between 2000 and 2006 Mr. Jones was the recipient (or co-recipient) of some $19 million worth of research grants, a sixfold increase over what he'd been awarded in the 1990's.

Al Gore wins the 2007 Nobel Peace Prize: Doing well by doing good?

Why did the money pour in so quickly? Because the climate alarm kept ringing so loudly: The louder the alarm, the greater the sums. And who better to ring it than people like Mr. Jones, one of its likeliest beneficiaries?

Thus, the European Commission's most recent appropriation for climate research comes to nearly $3 billion, and that's not counting funds from the EU's member governments. In the U.S., the House intends to spend $1.3 billion on NASA's climate efforts, $400 million on NOAA's, and another $300 million for the National Science Foundation. The states also have a piece of the action, with California—apparently not feeling bankrupt enough—devoting $600 million to their own climate initiative. In Australia, alarmists have their own Department of Climate Change at their funding disposal.

And all this is only a fraction of the $94 billion that HSBC Bank estimates has been spent globally this year on what it calls "green stimulus"—largely ethanol and other alternative energy schemes—of the kind from which Al Gore and his partners at Kleiner Perkins hope to profit handsomely.

Supply, as we know, creates its own demand. So for every additional billion in government-funded grants (or the tens of millions supplied by foundations like the Pew Charitable Trusts), universities, research institutes, advocacy groups and their various spin-offs and dependents have emerged from the woodwork to receive them.

Today these groups form a kind of ecosystem of their own. They include not just old standbys like the Sierra Club or Greenpeace, but also Ozone Action, Clean Air Cool Planet, Americans for Equitable Climate Change Solutions, the Alternative Energy Resources Association, the California Climate Action Registry and so on and on. All of them have been on the receiving end of climate change-related funding, so all of them must believe in the reality (and catastrophic imminence) of global warming just as a priest must believe in the existence of God.

None of these outfits is per se corrupt, in the sense that the monies they get are spent on something other than their intended purposes. But they depend on an inherently corrupting premise, namely that the hypothesis on which their livelihood depends has in fact been proved. Absent that proof, everything they represent—including the thousands of jobs they provide—vanishes. This is what's known as a vested interest, and vested interests are an enemy of sound science.

Which brings us back to the climategate scientists, the keepers of the keys to the global warming cathedral. In one of the more telling disclosures from last week, a computer programmer writes of the CRU's temperature database: "I am very sorry to report that the rest of the databases seems to be in nearly as poor a state as Australia was. . . . Aarrggghhh! There truly is no end in sight. . . . We can have a proper result, but only by including a load of garbage!"

This is not the sound of settled science, but of a cracking empirical foundation. And however many billion-dollar edifices may be built on it, sooner or later it is bound to crumble.

Global Warming Article From Someone that Ran Power Plants in Aussie

01/12/10

"I did not check all the numbers but I did check how much power was generated in Tasmania and how much was generated by one wind tower and these numbers are correct. Thanks Aivars senior for the article."
-Aivars Lode

Subject: Coal Driven Power Stations and Carbon Dioxide
Coal Driven Power Stations and Carbon Dioxide

This article appeared in the Rockhampton Morning Bulletin (Queensland, Australia) on 22.12.09

To the Editor:

I thought I should clarify. I am now retired and in excellent health at age 69. I spent 25 years in the Electricity Commission of NSW working, commissioning and operating the various power units. My last was the 4 X 350 MW Munmorah Power Station near Newcastle. I would be pleased to supply you with any information you may require.

Terence Cardwell

The Editor
The Morning Bulletin

I have sat by for a number of years frustrated at the rubbish being put forth about carbon dioxide emissions, thermal coal fired power stations and renewable energy and the ridiculous Emissions Trading Scheme.

Frustration at the lies told (particularly during the election) about global pollution. Using Power Station cooling towers for an example.

The condensation coming from those cooling towers is as pure as that that comes out of any kettle.

Frustration about the so called incorrectly named man made 'carbon emissions' which of course is Carbon Dioxide emissions and what it is supposedly doing to our planet.

Frustration about the lies told about renewable energy and the deliberate distortion of renewable energy and its ability to replace fossil fuel energy generation. And frustration at the ridiculous carbon credit programme which is beyond comprehension.

And further frustration at some members of the public who haven't got a clue about thermal Power Stations or Renewable Energy. Quoting ridiculous figures about something they clearly have little or no knowledge of.

First coal fired power stations do NOT send 60 to 70% of the energy up the chimney. The boilers of modern power station are 96% efficient and the exhaust heat is captured by the economisers and reheaters and heat the air and water before entering the boilers. The very slight amount exiting the stack is moist as in condensation and CO2. There is virtually no fly ash because this is removed by the precipitators or bagging plant that are 99.98% efficient. The 4% lost is heat through boiler wall convection.

Coal fired Power Stations are highly efficient with very little heat loss and can generate massive amount of energy for our needs. They can generate power at efficiency of less than 10,000 b.t.u. per kilowatt and cost wise that is very low.

The percentage cost of mining and freight is very low. The total cost of fuel is 8% of total generation cost and does NOT constitute a major production cost. As for being laughed out of the country, China is building multitudes of coal fired power stations because they are the most efficient for bulk power generation.

We have, like the USA, coal fired power stations because we HAVE the raw materials and are VERY fortunate to have them. Believe me no one is laughing at Australia - exactly the reverse, they are very envious of our raw materials and independence.

The major percentage of power in Europe and U.K. is nuclear because they don't have the coal supply for the future.

Yes it would be very nice to have clean, quiet, cheap energy in bulk supply. Everyone agrees that it would be ideal. You don't have to be a genius to work that out. But there is only one problem---It doesn't exist.

Yes - there are wind and solar generators being built all over the world but they only add a small amount to the overall power demand. The maximum size wind generator is 3 Megawatts, which can rarely be attained on a continuous basis because it requires substantial forces of wind. And for the same reason only generate when there is sufficient wind to drive them. This of course depends where they are located but usually they only run for 45% -65% of the time, mostly well below maximum capacity. They cannot be relied for a 'base load' because they are too variable. And they certainly could not be used for load control.

The peak load demand for electricity in Australia is approximately 50,000 Megawatts and only small part of this comes from the Snowy Hydro Electric System (The ultimate power Generation) because it is only available when water is there from snow melt or rain. And yes they can pump it back but it cost to do that. (Long Story)

Tasmania is very fortunate in that they have mostly hydro electric generation because of their high amounts of snow and rainfall. They also have wind generators (located in the roaring forties) but that is only a small amount of total power generated. Based on a average generating output of 1.5 megawatts (of unreliable power) you would require over 33,300 wind generators.

As for solar power generation much research has been done over the decades and there are two types. Solar thermal generation and Solar Electric generation but in each case they cannot generate large amounts of electricity. Any clean, cheap energy is obviously welcomed but they would NEVER have the capability of replacing Thermal power generation. So get your heads out of the clouds, do some basic mathematics and look at the facts not going off with the fairies (or some would say the extreme greenies.)

We are all greenies in one form or another and care very much about our planet. The difference is most of us are realistic. Not in some idyllic utopia where everything can be made perfect by standing around holding a banner and being a general pain in the backside.

Here are some facts that will show how ridiculous this financial madness the government is following. Do the simple math and see for yourselves.

According to the 'believers' the CO_2 in air has risen from .034% to .038% in air over the last 50 years. To put the percentage of Carbon Dioxide in air in a clearer perspective;

If you had a room 12 ft x 12 ft x 7 ft or 3.7 mtrs x 3.7 mtrs x 2.1 mtrs, the area carbon dioxide would occupy in that room would be .25m x .25m x .17m or the size of a large packet of cereal. Australia emits 1 percent of the world's total carbon Dioxide and the government wants to reduce this by twenty percent or reduce emissions by .2 percent of the world's total CO2 emissions.

What effect will this have on existing CO2 levels?

By their own figures they state the CO2 in air has risen from .034% to .038% in 50 years. Assuming this is correct, the world CO2 has increased in 50 years by .004 percent.

Per year that is .004 divided by 50 = .00008 percent. (Getting confusing -but stay with me).

Of that because we only contribute 1% our emissions would cause CO2 to rise .00008 divided by 100 = .0000008 percent. Of that 1%, we supposedly emit, the government wants to reduce it by 20% which is 1/5th of .0000008 = .00000016 percent effect per year they would have on the world CO2 emissions based on their own figures. That would equate to a area in the same room, as the size of a small pin.!!!

For that they have gone crazy with the ridiculous trading schemes, Solar and roofing installations, Clean coal technology. Renewable energy, etc, etc. How ridiculous it that.

The cost to the general public and industry will be enormous.

Cripple and even closing some smaller business.

T.L. Cardwell

Congress Calls for Investigation on False Testimony by Gore on Climate Change

02/25/10

IBD Editorials
Investigate Climate Crimes

Climate Fraud: A senator wants an investigation of the false climate testimony before Congress and wants Al Gore to reappear. The illegalities may involve more than just lying to Congress.

At a hearing Tuesday by the Senate Environment and Public Works Committee on the Environmental Protection Agency's budget, ranking Republican James Inhofe told EPA head Lisa Jackson that man-induced climate change was a "hoax" concocted by ideologically motivated researchers who "cooked the science."

More than that, Inhofe, in releasing a GOP report questioning the science used to support cap-and-trade legislation, hinted that such activities may be part of a vast criminal enterprise designed to bilk governments, taxpayers and investors while enriching those making the false claims.

In asking the administration to investigate what he called "the greatest scientific scandal of our generation," Inhofe called for Gore to be summoned to explain and defend his earlier testimony in light of the Climate-gate e-mail scandal and admissions by the Intergovernmental Panel on Climate Change (IPCC) that its Fourth Assessment Report (AR4) was essentially a work of fiction.

Since AR4 was released, Gore claims such as rising seas and endangered coastlines have been debunked. IPCC Chairman Rajendra Pachauri has been revealed as a collector of anecdotes and student dissertations who had to retract the claim that Himalayan glaciers would disappear by 2035.

Murari Lal, an editor of IPCC's AR4 report, has admitted to Britain's Daily Mail that he had known the 2035 date was false, but included it in the report "purely to put political pressure on world leaders."

Even Phil Jones, head of Britain's tainted Climate Research Unit, has conceded that, yes, the Earth was warmer in medieval times and there has been no statistically significant warming in the last 15 years.

As Charlie Martin of Pajamas Media reports, Inhofe is asking the Department of Justice to look into possible research misconduct or even outright criminal actions by scientists involved in questionable research and data manipulation. These include Michael Mann of Pennsylvania State University and James Hansen, head of NASA's Goddard Institute for Space Studies.

Inhofe's report suggests that the products of such scientific misconduct, used by the EPA and Congress to support draconian legislation and regulations, may violate the Shelby Amendment requiring open access to federally funded research, as well as the Office of Science and Technology Policy rules on scientific misconduct.

The report notes potential violations of the Federal False Statements and False Claims acts, which involve both civil and criminal penalties. Charges of obstructing Congress in its official proceedings are possible as well.

We should also follow the money. Researchers have lived off grants spawned by their claims of climate fraud. Oil and coal companies have suffered financially, as have their stockholders. Consumers have faced higher energy prices. Those who've made great sums are the very people who promote green energy and green companies in which they're invested based on the false claims they've made.

When you add up the costs of the Waxman-Markey cap-and-trade bill and EPA's finding that carbon dioxide is a pollutant, all in the name of fighting climate change, you have a scam that dwarfs Bernie Madoff's.

Vast sums are being made and will be made through the sale of carbon offsets and carbon credits. Perhaps the Securities and Exchange Commission should investigate the claims of such enterprises.

Gore himself has achieved a net worth estimated by some to be in excess of $100 million by persuading investors to get involved in his enterprises. He's been touted as possibly the world's first "carbon billionaire."

What if it's all been a fraud all along? Inhofe may not get his investigation, but certainly it is well warranted.

Greenhouse Gas Emissions: The Greatest Moral Conundrum of Our Time…Until the Next One

03/31/10

"What a great headline and interesting commentary on global warming."
-Aivars Lode

The greatest moral conundrum of our time … until the next one

Last year, we were told, the most important issue for the country - for the planet - was greenhouse gas emissions. This meant the Senate had to pass the government's carbon pollution reduction scheme.

It was so urgent it had to be legislated before the end of the year, and before the summit in Copenhagen.

We were led to believe if the Senate refused to pass the legislation there would be a double dissolution of Parliament. The Liberal leader, Malcolm Turnbull, warned this would lead to a humiliating election defeat for the Coalition. Kevin Rudd declared climate change "the great moral and economic challenge of our time".

Now the legislation has become less important than getting 30 per cent of the GST from the states so the government can rearrange financing in the hospital system. Can a momentous moral challenge fizzle out like this? Or are you beginning to suspect all the crisis was politically driven?

I was thinking about this on Saturday night during Earth Hour - when people are urged to turn off their lights to show they support reducing greenhouse gases and saving the planet. Four years ago newspapers ran front-page pictures of Sydney in darkness as people everywhere switched off their lights and contemplated the impending doom that fossil fuel electricity would bring upon us. Earth Hour did not attract such prominent coverage this year. Most front pages ran with pictures of the formula one grand prix in Melbourne - a gas-guzzling, high-octane car race that is shown on millions of plasma screens guzzling electricity all around the world. It is hard to think of anything less devoted to renewable energy and carbon reduction.

The Victorian and NSW governments are so concerned about gas emissions they are competing against each other with taxpayers' money to get future rights to host the event.

What amazes me is the way this greenhouse campaign can be switched on and switched off as quickly as the lights during Earth Hour. And for the moment the government has decided to switch it off so we can all get back to talking about health funding.

Our monthly Anglican newspaper broadly reflects the prevailing progressive left opinion. In the December issue, in the lead-up to the government's self imposed timetable for securing the emissions trading legislation, it ran four extensive articles on the need for action over climate change. It published no contrary views.

In fact, the Copenhagen summit was given more column inches than Christmas, which is quite an achievement for a religious newspaper. But the issue has hardly registered in the newspaper since. Even though nothing has happened, the urgency has gone out of the campaign.

The activists from NGOs who flew to Copenhagen to get urgent action on carbon emissions have gone back to their previous causes. This doesn't mean they are insincere - on the contrary. It's just that their enthusiasm can be heightened or lessened with adroit management from the political professionals running the government's election year agenda. I watched this issue elevated in the lead-up to the 2007 election, when it was used to illustrate how the Howard government was old, tired and out of touch. It was brought to fever pitch late last year to wedge the Coalition.

Without any immediate political target, it lies dormant. But I expect it will be back for the election - probably in an attack on the Coalition's policy on direct abatement measures. Which is why the public is entitled to get a little cynical. You never hear Rudd arguing for an emission trading scheme as if he really believes it is "the great moral and economic issue challenge of our time". He raises it, he drops it, it comes and it goes - like all the other issues of the regular media cycle.

Those scientists who made exaggerated claims about the Himalayan glaciers undermined trust in the science behind global warming. And those politicians who made exaggerated claims about their policy proposals have undermined trust on the political issue. It would have been better to be honest enough to admit the uncertainties, and acknowledge the downside of their policy. As it is, Earth Hour has become an apt metaphor for their tactical approach - a time to spread darkness, rather than illumination.

Peter Costello is a former federal Liberal treasurer.

Wind Power Generation May be a Whole Lot of Hot Air?

08/25/10

"Interesting…based upon the articles I posted some time ago that basically said the same thing."

- Aivars Lode

Wind Power Won't Cool Down the Planet

Often enough it leads to higher carbon emissions.

By Robert Bryce

The wind industry has achieved remarkable growth largely due to the claim that it will provide major reductions in carbon dioxide emissions. There's just one problem: It's not true. A slew of recent studies show that wind-generated electricity likely won't result in any reduction in carbon emissions—or that they'll be so small as to be almost meaningless.

This issue is especially important now that states are mandating that utilities produce arbitrary amounts of their electricity from renewable sources. By 2020, for example, California will require utilities to obtain 33% of their electricity from renewables. About 30 states, including Connecticut, Minnesota and Hawaii, are requiring major increases in the production of renewable electricity over the coming years.

Wind—not solar or geothermal sources—must provide most of this electricity. It's the only renewable source that can rapidly scale up to meet the requirements of the mandates. This means billions more in taxpayer subsidies for the wind industry and higher electricity costs for consumers.

None of it will lead to major cuts in carbon emissions, for two reasons. First, wind blows only intermittently and variably. Second, wind-generated electricity largely displaces power produced by natural gas-fired generators, rather than that from plants burning more carbon-intensive coal.

Because wind blows intermittently, electric utilities must either keep their conventional power plants running all the time to make sure the lights don't go dark, or continually ramp up and down the output from conventional coal- or gas-fired generators (called "cycling"). But coal-fired and gas-fired generators are designed to run continuously, and if they don't, fuel consumption and emissions generally increase. A car analogy helps explain: An automobile that operates at a constant speed—say, 55 miles per hour—will have better fuel efficiency, and emit less pollution per mile traveled, than one that is stuck in stop-and-go traffic.

Recent research strongly suggests how this problem defeats the alleged carbon-reducing virtues of wind power. In April, Bentek Energy, a Colorado-based energy analytics firm, looked at power plant records in Colorado and Texas. (It was commissioned by the Independent Petroleum Association of the Mountain States.) Bentek concluded that despite huge investments, wind-generated electricity "has had minimal, if any, impact on carbon dioxide" emissions.

Bentek found that thanks to the cycling of Colorado's coal-fired plants in 2009, at least 94,000 more pounds of carbon dioxide were generated because of the repeated cycling. In Texas, Bentek estimated that the cycling of power plants due to increased use of wind energy resulted in a slight savings of carbon dioxide (about 600 tons) in 2008 and a slight increase (of about 1,000 tons) in 2009.

The U.S. Energy Information Administration (EIA) has estimated the potential savings from a nationwide 25% renewable electricity standard, a goal included in the Waxman-Markey energy bill that narrowly passed the House last year. Best-case scenario: about 306 million tons less CO2 by 2030. Given that the agency expects annual U.S. carbon emissions to be about 6.2 billion tons in 2030, that expected reduction will only equal about 4.9% of emissions nationwide. That's not much when you consider that the Obama administration wants to cut CO2 emissions 80% by 2050.

Earlier this year, another arm of the Department of Energy, the National Renewable Energy Laboratory, released a report whose conclusions were remarkably similar to those of the EIA. This report focused on integrating wind energy into the electric grid in the Eastern U.S., which has about two-thirds of the country's electric load. If wind energy were to meet 20% of electric needs in this region by 2024, according to the report, the likely reduction in carbon emissions would be less than 200 million tons per year. All the scenarios it considered will cost at least $140 billion to implement. And the issue of cycling conventional power plants is only mentioned in passing.

Coal emits about twice as much CO2 during combustion as natural gas. But wind generation mostly displaces natural gas, because natural gas-fired generators are often the most costly form of conventional electricity production. Yet if regulators are truly concerned about reducing carbon emissions and air pollution, they should be encouraging gas-fired generation at the expense of coal. And they should be doing so because U.S. natural gas resources are now likely large enough to meet all of America's natural gas needs for a century.

Meanwhile, the wind industry is pocketing subsidies that dwarf those garnered by the oil and gas sector. The federal government provides a production tax credit of $0.022 for each kilowatt-hour of electricity produced by wind. That amounts to $6.44 per million BTU of energy produced. In 2008, however, the EIA reported subsidies to oil and gas totaled $1.9 billion per year, or about $0.03 per million BTU of energy produced. Wind subsidies are more than 200 times as great as those given to oil and gas on the basis of per-unit-of-energy produced.

Perhaps it comes down to what Kevin Forbes, the director of the Center for the Study of Energy and Environmental Stewardship at Catholic University, told me: "Wind energy gives people a nice warm fuzzy feeling that we're taking action on climate change." Yet when it comes to CO2 emissions, "the reality is that it's not doing much of anything."

Mr. Bryce, a senior fellow at the Manhattan Institute, recently published his fourth book, "Power Hungry: The Myths of 'Green' Energy and the Real Fuels of the Future" (Public Affairs).

Meltdown of the Climate 'Consensus'

09/06/10

"MMM interesting – and something previously questioned a number of years ago on my blog."
-Aivars Lode

By Matt Patterson, editor of Green Watch, a publication of the Capital Research Center.

If this keeps up, no one's going to trust any scientists.

The global-warming establishment took a body blow this week, as the UN Intergovernmental Panel on Climate Change received a stunning rebuke from a top-notch independent investigation.

For two decades, the IPCC has spearheaded efforts to convince the world's governments that man-made carbon emissions pose a threat to the global temperature equilibrium -- and to civilization itself. IPCC reports, collated from the work of hundreds of climate scientists and bureaucrats, are widely cited as evidence for the urgent need for drastic action to "save the planet."

Pachauri: UN big scored great grants for silly science.

But the prestigious InterAcademy Council, an independent association of "the best scientists and engineers worldwide" (as the group's own Web site puts it) formed in 2000 to give "high-quality advice to international bodies," has finished a thorough review of IPCC practices -- and found them badly wanting.

For example, the IPCC's much-vaunted Fourth Assessment Report claimed in 2007 that Himalayan glaciers were rapidly melting, and would possibly be gone by the year 2035. The claim was actually false -- yet the IPCC cited it as proof of man-made global warming.

Then there's the IPCC's earlier prediction in 2007 -- which it claimed to have "high confidence" in -- that global warming could lead to a 50 percent reduction in the rain-fed agricultural capacity of Africa.

Such a dramatic decrease in food production in an already poor continent would be a terrifying prospect, and undoubtedly lead to the starvation of millions. But the InterAcademy Council investigation found that this IPCC claim was also based on weak evidence. Overall, the IAC slammed the IPCC for reporting "high confidence in some statements for which there is little evidence. Furthermore, by making vague statements that were difficult to refute, authors were able to attach 'high confidence' to the statements." The critics note "many such statements that are not supported sufficiently in the literature, not put into perspective or not expressed clearly.

Some IPCC practices can only be called shoddy. As The Wall Street Journal reported, "Some scientists invited by the IPCC to review the 2007 report before it was published questioned the Himalayan claim. But those challenges 'were not adequately considered,' the InterAcademy Council's investigation said, and the projection was included in the final report."Yet the Himalayan claim wasn't based on peer-reviewed scientific data, or on any data -- but on speculation in a phone interview by a single scientist.

Was science even a real concern for the IPCC? In January, the Sunday Times of London reported that, based in large part on the fraudulent glacier story, "[IPCC Chairman] Rajendra Pachauri's Energy and Resources Institute, based in New Delhi, was awarded up to 310,000 pounds by the Carnegie Corp. . . . and the lion's share of a 2.5 million pound EU grant funded by European taxpayers."

Thus, the Times concluded, "EU taxpayers are funding research into a scientific claim about glaciers that any ice researcher should immediately recognize as bogus."

All this comes on top of last year's revelation of the "Climategate" e-mails, which revealed equally shoddy practices (and efforts to suppress criticism) by scientists at the Climatic Research Unit at the University of East Anglia -- perhaps the single most important source of data that supposedly proved the most alarming claims of global warming.

Al Gore and many other warming alarmists have insisted that "the debate is over" -- that the science was "settled." That claim is now in shreds -- though the grants are still flowing, and advocates still hope Congress will pass some version of the economically ruinous "cap and trade" anti-warming bill. What does the best evidence now tell us? That man-made global warming is a mere hypothesis that has been inflated by both exaggeration and downright malfeasance, fueled by the awarding of fat grants and salaries to any scientist who'll produce the "right" results.

The warming "scientific" community, the Climategate emails reveal, is a tight clique of like-minded scientists and bureaucrats who give each other jobs, publish each other's papers -- and conspire to shut out any point of view that threatens to derail their gravy train. Such behavior is perhaps to be expected from politicians and government functionaries. From scientists, it's a travesty. In the end, grievous harm will have been done not just to individual scientists' reputations, but to the once-sterling reputation of science itself. For that, we will all suffer.

Comments from Clients & Friends of Aivars Lode

“Like Wayne Gretzky, Aivars has an uncanny knack for predicting a market outcome (where the puck is going) based on the detection of weak signals from past observations and what is happening around him at the time. It’s up to each individual to create possibilities that take advantage of these outcomes.”

Craig Jones, Chief Operating Officer
Mincom

"As a consummate student of financial markets, Aivars has an uncanny ability to see the waves as they begin crest. From his insights I have been able to advise my clients to avoid some of those waves that are heading toward an impending crash."

Tate Haire, HNW Wealth Advisor
SunTrust Bank

“Aivars has great vision and insight, like nothing I have ever seen before! He has the ability to see things others cannot, interpret trends that many think are coincidences and has a passion for challenging the status quo. I admire his intellect and his fortitude- there is certainly only one Aivars Lode in this world!”

Gary Price, Partner
Fifth Avenue Advisors

“Aivars personifies the definition of commitment and the belief that anything is possible if you reject apathy and seize opportunity. ‘The irony of commitment is that it's deeply liberating - in work, in play, in love. The act frees you from the tyranny of your internal critic, from the fear that likes to dress itself up and parade around as rational hesitation. To commit is to remove your head as the barrier to your life.’ - Starbucks coffee cup”

Tim Jeffreys, Managing Director
IT Capital

"When Aivars speaks of the Asian crisis, or of a car dealer in Melbourne, or even a politician in Florida, he has been there. His knowledge isn't simply from a text book, it is based on his experience as an investor and a business leader. In a style and manner not unlike that of noted futurist John Naisbitt (Megatrends and Megatrends China), it is great to see a summary of experiences, reflecting the views of thought leaders, interpreted by someone who was there. Anyone interested in gaining a new perspective, or applying valuable lessons learned, relevant to what we are living through today, should not only read this book themselves, but must be sure and pass it on to others."

John R Laroche, CEO-Asia Pacific Group
Hong Kong, S.A.R., China

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Jon E. Davis, CPA, CFP®, President
Jon E. Davis, CPA, P.A.

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"As an entrepreneur and business owner, I continue to benefit from Aivars' unique perspectives and advice. His global vision helps me focus and identify crucial business opportunities."

Felix Lluberes, Founder
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Dr. Radu Vestemean, President & Chief Information Architect
Knowledge4You Corp.

“Aivars has a passion for life, business, family and learning. Unlike many others, he completely understands the journey is the destination and he lives his life accordingly. He makes the most of his opportunities but he also helps others make the most of their opportunities. We experienced the extreme highs and lows of the markets but he never once lost his path or his conviction."

Ronald Totton, BT Global Services AsiaPac (Hong Kong)

“Like it or not, we live in a headline driven world were seldom is the underling text read yet alone understood. Further, an individual's experiential reference base determines decisions and direction in life. Looking back, much of what we have experienced is "not as advertised" and suggests "buyers beware." Aivars Lode's insights and experiential reference base, while sometimes hard to believe, offers readers an opportunity to uncover and understand motivation and what really is going on as someone has been here before. I can't promise you will become a billionaire after reading this book, but I am certain your insights, decisions and direction in life will be positively impacted.”

Mike Myers, Managing Director
Avantce Capital

“It's not how you get there it's why you go.”

Nick Garulay, Rite Drive.com

"Aivars' approach to analysis is both hands-on and unbiased, culminating in clear and concise conclusions."

~ **Bryant Yunker Jr.**

"Aivars effectively articulates the lessons to be learned from studying patterns in the global economy and explains why they relate to our daily business and personal lives."

~ **Robert G. Hershenhorn** - Chairman of the Board, First Bank & Trust Co. of Illinois

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~ **Richard Weatherstone** - Chairman, Shore Solutions Inc.

"A true globe-trotter, Aivars is never afraid of venturing out both in his personal and business life. He and his wife have lived in many places in the world, and as a result they have a great understanding of its diversity, and are at ease anywhere they go, with people of all walks of life. They are true citizens of the world. They know no borders, a refreshing change from most people's myopic views."

~ **Bernard E. Francois** - Private Equity Investor (and a friend), Serena Ventures, L.L.C.

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