Gonna Buy a Hat…a Big One.

By Joe Average,
September 2007.
www.lifetoday.com.au

"GONNA BUY A HAT.
………..
I'm gonna buy a big one
Like that Mr. Gorbachov
And when it's raining all this c**p
Oh my hat will keep it off.

Now take a look at all them leaders
Desperation in their eyes
The tight faces smiles that cannot hide it
They know no more than you or I.

So I'm gonna buy a hat
'Cos here they come again
And when they start to blah-blah
It's you and me that gets the rain."

Lyrics by Chris Rea,
"Dancing with Strangers", 1987.

Onboard the Titanic… "Did you feel something?".

July 18, 2007. Bear Stearns advises investors in two failed hedge funds that they'll get back little if any money. The larger fund (valued at $925 million in March) had borrowed almost $9bn, while the smaller fund (valued at $638 in March) had borrowed $11bn.

July 29, 2007. "**Germany puts rescue fund in place for IKB…**The German government has begun a rescue operation to shore up Europe's first big casualty of the US subprime crisis…German finance minister called leading banking executives to discuss a bailout…a pledge to guarantee obligations of more than €8bn (£5.4bn) – more than five times IKB's stock market value." *(Financial Times)*

August 31, 2007. The two collapsed Bear Stearns' hedge funds file for bankruptcy.

August 1, 2007. Bear Stearns freezes a third hedge fund.

August 3, 2007. "Jim Cramer, the hedge fund manager and television pundit, created an instant. YouTube classic on the CNBC business channel as he berated the Federal Reserve, the US central bank, and Ben Bernanke, its head, and told them to bail out the market.
"Bernanke is being an academic! "he screamed. "***It is no time to be an academic…He has no idea how bad it is out there. He has no idea! My people have been in this game for 25 years. And they are***

losing their jobs and these firms are going to go out of business, and he's nuts! They're nuts! They know nothing!...The Fed is asleep!" (*Financial Times)*

<u>August 6, 2007.</u> German Bank Sal Oppenheim temporarily freezes a € 750 asset-backed credit fund, closing it until further notice after worried investors pull out €100 from the fund.

American Home Mortgage files for bankruptcy (joining more than 50 other lenders) and cuts 6.300 jobs.

<u>August 10, 2007</u>. "**ECB in €95bn market injection.** <u>Surprise move as fears increase for liquidity. Intervention in bid to head off credit squeeze.</u> The level of funds markedly exceeded the ECB's only previous major intervention on the day after 9/11 when it lent €69bn followed by €40 over subsequent days. Even more striking was its one-day pledge to meet 100 per cent of all funding requests from financial institutions."

"**BNP Paribas** (France's biggest bank) **decides to freeze funds.** <u>BNP Paribas shocked European markets by freezing three funds</u> (combined value €1.6bn) exposed to the stumbling US subprime mortgage market….Funds of hedge funds familiar with the performance of Renaissance Technologies, one of the world's biggest hedge funds, run by billionaire James Simons, said it had experienced difficulties this week…

"**NIBC hit by US mortgage crisis…** the unlisted Dutch merchant bank backed by Chris Flowers, the former Goldman Sachs banker, yesterday joined the ranks of European financial institutions damaged by the US mortgage market mayhem when it disclosed substantial first-half losses."

"**WestLB admits to credit exposure.** The publicly-owned Landesbank became the latest German bank to admit exposure to the US subprime mortgage market…(amid) speculation that its US asset management arm Brightwater Capital Management was facing liquidity problems.
<u>Meanwhile, banks from Singapore to Switzerland are rushing to either protest their lack of exposure or warn shareholders that they are facing losses</u>."

(*Financial Times)*

<u>August 11/12, 2007.</u> "**Banks leap in to add to liquidity.** Central banks have been forced to inject massive doses of liquidity in excess of€100bn into overnight lending markets…The European Central Bank has acted most aggressively, lending €61bn to institutions to tide them over the weekend after injecting €95bn on Thursday…The New York Fed agreed to accept as collateral more than $30bn of mortgage-backed securities, which are being shunned by investors The Bank of Japan injected Y1,000bn ($8.5bn)."

"**Cautious Bear falls foul of hedge fund trap.** On top of the blow to its reputation, Bear (Stearns) faces law-suits from fund investors who will lose virtually all their money."

"Deutsche keeps fund open despite heavy withdrawals. DWS, Deutsche Bank's asset management arm, said its ABS Fund had lost 30 per cent of its value, mainly because of customer withdrawals, as it fell from €3bn to €2.1bn. But unlike many other European banks it said it would keep it open. Funds have been frozen or propped up across Europe, from BNP Paribas to Union Investment Frankfurt Trust, WestLB Mellon and HSBC Trinkaus & Burkhardt in Germany, Hypo KAG in Austria and Oddo and Axa in France."

(*Financial Times)*

<u>August 13, 2007.</u> "**Central Banks seek to unblock markets.** Speculation rises over ECB and Fed move."

"**Germany's banks 'are on the ropes again'.** The fragmentation of the sector (a three-pillar system of private, public and co-operative banks…Europe's most fragmented) underlines its vulnerability to an IKB-style crisis."

(*Financial Times)*

<u>August 15, 2007</u>. Australian hedge fund manager Basis Capital warns losses at one of its funds may top 80 per cent.

<u>August 16, 2007.</u> Countrywide Financial (the largest US mortgage lender) borrows all $11.5bn available from a group of 40 banks when unable to secure short-term financing.

Shares in RAMS, one of Australia's largest mortgage lenders, crash 60 per cent after it has to find emergency funding. Newspapers report that whereas the company was eager to "talk to all and sundry" in the lead up to its recent listing, now "the shutters have gone down".

__August 17, 2007.__ "__**Anxious customers jammed the phone lines and Web site of Countrywide Bank and crowded its branch offices to pull out their savings**__…The rush to withdraw money…came a day after fears arose that Countrywide Financial could file for bankruptcy protection because of a worsening credit crunch stemming from the sub-prime mortgage meltdown.
Customers, most of whom said they were acting just in case, __**said they went to the lightly staffed branches because they couldn't get through to the bank via its toll-free number or its slow-moving Web site."**__

(*LA Times)*

US Federal Reserve unexpectedly cuts discount rate 50 basis points in an emergency measure (and hints another cut in September may actioned "as needed to mitigate the adverse effects on the economy arising from disruptions in financial markets".) **…markets stage a recovery.**

__**August 21,2007.**__ **Treasury Secretary Henry Paulson tries to soothe jittery investors' nerves by insisting the economy is fundamentally in good shape.**

__**August 29,2007.**__ **The Reserve Bank of Australia advises that mortgage lenders may be forced to stop heavily discounting due to rising cost of providing loans…**seems more than a few have been __"funding long-term instruments__ which are mortgages __with very short-term (cheaper) funding__".
Commonwealth Bank of Australia chief executive…warns customers to brace for higher interest rates!

__Bull speak.__

Puru Saxena (Money Matters)**;**
"After going through all the technical and sentiment data, I am more convinced than ever that a major bottom was formed in the markets last week … is screaming a 'MAJOR BOTTOM' (August 22, 2007)."

Gerard Baker (*The Times)***;**
Trillions of dollars of financial assets slosh around the world every day at the flick of a switch. Doesn't that make us horribly vulnerable to sudden changes of sentiment?
__No….We no longer have boom-and-bust economics. Instead we have long cycles of growth punctuated by short down-turns; and that is thanks in very large part to the efficiency of our modern financial markets."__

John Mauldin (Investorsinsight)**;**
This is not the end of the world. I actually think things should sort themselves out by October or so, given no new major surprises…I think we are in for a return of the Muddle Through Economy rather than the End of the World."

__Bear speak.__

Harry Schultz Letter;
"In my opinion, we've entered that twilight zone and it will get worse and we'll see a torrent of foreclosures over the next 12 to 24 months…__Assume the worst scenario is possible and plan for it."__

Jim Puplava (Financial Sense Newshour, August 25th)**;**
"__This reminds me so much of the Great Depression days when the stock market began to unravel__…the economy…__it was almost on a weekly basis you had the President…the Secretary of the Treasury…the head of the Federal reserve__…over the last month, and how many times have you turned on the television and it's Paulson giving a press conference, to Maria Bartiromo over whether China was going to dump their bonds. It's almost like every other day. Today you have Senator Dodd meeting with Bernanke and Paulson…the government talking about a bailout."

Doug Noland (Credit Bubble Bulletin)**;**
__"It's eerily like reading the history of 1929 to 1930, and everyone is saying the economic fundamentals are sound, and it's just a short term liquidity problem__."

Confusing isn't it.

What am I going to do?

"GONNA BUY A HAT.

I'm gonna buy a big one

'Cos here they come again
And when they start to blah-blah
It's you and me that gets the rain."

All the best, Joe.

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