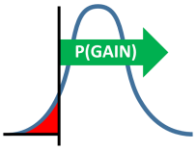

31 December 2014

Question: Does the Four Seasons, Nevis shut its doors to the public during the holidays?

Oil majors scramble to cut costs as crude almost halves in six months – Pg. 1

- Brent crude's 49% plummet since June – alongside a near halving of iron ore prices and sharp drops in coal and copper …
- The groups are cutting up to 15% of the pay of thousands of self-employed oil and gas workers in the region
- …few signs the sell-off – due to rising supplies of high-quality oil from the US and weak demand in Europe and Asia – has ended

Argentina put to test as debt clause expires – Pg. 4

- Argentina's willingness to end a grueling legal dispute with a group of US hedge funds will be put to the test when a key clause in debt contracts expires today
- The government has long insisted the "rights upon future offers" (Rufo) clause in the contracts of bonds issued in 2005 and 2010 following Argentina's 2001 default prevented it paying its "holdout" creditors in full
- Its failure to make those payments in full by a July deadline, after the holdouts won a lawsuit against Argentina in the US, pushed the country into default for the eigth time in its history

Forecasting the world in 2015 – Pg. 7

- Will the oil price drop below $50 per barrel?
    - Yes, there are two reasons for thinking that the oversupply in the global oil market that caused the Brent benchmark price to drop by almost 50% between June and December this year will persist…
    - First, supplies are likely to grow
    - Second, demand growth will remain as torpid as in the second half of 2014
- Will china's growth rate fall below 7% in 2015?
    - Yes, Beijing may be intent on keeping its official GDP target next year at 7% or above to prevent confidence from unravelling.
- Which central bank – the US Federal Reserve or the Bank of England – will be the first to raise interest rates?
    - The US Federal Reserve. The adage is never to be against the Fed and it remains good advice regarding interest rates in 2015
- Will a serious rival emerge to Hillary Clinton in 2015
    - No (Prof Note: Puullleezzzz…the FT also predicted in year past that Hillary would be president)

- Will there be a fall in the value of London super-prime property?
    - Yes, prices will fall by about 10% in 2015 because of an oversupply of new build super-prime properties

Answer: Yes! They have 196 rooms at $1,000/night, minimum with tax, and are fully booked! Aye Caramba!

30 December 2014

Question: Who did Dorian Gray murder?

Russian economy contracts – Pg. 2

- Russia's economy contracted last month for the first time in five years as oil prices fell sharply and the rouble collapsed
- GDP shrank 0.5% in November compared with the same month last year, …
- Russia's economic growth had already been slowing sharply since 2013 because of a drop-off in investment
- A first wave of selling prompted the central bank to float the rouble in November

China brokerages rush to raise capital – Pg. 12

- Chinese securities brokerages have seen their valuations soar as investors bet that the industry is entering a new gold age, fuelled by a booming stock market and financial innovation that is opening up new business areas
- Chinese brokerages have traditionally relied on trading commissions, IPO underwriting and other revenue sources linked to a rising stock market. Investors are now betting that new business areas such as margin lending, corporate loan underwriting and securitization will create fresh sources of profit
- Another concern for brokerages is that income from new business lines may not pan out. Commercial banks are increasingly involved in loan underwriting, in which they act as an intermediary between corporate borrowers and debt investors in exchange for a fee. That puts them in competition with brokerages

Answer: Basil

29 December 2014

Question: 2015 will be the year of the ??? for the Chinese Zodiac Cycle?

China zombie factories keep alive illusion of prosperity – Pg. 4

- With enormous power over courts, state-owned banks and local administrative departments, Communist party officials across China are prepared to go to great lengths to support the biggest failing employers in their jurisdictions

- The outstanding volume of non-performing loans in the Chinese banking sector has increased by half since beginning of 2013, …but the sector-wide level of such loans remains extremely low, at just over 1.2%
- China is on track for its slowest annual growth this year since 1990, when it was still under international sanctions in the wake of the Tiananmen Square massacre

Rush for exposure to US economic recovery drives ETF inflows – Pg. 11

- A scramble for exposure to the US's economic recovery dominated flows into fast-growing exchange-traded funds in 2014, and contrasted with fading investor enthusiasm for Europe
- ETFs trade like stocks but track baskets of securities and are used by investors as an easy way to take bets on economies or regions
- The transatlantic divergence in economic fortunes was also reflected in ETF sales, with international inflows into European-focused funds last year equivalent to just 16% of assets under management

Answer: Goat

27 December 2014

Question: In Oscar Wilde's The Picture of Dorian Gray, to whom was Dorian engaged?

Russia triples Trust Bank bailout as Moscow seeks new year calm – Pg. 1

- Russia tripled the size of its bailout of troubled lender Trust Bank to $1.9bn yesterday, laying bare the growing financial fallout from its currency crisis and the slump in the price of oil, its main export
- Barred by sanctions from US and European capital markets, Russian banks face plunging equity values, rising bad loans, the mounting burden of dollar-denominated debt as the rouble weakens and a looming recession

Oil price fall weighs on Japan inflation data – Pg. 2

- Inflation in Japan dropped to a 14-month low in November, ….
- Fading inflation has come as some relief to consumers, who had faced an extra squeeze on household finances caused by April's rise in consumption tax – the first in 17 years
- …indicators suggest broad inflation expectations are flat, if not falling

Switzerland to dismantle cold war defences – Pg. 2

- Switzerland installed the explosives at strategic locations along its borders and key transport routes as early as the 19th century, and did so on a larger scale during the second world war
- But it was only in 1975, with the introduction of what was known as the permanent explosive deployment 75 programme, that it took a more systematic approach to where it planted the hidden charges
- The idea was that the explosive-laden structures would deter aggressors considering an invasion. Failing that, the series of defensive lines would slow down and use up the resources of the invaders to give the Swiss time to prepare their defences

Answer: Sibyl Vane (Prof Note: The book was a present from a student that was so aghast I had not been familiar with the book that she remedied the situation. Thank you!!!)

24 December 2014

Question: In the song "Grandma Got Run over by a Reindeer" what did Grandma go to get?

US economy notches up fastest expansion in more than a decade – Pg. 1

- The US economy reaffirmed its traditional role as the engine of global growth after notching up its fastest expansion in more than a decade
- The pace of growth will ramp up pressure on the US Federal Reserve to consider more aggressive interest rate rises after it made only cautious communication changes at its meeting last week

Faster deliveries shift distribution dynamics – Pg. 12

- The move to same-day and next-day deliveries is forcing retailers and distributors to make radical changes to their property portfolios
- Before the advent of ecommerce, distribution activity was largely focused on a handful of huge hubs such as the UK's gold triangle in the Midlands and the Benelux corridor stretching inland from Europe's biggest ports, Rotterdam and Antwerp
- Access to land is the biggest problem for those new facilities….
- One reason for this demand is the high returns. European industrial property including logistics – produced an 8% total return in that period, compared with 5.7% from offices and 5.6% from retail, …

Bumper year ahead for coco bond sales – Pg. 18

- Contingent convertible, or coco, bond issuance has more than doubled year-on-year…
- Cocos are debt instruments that can be converted into equity or written off entirely if the issuing bank's capital drops below a pre-agreed threshold. Banks use them to raise loss-absorbing Additional Tier 1 (AT1) capital because they are often cheaper than issuing equity

Euro drops to lowest level since height of crisis – Pg. 18

- The euro fell to its lowest level since the Eurozone crisis of 2012 in thin trading as Greece failed to elect a new president in its second round of voting
- The single currency fell 0.3% against the dollar to $1.2180, ….
- The euro has come under increasing pressure in recent weeks amid signs that the ECB is likely to embark on full-blown quantitative easing early next year to help boost the ailing Eurozone economy

Natural gas prices hit by warmer US winter – Pg. 20

- Natural gas fell to its lowest level in two years after demand for the heating fuel was hit by warmer than expected weather in the US

- On Monday, the price dropped 9.3% - its biggest daily drop since February. Futures have lost 25% this year on the New York Mercantile Exchange

Answer: Her Medication

23 December 2014

Question: Where was I when I saw Mommy kissing Santa Claus?

Opec leader vows not to cut oil output even if price hits $20 – Pg. 1

- …"fundamental change" in Opec policy that is more far-reaching than any since the 1970s…
- …Saudi Arabia is throwing down the gauntlet to all the high-cost sources of crude – from Canada's oil sands and US shale, to deepwater Brazil and the Arctic – to try to face down the threat they pose to its market share
- The price plunge has thrown the economies of big oil exporters like Russia and Venezuela into disarray and forced oil companies across the world to rewrite their investment plans

Takeovers top $3.3tn as megadeals herald return of pre-crisis volumes – Pg. 1

- In the busiest period since 2007, megadeals returned with a vengeance, as historically low borrowing rates, buoyant capital markets and inflated share prices prompted big transactions with the potential to restructure industries, particularly in pharmaceuticals, technology and media

China amends real estate register rules in fight against corruption – Pg. 4

- China issued new rules yesterday requiring owners of real estate and other unmovable assets to register holdings, giving authorities a powerful additional weapon against corruption
- The State Council, china's cabinet, has ordered the land ministry to establish a unified registration system for real estate, the lack of which has enabled corrupt officials to stash their wealth in property with little risk of discovery
- The system will also aid the rollout of a property tax, which is being tested in the cities of Shanghai and Chongquing
- Much Chinese property is subject to registration but records are dispersed among many different agencies, hindering authorities' ability to identify how much property an individual controls

Banks face sharp restrictions on use of rating agencies in loan risk assessment – Pg. 13

- Banks' scope to use credit rating agencies to assess the risks in their portfolios will be sharply reduced s regulators push through standards aimed at making lenders safer
- …Basel…said it wanted to reduce reliance on external ratings and compel banks to improve their own assessments of the risks of loans going bad when calculating capital requirements

Answer: On the stairs.

22 December 2014

Question: What type of snow is Frosty [the snowman] made of?

Saudi Arabia and UAE blame oil rout on countries outside Opec – Pg. 1

- Global energy forecasters are expecting reduced demand for Opec oil in 2015 amid a rise in US shale production and a slowdown in demand in Europe and Asia. Many expect a significant surplus in the first half of next year

Loser's game – Pg. 6

- Some estimates suggest that as few as 10% of active managers in the US managed to beat their benchmark
- …sales of actively managed funds have collapsed, particularly in the huge market for US funds investing in equtiies
- A study by S&P Indices last month demonstrated that outperformance almost never persists
- The flow out of active funds is driven in particular by the phenomenon of exchange traded funds, passive vehicles that can trade directly on a stock exchange
- …academic theory, which suggests that active management is a "losers' game"
- …in most years the "average" active manager does beat the benchmark before fees

The rise and rise of the flexible MBA – Pg. 10

- Following its merger with Arizona State University, Thunderbird will no longer teach MBA students, and Wake Forest recently announced it would move to all part-time MBA programmes
- (Prof Note: I am very concerned about the direction of education and the quality provided within programmes…)

China loosens regulations on competition for foreign banks – Pg. 18

- Many foreign bankers have now resigned themselves to playing a small role in China's domestic market
- Instead they use their local offices mainly as a platform to serve foreign clients in the country, while working to gain business with Chinese companies and rich individuals with overseas fundraising and wealth management needs
- The top items on the US and EU chamber wish lists include greater freedom to fund themselves through overseas parents; easier approvals for new branch openings; and elimination of foreign ownership restrictions in securities companies, fund management companies and local commercial banks

Answer: Christmas

20 December 2014

Question: What brought Frosty the Snowman back to life?

Belarus lifts rates to 50% as Russia turmoil takes its toll – Pg. 3

- Belarus has imposed a 30% tax on buying foreign currency and more than doubled interest rates to 50% as the ripples of this week's Russian market turmoil begin to be felt in other former Soviet countries
- The Belarus rouble has gradually lost about 15% of its value against the dollar this year, but yesterday slumped 5.5% to trade at its weakest level since 1998
- In addition to tax on foreign currency purchases and the increase in interest rates, the Belarusian central bank also announce it was temporarily banning over-the-counter currency trades, and that it would increase the level of compulsory foreign currency sales by exporters from 30% to 50%
- Together, the measures amount to capital controls, limiting the exchangeability of the Belarusian currency

Russia – Pg. 7

- He [Putin] warned the Russian people to brace themselves for two years of hardship and suggested that, after 15 years in the Kremlin, he might finally diversify the Russian economy from its reliance on energy, raw materials and military industries
- Other Russians, fearing they had missed an opportunity to buy dollars at a favourable rate, converted roubles into tangible goods
- The conditions for the rouble's tumble have been in place for months. They include a sharp fall in the price of oil, Russia's main export; western sanctions, which make it difficult for Russian companies to refinance their external debt; a crippling loss of confidence in the economic outlook, leading businesses to freeze investments
- Deep-seated shortcomings in the rule of law, corruption and protection of property rights have contributed to capital flight abroad
- What would most benefit the Russia economy, even more than higher oil prices, is an end to western sanctions

Dollar buoyed by confidence in Fed rate rise – Pg. 13

- The dollar rebounded to trade close to the multiyear highs reached last week amid renewed confidence that the US Federal Reserve will raise interest rates in mid-2015
- A catalyst for fresh dollar strength was the Fed's meeting on Wednesday, which investors and traders interpreted as a hawkish signal on the timing of interest rate rises next year

Answer: A silk hat

19 December 2014

Question: London's Trafalgar Square Christmas tree is traditionally given by which country?

Uncertainty ripples across Russia economy – Pg. 2

- The effects of the wild gyrations in the rouble rippled across the Russian economy yesterday as pressure on the country's financial system intensified and trade flows with the world's ninth-largest economy were disrupted

- Interbank rates hit their highest level in nine years, in a sign of the strains on the banking industry after three days of rouble fluctuations that shook confidence in the Russian economy

Hedge fund managers suffer a battering – Pg. 2

- Hedge funds investing in Russian equities have seen the value of their holdings slump in recent weeks, making them some of the worst performing fund managers in the world this year

Swiss central bank introduces negative rate – Pg. 4

- Switzerland's central bank has introduced a negative interest rate on deposit accounts as it battles to ease the pressure on the Swiss franc
- To try and relieve the pressure on the franc, from January 22 the SNB will charge an interest rate of 0.25% on account balances above a certain threshold held with it by banks and other financial institutions
- There had long been speculation that the SNB could introduce negative interest rates, especially with the ECB expected to embark on a full-blown quantitative easing programme next year, which would weaken the euro

Obesity can be disability, European court rules – Pg. 4

- Obesity can be considered a disability, the European Court of Justice has said in a ruling that could change the way employers in Europe treat overweight staff
- It said the specific reason for a person's disability should not matter to whether or not the law against discrimination applied to them

Investors flock to bond default insurance – Pg. 20

- Big investors have been buying hundreds of billions of dollars of exotic credit derivatives to protect themselves against the possibility that growing numbers of corporate bond issuers will default
- Options that give investors the right to buy insurance against bond defaults have exploded in popularity this year as asset managers and hedge funds seek to offset the risk of a big blow-up in credit affordably
- Swaptions act in a similar way to options on other assets, such as stocks, by giving the holder the right to enter into a CDS contract at a certain time in the future
- Unlike CDS, options on DCS indices are not currently required to be centrally cleared

US bonds and shares send mixed signals – Pg. 22

- During 2014 the S&P 500 has peaked at 2,075 and registered 49 record closing highs, while the current 10-year Treasury yield of 2.16% has eased from 3% since January. Slumbering government bond yields alongside sharply weaker oil prices and low expectations for inflation do not suggest that a robust economy beckons
- But uncertainty is illustrated by the S&P 500's leadership. Gains have been primarily led by defensive sectors, notably utilities, consumer staples and healthcare. Smaller stocks, a barometer of the outlook for the economy, have significantly underperformed

Answer: Norway

18 December 2014

Question: Where did George Bailey work in It's a Wonderful Life?

Rouble leaps 12% as Russia moves to halt 'bacchanalia' in currency markets – Pg. 1

- The Bank of Russia announced measures to support the banking secdtor – including liquidity injections, looser capital requirements and the prospect of major recapitalization – after anxious citizens queued at bank branches to convert their roubles into dollars and euros
- The central bank's relief package would allow Russian banks to largely ignore the recent market turmoil when calculating their capital adequacy ratios: They would stop marking securities portfolios to market, avoid writing down loans to companies affected by western sanctions, and delay making provisions against non-performing loans

Insurers warn over US terrorism cover – Pg. 14

- Washington's failure to renew a government scheme that guarantees terrorism cover jeopardises the economy, US businesses and insurance companies have warned
- Underwriters warned that they may have little choice but to leave owners of skyscrapers, shopping malls and other property without terrorism insurance in the new year, when a federal government backstop will come to an end
- The Terrorism Risk Insurance Scheme, set up after the September 11, 2001, terror attacks to ensure the continued provision of cover after the industry began to withdrew it, is set to expire as Congress adjourned on Tuesday without a deal on its extension
- Under the terms of the government guarantee scheme, insurers are required to offer terrorism cover but the federal government covers the bill following an attack

Year of the buck gives way to turbulence – Pg. 22

- Fresh injections of stimulus by the ECB and the BoJ sent the euro and yen tumbling to multiyear lows against the greenback – helping their fight against deflation.
- ….the Federal Reserve remains on course to begin raising interest rates from the middle of next year
- So will the combination of a surging dollar and weak oil price prompt other central banks to target or defend their exchange rates more explicitly? Some emerging markets are already trying to fight back. The midnight rate rise by Russia's central bank on Monday recalls the tactics of the 1997 debt crisis, but more stable emerging markets, even those that ought to benefit from cheaper oil, are also struggling
- At present Beijing is keeping the renminbi broadly stable against the dollar. Given falls in the currencies of trading partners, the renminbi's trade-weighted value has risen significantly

Answer: Bailey Building and Loan Association

17 December 2014

Question: In It's a Wonderful life, who does George save?

Russian financial crisis looms as rouble turmoil causes global jitters – Pg. 1

- Russia lurched towards a financial crisis evoking parallels with its 1998 crash, as the rouble plunged more than 11% despite a dramatic midnight interest rate rise by its central bank
- Russian shoppers rushed to buy goods before the currency lost more value, while some banks ran short of cash as customers stocked up on dollars and euros
- At one point yesterday the rouble tumbled to 80 against the US dollar….
- The failure of Russia's central bank on Monday night to stem the currency's sharp declines with an emergency interest rate rise of 6.5 points to 17% raised speculation that Moscow would introduce capital controls

BoE warns on emerging markets – Pg. 13

- If the BoE does shift the focus of its stress testing to include a serious emerging markets shock,, it would be a concern for UK-listed banks HSBC and Standard Chartered, which are heavily exposed to those markets

Oil price fall sparks fears over CLOs – Pg. 22

- Investors in securitized packages of loans are scrambling to determine how much the complex products are exposed to plunging oil prices as turmoil in the US credit markets spreads
- The price of oil has sunk almost 50% since June…
- Investors have been rushing to analyze their holdings of collateralized loan obligations. CLOs are a type of bond that bundles together cash flows from loans made to highly indebted companies and then slices them according to risk
- Commercial mortgage-backed securities, which pool loans secured by commercial properties, are also under scrutiny
- Oil and gas loans make up 4.5% of the S&P LCD Loan Index by amount outstanding, a proxy for exposure that may be embedded in CLOs

Answer: His younger brother Harry.

16 December 2014

Question: Which famous and revered Christmas movie has the line, "You'll shoot your eye out kid!"?

Rout in Russian markets triggers rouble's biggest decline since 1998 – Pg. 1

- The rouble has tumbled 10% in its biggest fall since 1998 amid a rout in Russian markets that looks set to cap a grim year for the Russian economy
- Investors have fled Russia this year amid western sanctions and an increasing gloomy economic outlook, triggering a collapse in the rouble to record lows of 64.45 against the dollar and 81.35 to the euro yesterday…

- …the Russian central bank warned that GDP could contract by 4.5 – 4.7% if oil prices remained at $60 a barrel

Denmark lays claim to the North Pole – Pg. 2

- Denmark presented a claim at the US yesterday to about 900,000 square kilometres beyond the coast of Greenland, an autonomous territory within Denmark.
- At stake are untapped oil, gas and minerals thought to lie under the Artic. A US government study suggests that as much as 30% of the world's undiscovered gas and 13% of its oil could lie in the Artic
- All countries' borders end 200 nautical miles from their coasts in the Arctic, leaving a vast patch of land owned by nobody

Inflation expectations test fresh lows – Pg. 24

- Expectations priced into financial markets about future inflation rates have hit fresh lows on both sides of the Atlantic as the repercussions of tumbling oil costs spread
- The ECB's chosen expectations gauge, based on swaps prices, yesterday implied an average inflation rate over five years starting in five years of just 1.68%

Answer: A Christmas Story

15 December 2014

Question: What does it mean when a bell rings?

$1tn cost of US's longest war hastens retreat from military intervention – Pg. 1

- The Afghanistan war, the longest overseas conflict in American history, has cost the US taxpayer nearly $1tn and will cost several hundred billion dollars more after it officially ends this month…
- About 80% of the spending on the Afghanistan conflict has taken place during the presidency of Barack Obama, who sharply increased US military presence in the country after taking office in 2009

Banks' losses raise spectre of renewed prop trading – Pg. 15

- While investment banks are permitted under the so-called Volcker rule to hold inventories of shares to sell on to their clients, senior bankers said it was not typical to hold such a large exposure to a single company in a takeover situation solely for market-market purposes
- After investment banks relieved on government support during the financial crisis, regulators introduced new rules in the US to prevent them speculating using their own capital, a practice known as proprietary trading

US court ruling raisesbar for insider dealing cases – Pg. 19

- Some defendants who pleaded guilty in an alleged insider trading scheme could be found innocent after a US appeals court overturned the related convictions of two former hedge fund portfolio managers…

- The government will now have to show that the end user of confidential information knew the source had received a benefit in an explicit quid pro quo, and also knew the tip had been illegally obtained
- The ruling could mean the insider trading allegations for which he pleaded guilty are no longer considered crimes, which could result in his case being dismissed

Answer: An angel gets his wings!

13 December 2014

Question: In the movie, A Christmas Story, Ralphie wants just one thing for Christmas. What is it?

Oil price woes deepen market rout – Pg. 1

- …rout in prices had failed to stimulate buying
- Brent crude, the international oil marker that has plunged 45% since mid-June, fell $1.73 to $61.95 a barrel yesterday. West Texas intermediate, the US benchmark, tumbled $1.97 to $57.98, a level last seen in May 2009
- While lower oil prices can be a boon for consumer spending, a broader concern is that the sharp decline from above $100 a barrel in June may not just reflect excess supply, but rather signal less demand, suggesting that the global economy is decelerating
- US corporate bond prices have also come under pressure, with junk bond yields approaching 7%

Bankers will fail to win back trust with tragedy analogies – Pg. 11

- …new misbehavior keeps coming to light. Just this week, we learnt about violations of US analyst independence rules and the possible use of algorithms to allegedly manipulate foreign exchange rates

US energy junk debt sell-off spreads – Pg. 13

- Investors are fleeing the US junk debt market as a sell-off that started in low-rated energy bonds last month has now spread to the broad corporate debt market amid fears of a spike in default rates
- Reversals in junk bonds often sway sentiment in other corners of the market, including equities and higher quality corporate debt and have the potential to starve some companies of a source of credit
- Big funds are particularly fearful that a reversal in the junk bond market could be faster in this cycle than previously. While issuance has boomed, there are fewer big banks and those that exist have pared back their securities portfolios, meaning they have less capacity to buy bonds and support the market in a crisis

Answer: A Red Ryder Carbine Action 200-shot Range Model air rifle, i.e. a BB gun. God Bless America!

12 December 2014

Question: What were the names of the children that the Ghost of Christmas Present showed to Scrooge?

EU stagnation fears resurface as cheap loans sale falls short – Pg. 1

- The probability of full-blown QE in the Eurozone increased this month when the ECB changed its language to say it "intended" rather than "expected" to ramp up its balance sheet to 3tn (euro)

IMF urges South Africa to push for growth – Pg. 3

- The IMF has revised downwards its estimate for the country's growth to 2.25 – 2.5%, below the 3.5 – 4% it estimated in the early 2000s
- South Africa is one of the most liquid and traded emerging markets, but it is vulnerable to global financial shocks and was lumped with the "fragile five" emerging markets last year. It is exposed to Europe's woes via manufacturing exports and to China's slowdown through commodities prices
- The IMF forecasts growth of 1.4% this year – which would be the country's lowest level since a 2009 recession – and 2.1% in 2015, if labour relations improve
- The South African government is struggling with unemployment that has remained stubbornly around 25%; a fiscal deficit of 4.1% of GDP; and a current account deficit of 6% of GDP

Strong dollar hits US corporate profits – Pg. 24

- US companies that qualified for foreign exchange impact on profits said earnings were on average reduced by 3 cents a share due to currency swings
- More than two-fifths of S&P 500 sales were generated abroad in 2013, …
- The euro was most often mentioned as a culprit in the 846 US corporate earnings calls…

Answer: Ignorance and Want

11 December 2014

Question: When Scrooge, in Dickens' A Christmas Carol, was young, with whom was he smitten?

Oil price drops below $65 for first time in five years – Pg. 1

- …fallen 43% since mid-June. Brent, the international benchmark, dropped as much as 4.9% to $63.56, the lowest level since July 2009

Stronger dollar poses emerging markets threat – Pg. 4

- As emerging markets have slowed along with the world economy over the past few years, their exporters have struggled to chase after global demand. In general principle, a general depreciation in their currencies, of the sort that accelerated sharply this week, could help
- Part of the problem is that falling prices of oil and other commodities have been more bad than good for emerging economies as a whole

BIS warns on riskier asset-backed loans – Pg. 20

- Top central bankers have warned that investors are underestimating the risks in racier "sliced and diced" loans.
- The Bank for International Settlements – dubbed "the central bankers' bank" – said riskier subordinated, so-called "mezzanine", portions of asset-backed securities are subject to "considerable uncertainty" due to a "cliff effect" whereby only a small error in projecting potential losses would magnify their risks substantially, …
- Asset-backed securities bundle loans such as mortgages or credit card debt for sale on to fixed income investors. Financial institutions such as banks issue them in return for funding and also to transfer potentially risky assets off their balance sheets. They are sliced into tranches to provide a range of risk and reward

Cost of insuring Venezuelan debt surges – Pg. 20

- Market fears over Venezuela's credit worthiness are approaching panic levels as the price of oil plunges
- Among the main oil producers, Venezuela is arguably the most vulnerable to the ongoing oil crash
- With oil accounting for roughly 96% of its export earnings and 48% of budge revenue the drop in oil prices has taken a toll on the country's dire finances
- It has also expanded its definition of international reserves to include diamonds and other convertible currencies…

Answer: Belle

10 December 2014

Question: In a Christmas Carol by Dickens, what was Scrooge's sister's name?

Senate accuses CIA of lying over 'brutal' torture that leaves 'stain' on US values – Pg. 1

- ..agency's interrogations were "far more brutal" than it had told policy makers or the public and were "not effective"
- (Prof Note: The ends justify the means…does this make us communists?! Hmmmm…)

China banks deal blow to cheaper loans – Pg. 2

- Three of China's four biggest banks have raised interest rates on deposits in recent days, potentially blunting the impact of the central bank's recent cut in benchmark rates, which authorities hoped would spur the economy by reducing borrowing costs
- The higher cost of holding customer deposits is likely to lead to banks being less willing to offer cheaper loans to businesses and mortgage borrowers, a key goal to the rate cut. While the deposit benchmark and its 20% margin are obligatory for banks, the binding floor on loan rates was scrapped last year, meaning the lending benchmark is merely guidance

Rich nations' tax burden rebounds towards levels seen before financial crisis – Pg. 4

- The tax burden in wealthy countries has nearly recovered to pre-crisis levels, as the economic recovery boosted receipts and governments took steps to rebuild the public finances
- Average tax revenues have risen as a share of national income for the last four years although individual countries showed "widely differing trends", …
- About half of the increase in revenue between 2012 and 2013 was the result of rising revenues from personal and corporate income tax

Fed to discuss brief history of 'considerable time' – Pg. 6

- The US Fed Rsv will debate next week whether to scrap its forecast that interest rates will stay low for a "considerable time", but the closely watched phrase may survive a little longer
- There are a few other ways to signal rate rises are not imminent, but none is clean or easy. The Fed could say it will be "patient" in raising rates – a word appearing in recent speeches – but the improvement on the status quo is modest
- An alternative would be language tying a rise in interest rates to continued progress on unemployment and inflation

Turning away from the dollar – Pg. 8

- Not only is capital flowing more freely out of China, the channels and the destinations of that flow are shifting significantly in response to market forced and a master plan in Beijing, ….
- In a nutshell, three big and inter-related changes are under way. China's appetite for US Treasury bonds, a cornerstone of the global economy for more than a decade, is waning. Beijing is ramping up its overseas development agenda to boost financial returns and serve key geopolitical interests. The promotion of the renminbi as an international currency is gradually liberating Beijing from the dollar zone, providing it with more latitude to open up to foreign portfolio investment flows
- …China's $3.9tn in foreign currency reserves,…

Answer: Fan

9 December 2014

Question: What did my true love send to me on the first day of Christmas?

Strong dollar and falling oil price batter emerging currencies – Pg. 1

- Emerging market currencies fell to their lowest level in 14 years yesterday, hammered by a strengthening dollar and a falling oil price that is at five-year lows
- …crude, which dropped 45 yesterday to $65 a barrel
- Emerging markets have been hit by the relentless rise in the dollar, weaker exports due to slower growth in China, and lower commodity prices which have hurt natural resource exporters such as Russia, Nigeria and Mexico

- Russia, already struggling to cope with western sanctions over its involvement in Ukraine, recently suffered the worst one-day fall in the rouble since the 1998 financial crisis

Inequality damages growth, says OECD – Pg. 2

- Rising income inequality over the past 30 years has damaged growth rates in rich countries by limiting educational opportunities for poor children,…
- The OECD said the research showed governments should focus policy on ensuring poorer children gained better education and supporting people into employment
- Higher inequality can hinder growth by destroying trust in society, hitting investment skills and reducing demand for goods and services from poorer families who tend to spend more of their incomes. But it provides greater incentives to climb the ladder of opportunity and can provide necessary savings to finance investment and growth

Japan recession worse than first reported – Pg. 4

- Yet a revised estimate yesterday showed that real GDP slipped 1.9%, with a contraction in spending by businesses twice as severe as first thought

Until employers feel the heat, the long-term jobless will be frozen out – Pg. 11

- …long-term unemployment is still higher than at any time between the second world war and the financial crisis. And at nearly eight months, the average spell of joblessness is still 50% longer than it was in the aftermath of the harsh recession of 1982-83
- The long-term unemployed face a downward spiral because employers' hiring screens often discriminate against them unintentionally, making it hard for them even to get interviews
- This creates a paradox for monetary policy: if the Fed starts increasing rates too sharply at the first sign of tighter labour market, employers may never feel the wage pressure that forces them to consider giving the long-term unemployed a chance
- Janet Yellen seems to embrace that perspective. The Fed Chair has stated that, given the plight of the long-term unemployed and those who have dropped out of the labour market, "further improvement in the labour market could entail stronger wage pressures for a time before maximum employment has been attained"
- (Prof Note: We often receive requests for analytical work for our internal analysts and former students with whom we subcontract from companies reluctant to hire FTEs. By standardizing financial modeling we are able to provide a quality product, at minimal cost, and maintain the models for a fraction of the cost of having an FTE. It is a different world than the one in which I started my career. www.stagexchange.com)

Vanguard turns its guns on financial advice – Pg. 17

- Using mainly online tools, including webcams for chats with advisers, it will avoid the expensive infrastructure of the existing financial adviser chains
- Only BlackRock has more money under management, though it has a powerful business managing accounts for pension funds and other institutions, whereas Vanguard operates only through its funds

Answer: A Partridge in a Pear Tree

8 December 2014

Question: In 'It's a Wonderful Life', a Christmas classic in the U.S., Mary Bailey's husband is played by whom and which prep school did he attend? (Hint: It is the same as mine!) Bonus: Who played Mary Bailey?

Dollar's resurgence poses threat to emerging markets, warns BIS – Pg. 1

- Global financial policy makers have sounded the alarm about the impact of a resurgent US dollar on emerging markets, where companies have racked up large debts denominated in the American currency
- The Bank of International Settlements, known as the central bankers' bank…
- A stronger dollar has historically proved to be a harbinger of turmoil for the developing world, contributing to crises in Latin America in the 1980s and Asia in the 1990s
- …stress in the $12.3tn US Treasury market that serves as the bedrock of the global financial system

UK regulator to review bank penalties as fines soar – Pg. 17

- The FCA fines have increased not only because of benchmark-rigging probes but also because a new penalty regime that allowed for higher fines for wrong-doing founds since 2010 is not taking effect

Australia's banks urged to boost capital – Pg. 19

- Australia's banks need to hold billions of dollars in extra capital to ensure they are "unquestionably strong" and can survive future crises, the government's most comprehensive review of the financial system since 1997 has found
- Australia's banks emerged unscathed from the global financial crisis thanks to an economy buoyed by resource exports to Asia
- It estimated that Australia's banks had a common equity tier one capital ratio of between 10 and 11.6%, which is below the 12.2% held by the top quartile internationally

Answer: Jimmy Stewart attended Mercersburg Academy. Bonus: Donna Reed.

6 December 2014

Question: In 'The Twelve Days of Christmas' how many Ladies Dance?

'Blockbuster' US data raise global hopes – Pg. 1

- The US rode to the rescue of the global economy as one of the best all-round jobs reports since the start of the recovery and drove the dollar to post-recession highs
- The US economy created 321,000 new jobs in November…
- While the unemployment rate was steady at 5.8%, the report puts the US economy on course for its best year of jobs growth for 15 years
- …the euro slipped below $1.23, a two-year low

- Wages rose 0.4% over the previous month – the equivalent of 5% at an annualized pace

Bundesbank halves growth forecast for next year – Pg. 2

- …German growth next year to 1.00%, a move that will exacerbate concerns the Eurozone economy will continue to stagnate
- The ECB also slashed its forecasts for growth and prices on Thursday. It expects inflation of 0.5% this year, 0.7% in 2015 and 1.3% in 2016 across the region

Central banks take their cue from Sinatra – Pg. 11

- The ECB signaled this week it was likely to launch a full blown asset purchase or "quantitative easing" programme early in 2015.
- After US rate rise bets were liquidated during mid-October's turmoil, the market has moved the timing of Fed tightening forwards
- In the UK, the BoE is no longer expected to lead tightening cycle by the biggest central banks

Answer: Nine

5 December 2014

Question: How many reindeer regularly pull Santa's sleigh and can you name all of them?

Shale find discoveries lift US crude reserves to highest level since 1975 – Pg. 1

- Rising reserves are an indication that higher US oil production, which has risen about 80% since 2008, can be maintained in the longer term, although the recent slump in oil prices is expected to lead to cutbacks in activity and a slowdown in output growth over the coming months
- Crude has fallen nearly 40% since June ….
- Last year companies in the US produced about 2.7bn barrels from their reserves, but added 5.5bn in new discoveries….
- As a result, the US ended 2013 with about 36.5bn barrels of proven oil reserves: a rise of 9.3% over a year, and one of the highest levels ever reported in records that go back to the 19th century
- Saudi Arabia's proven oil reserves, the world's largest, were 266bn barrels at the end of last year

Collapse exposes China shadow banking risks – Pg. 3

- The large number of agencies notionally responsible for regulating such institutions seem, in practice, to have led to no single agency taking responsibility
- (Prof Note: Two days ago I was interviewed by the Baltimore Sun re: Shadow banking/Hard money in the U.S. specifically in Maryland)

Wages come to standstill in rich economies – Pg. 4

- Average real pay in developed economies rose 0.1% in 2012 and 0.2% last year….

- Since the 1980s, wages have been rising less quickly than productivity, which means workers are receiving a shrinking share of economic growth

High hopes abound for strong US jobs growth – Pg. 4

- The consensus forecast for jobs growth is 230,000, with the unemployment rate steady at 5.8%, ….
- Wages have been subdued even as jobs growth accelerated this year. They are crucial to the US Federal Reserve's decision on when to raise interest rates, because rising wages will signal companies are having to compete for workers, instead of hiring from the pool of unemployed

Financial firefighters – Pg. 7

- The Federal Reserve System was designed to avoid a concentration of power – delegating responsibility for monetary policy, financial stability and bank supervision to 12 "reserve banks" around the country from San Francisco to Boston
- What is widely recognized is that there was a profound lack of oversight in the run-up to the last crisis, with examiners failing to understand the risks that were building
- The problem is structural. The New York Fed is the US government's eyes and ears on the financial markets but is more than that. It is a player itself. Officials from the New York Fed regularly meet bankers as they monitor market conditions. They also approve the applications of primary dealers, who help the New York Fed's open markets desk implement monetary policy and process auctions of US government debt
- Bu the New York Fed is suffering a loss of credibility. At least two of its own staff have shown in the last few months they are willing to divulge supervisory information, which is traditionally held to be strictly confidential…

A hostage negotiator's business tips – Pg. 10

- In order to negotiate effectively, you have to stay a little bit cold. In a big business negotiation where you've got an opportunity to make laods of money, you've got to be really careful you don't give away stuff
- Class and money make no difference because you've got real arseholes who have got a lot of money and real arseholes who have got no money
- Most hostage situations are crimes gone wrong
- Key to negotiations is minimizing your ego
- Social media has allowed extremists to control and amplify their message
- There are very few good listeners….listening properly is tough and concentration is key. It is the difference between driving a car to the supermarket and a Formula One race….

Answer: 8: Dasher, Dancer, Prancer, Vixen, Comet, Cupid, Donner and Blitzen

4 December 2014

Question: Traditionally a "real" Christmas tree is what type of tree?

Oil price slide a mixed blessing for China as concerns over regional deflation grow – Pg. 4

- Imports of crude into China are rising faster than refinery output, implying elevated commercial and strategic stocks
- China last year produced 4.45m barrels a day of crude, behind only Saudia Arabia, Russia and the US (Prof Note: At the peak, the Alaskan Pipeline (my first employer after Bucknell, I was a Corrosion Engineer) had 2.2m b/d)
- Falling prices can make it difficult for some of China's regional governments to meet local budget obligations

Lender's asset valuations come under fire – Pg. 14

- Global financial stability is at risk because there is no consistency across banks in how they value their assets, …(Prof Note: No kidding!!!)
- It comes as investors and regulators are closely watching bank balance sheets as the Basel III reforms to improve global financial stability require that banks improve equity buffers and reduce leverage

Pension funds sacrificing returns – Pg. 16

- Pension funds that commit a greater share of their money to the world's largest and most diversified private equity fund managers, are not doing it to get the best returns,…
- More diversified buyout houses, with less than half of their assets under management in corporate private equity, have delivered a return of 8% after fees on average since their inception, while those with the majority of their assets in private equity have returned more than 9%

Norway oil fund panel rejects call to sell fossil fuel holdings – Pg. 16

- Rather than selling out of fossil fuel stocks….recommended that the fund become a more active and engaged investor on climate matters
- It should also conduct more research on environmental issues, and exclude investments in companies "contributing to climate change", …
- The Rockefeller Brothers Fund – founded on the riches from Standard Oil – recently caused waves by joining a campaign to cut fossil fuel investments

Answer: Usually an evergreen conifer, e.g. spruce, pine, or fir.

3 December 2014

Question: When and by whom was Rudolph the Red-Nosed Reindeer created?

Hawking warns earth could go to Hal as intelligent computers take over – Pg. 1

- …warned that artificial intelligence "could outsmart us all" and is calling for humans to establish colonies on other planets to avoid an eventual "near-certainty" of technological catastrophe
- …could become "a real danger in the not-too-distant future" if it becomes capable of designing improvements to itself

- Consumers are coming into increasing contact with "smart" machines, including flying drones and prototypes of self-driving cars (Prof Note: I purchased a drone a few weeks ago and it is AWESOME! I highly recommend it for this holiday season!)

ECB set to dash hopes on mass bond buying – Pg. 4

- At 0.3%, inflation is less than a fifth of the bank's target of below but close to 2%. Weak price pressures reflect not just the fall in oil prices but anaemic demand in a currency area dogged by low growth and a high debt burden. Longer-term inflation expectations also remain below where policy makers would like them to be
- Some of the concerns of the hawks, among them a few national central bank governors, would be soothed if member states, including France and Italy, made more progress on structural reforms. Without that, the foundations for more ECB bond buying look shakier

India raises prospect of rates cut early in new year – Pg. 4

- ..the real economy – fettered by clogged transport infrastructure, bureaucratic delays and lengthy disputes over contracts and tax – is expected to rebound only gradually in the months ahead
- India recorded an annual growth rate of 5.3% in the three months to September, down from 5.7% the previous quarter
- The RBI was cautious about inflation trends, despite recent sharp falls in the price of oil. Indian consumer price inflation dropped to 5.5% in October, below the RBI's January 2015 target of 8% as well as the following year's goal of 6%

Lending Club investors set for windfall – Pg. 16

- The peer-to-peer lender, which uses an online platform to directly match borrowers with lenders, is seeking to raise at least $650m and is offering shares at $10 to $12 apiece, …
- (Prof Note: Underwriting will be an issue or is an issue for certain. Think of how well the "educated" underwrite. Now open it up to the general public!)

'Too big to fail' fears reach clearing houses – Pg. 24

- Clearing houses, which sit between two sides of financial trades, have become risk managers for global markets in the post 2007-crisis era. But they are having to defend their role in a debate over what would happen if one failed
- Operators such as LCH.Clearnet, Deutsche Borse's Eurex and CME Group are increasingly at odds with their users – including the world's big banks – as global regulators continue their reforms of bilateral, or "over-the-counter", derivatives markets
- The question is who would take the losses in the event of a failure: the clearing houses themselves; their member banks; investors, such as pension funds; or governments
- In an effort to make the financial system safer, policy makers have pushed for more OTC derivatives to be processed through clearing houses, known in market jargon as "central counterparties", or CCPs. CCPs guarantee deals if one side defaults before they are completed
- But, the shift has left responsibility for ensuring the safety of the huge OTC market – which has a notional $691tn in outstanding contracts – centrered on just a handful of institutions

Answer: 1939 by Robert L. May and published by Montogomery Ward

2 December 2014

Question: Who is Santa Clause's best buddy and whom a drink was named?

Russian rouble hit amid fears for consequences of tumbling oil prices – Pg. 1

- The rouble suffered its worst intraday fall since Russia's 1998 financial crisis amid renewed fears over the impact of tumbling oil prices on its economy
- The near 40% fall in the oil price since mid-June has put huge strains on Russia, which last year derived more than half of its budget revenues from oil and gas extraction
- The plummeting rouble has raised pressure on the central bank to resume its interventions in the market, less than a month after effectively allowing the rouble to float
- The cost of insuring Russian sovereign debt against the default, measured in five-year credit default swaps, jumped by 30bp yesterday, rising to a level not seen since the financial crisis

Financial elite uneasy over threat of EU exit – Pg. 2

- Many in the business community are trying to take a pro-European stance early on in the mounting discussion about the UK's EU membership and ahead of a possible 2017 referendum

Sales tax delay sparks Japan downgrade – Pg. 3

- The government of Japan is now a riskier borrower than either China or South Korea, according to Moody's, which has put its sovereign credit rating on par with Bermuda, Oman and Estonia
- The downgrade was the first for Japan by one of the big three rating agencies since Mr Abe came to power in December 2012

US overtakes Europe as magnet for migrants – Pg. 4

- The EU has for the first time in more than a decade fallen behind the US as a destination for immigrants, …
- The prolonged economic downturn has tarnished its allure among those looking to better their lives, …
- The fall has probably more to do with the stagnant economies in Europe and the Eurozone crisis, which was in full swing in 2012, than the political debate…

Blackstone looks to take Reits private – Pg. 16

- Blackstone is looking for publicly listed real estate investment trusts to take private when it starts investing its latest property fund, …
- Reits tend to be closely held and their charters make it tough for any outside shareholder to amass a stake larger than 10% without management support
- Like other property investments, Reits are also not widely seen as being undervalued, as the combination of central banks' easy money policies and the arrival of new competitors

including sovereign wealth funds and pension funds has forced up valuations in real estate markets

Lower US yield spur sales of corporate debt – Pg. 20

- But the drop in Treasury yields has cushioned issuers against expectations of higher risk premiums for pending deals. The US 10-year yield was below 2.2% yesterday, and has dropped form near 2.4% in three weeks on the back of deflation fears in Europe and slowing growth in China and Japan

Answer: Sprite Boy, introduced in 1942. Do I really need to state the name of the drink?!

1 December 2014

Question: The poem, "Twas the night before Christmas", was written by whom and was named what?

European savers faced with interest rate divide – Pg. 3

- …average German, who puts away a tenth of their income, by lowering savings rates from about 1.6% in 2011 to 0.5% today
- …no common market for money. Cultural, financial and legal differences between member states have meant the rates offered for deposits and loans across the region have never been equal
- ECB data indicate the average rate paid on deposits with maturities of less than a year varies spectacularly across the Eurozone, from 0.3% in Luxembourg and Latvia to 2.6% in Cyprus

When China's prices fall – Pg. 6

- The 600,000-square-metre China Commodity City in Yiwu city, (Prof Note: Does anyone know anyone in Yiwu?)
- …producer prices have been in outright deflation for nearly three years. Perhaps even more worrying, consumer prices have dropped to a near five-year low of 1.6% on an annual basis in October
- Excels capacity has unfortunate consequences: falling prices undermine corporate profitability and lead to stress in the banking system. Local officials lean on banks to relax lending standards for companies that would otherwise be forced to close down. Unprofitable manufacturers pile on more debt but avoid bankruptcy and maintain production, adding more downward pressure on prices
- Deflation has also fuelled the build-up of risk in the financial system
- Deflation inflicts a dual blow on an economy. It increases the burden of debt in real terms, something that China, which Standard Chartered estimates has a debt-to-GDP ratio above 250%, can ill afford
- Falling prices can also hold back consumption, as people delay purchases in expectations of even cheaper prices

Cross-border capital flows return to 2011 levels – Pg. 13

- Financial globalization has returned to pre-eurozone crisis levels, as recovery in the US encourages cross-border investment and greater integration
- The flow of foreign money into mature economies is at its highest point since 2011,…
- Emerging markets have fared somewhat better, with inflows sustained at about $1tn per year as central banks in developed countries have cut interest rates and expanded their balance sheets

Apple loses traction to Google in classrooms – Pg. 13

- Apple has lost longstanding lead over Google in US schools, with Chromebook laptop computers overtaking iPads for the first time as the most popular device for education authorities purchasing in bulk for students (Prof Note: How about less technology and more paper/pencils and HP-12cs, of course, in the classrooms?! Georgetown does it right, they give me labs! I lecture theory in the classroom with problems completed by hand and then Saturday workshops where I demonstrate how theory is implemented with technology. Students (and alumni are welcome) come on their own time on Saturdays to learn pro forma modeling but sit in the classroom to learn the theory. In my opinion, this is how it should be done! There is too much technology is classrooms, in my opinion.)

Dutch home rental market rocked to foundations – Pg. 17

- Now one in three Dutch households lives in housing association homes, accounting for three-quarters of the entire rented sector, the highest proportion in Europe
- The only large-scale commercially traded residential property market in Europe at the moment is in Germany, …
- In the Netherlands, the government has loosened restrictions on rent rises, making it easier for landlords to increase rents for higher earners

Answer: Written by Clement Clarke Moore and was named "A Visit from St. Nicholas" published 23 December 1823 by The Sentinel (New York Paper)

29 November 2014

Question: Jingle Bells, written by James Lord Pierpont (1822 – 1893) and published under the title "One Horse Open Sleigh" in the autumn of 1857 was originally to be sung at what other, i.e. not Christmas, U.S. holiday?

Market rout as oil slide rocks energy groups – Pg. 1

- Shares in the world's biggest energy groups have tumbled in a market rout as plunging oil prices put at risk billions of dollars of investment and jeopardized future supplies of crude
- …Opec's decision not to lower output …
- Brent fell $2.80 to $69.78, a four-year low

China to launch insurance for bank deposits – Pg. 4

- China is poised to launch a nationwide deposit insurance scheme, a crucial step towards removing an implicit guarantee that the government will not allow banks to fail

- …maximum limit of $81,388, a threshold that will cover about 98% of deposits in Chinese commercial banks, …
- The introduction of deposit insurance, scheduled for January, will also help pave the way for authorities to deregulate bank deposit interest rates
- Deregulation is expected to unleash competition as banks use higher rates to lure customers. Deposit insurance will mitigate the risks of deregulation by protecting most depositors from losses if their bank raises rates too aggressively and goes bankrupt

Swiss plan 30% quota for female senior managers – Pg. 12

- Norway set the tone in 2003, passing a law requiring at least 40% of boardroom roles to be filled by woman. Several other countries – including France, the Netherlands and Spain – followed suit and Germany said this week it would introduce a 30% quota by 2016
- But whereas these countries focused on boardrooms, the Swiss plan would also apply to senior management jobs in all "economically significant, listed companies"
- Woman held 17% of board posts at European companies in 2013; in Switzerland the figure was 14%

Answer: Thanksgiving!

28 November 2014

Question: Why is today labeled 'Black' Friday?

Oil plunges as Opec holds production in 'new gambit' – Pg. 1

- The price of oil plunged by more than 8% to four-year lows yesterday after Opec decided not to lower its output target despite months of falling prices that have battered the budgets of many of the cartel's members
- ….the international oil benchmark – fell by $6.50 to $71.25 a barrel. It later pared its losses, trading at $72.80
- Surging US production, which is at its highest in more than 30 years, has combined with Opec supplies that are well ahead of target and a slowdown in global demand to create a supply glut

'Ghost cities' mar China's landscape as $7tn in investment is wasted or stolen – Pg. 1

- China is this year set to expand at its slowest pace since 1990, and the report highlights Chinese concerns about the economic and social consequences of abandoned projects and bad loans

Australia looks to curb foreign buyers of homes – Pg. 3

- Australia has become the latest country to crack down on landlords and overseas buyers of homes, proposing curbs on temporary residents and ramping up penalties for those who break its foreign investment laws
- Cheap money has also brought in investors, who account for about 40% of the value of home loans

- Residential property prices in Sydney rose 14.6% in the 12 months to the end of September, ….
- That compares with an 18.8% increase over the same period in the average price for a house in London

Flood of new money adds to reinsurers' risks

- Catastrophic reinsurance, which protects insurers against the costs of disasters – such as the earthquake and tsunami that ripped apart swaths of japan and Hurricane Katrina, which devastated New Orleans – has provide highly lucrative over the years
- Insurers are issuing at record levels instruments such as catastrophe, or "cat", bonds, which pay out when something particularly bad happens. And investors desperate for yield, as cheap money from central banks has flooded financial markets, are increasingly tempted by such bonds and other "insurance-linked" securities
- Over the past 12 years, cat bonds have produced annualized returns of more than 8%. But not only do they promise stronger returns than mainstream investments; their performance also seems to have little correlation with that of other assets
- The new money that has rushed into the sector from investors such as pension funds has increased the amount of "alternative" reinsurance capital almost threefold in five years, …
- The worry is that the lack of hefty payouts from big catastrophes has made profitability in the sector look strong but masks a deterioration in reinsurers' prospects
- Buyers of cat bonds who are not insurance underwriters are restricted to areas in which loss models are relatively well developed, such as the risks of hurricanes in Florida

US retirement advisers resist change of rules – Pg. 16

- The US Department of Labour is preparing a proposal to label retirement advisers as "fiduciaries" who must act exclusively in the best interests of clients

Answer: It is the day that typically a retailer goes from the red, i.e. loss, to the black, i.e. profit.

26 November 2014

Question: Where was Jonathan Swift born?

Oil price continues to plummet as moves fail to arrest supply glut – Pg. 1

- ….30% fall in the crude price since June
- The glut has been driven by relentless US shale production, higher-than-expected Opec-supply and weak global demand

Ethiopia to issue debut sovereign bond – Pg. 22

- Ethiopia is for the first time tapping the sovereign bond market as it launches a roadshow this week looking to raise up to $1bn with a 10-year bond from foreign investors with the help of JPMorgan and Deutsche Bank

- The effort will see one of the biggest, most closed – and, some observers say, most promising – African economies join a number of African countries that have issued similar bonds in the past five years
- Although Ethiopia is largely closed to foreign investors, outsiders are racing to gain a foothold in the country of 90m people
- The debut will provide ammunition to those who say poor African countries are taking on too much debt, repeating the mistakes of the 1980s and 1990s
- Ethiopia plans to use the proceeds to pay for an ambitious building spree, as the government attempts to deliver roads, rail and a series of large hydropower dams

Tokyo exchange drops plan to extend hours – Pg. 22

- Tokyo will continue to run the shortest trading day among developed markets, opening at 9am and closing at 3pm, with an hour's break from 11:30am
- Overseas funds account for 60 to 70% of trading in Japan, the world's second biggest equity market by capitalization

EU cash investors navigate negative rates – Pg. 24

- The 1tn (euro) European market fund industry provides a cash reservoir from which companies and banks can deposit or borrow short-term money
- Many euro-denominated money market funds are already yielding near negative returns – in effect charging investors – as they track the low lending rates set by the ECB
- Key money market interest rates such as the euro overnight index average, dubbed Eonia, which indicates overnight lending rates, have already tumbled into negative territory, presently yielding minus 0.011%
- Even longer rates – such as euribor one-month and three-month rates – yield less than 1bps and 8 bps, respectively

Answer: Dublin, Ireland

25 November 2014

Question: In what piece does Jonathan Swift advocate the sale of children?

Germany appeals for Swedish help to avert looming electricity shortages – Pg. 1

- Under the policy, Germany aims to derive 80% of its electricity from clean sources by 2015. As part of that it will close down all its nuclear power stations by 2022
- Germany's reliance on cola has left it struggling to meet its targets for cutting greenhouse gases

Asian central banks under pressure in wake of easing by Beijing and Tokyo – Pg. 3

- Easing measures in China and Japan have raised expectations that other Asian central banks will follow suit with growth-boosting interest rate cuts

- A drop in global commodity prices has opened the door to rate cuts by lowering inflation in many parts of the world. Asia in particular is poised to benefit as most economies in the region are net importers of fuels. Consumer price inflation came in below 2% last month in China, Singapore, Korea, Taiwan and Thailand
- …Asian central banks will not be moving in unison. Indonesia recently lifted interest rates to help soften inflationary impact of higher subsidized fuel prices, while Malaysia and the Philippines have both raised rates in the past six months

American bulls in charge – Pg. 7

- The S&P500 has more than trebled since it hit rock bottom after the crisis; it has sailed on for three years without once suffering a fall as much as 10%; it has done this on the back of economic performance most Americans find terrible; and yet sentiment remains firm that the rally will continue
- …the extent of the turnaround when compared to the rest of the world suggests that things may have been taken too far. In early 2008, the total value of European stock markets briefly exceeded US market capitalization by more than $1tn. Now corporate America is worth almost $10tn more than corporate Europe.
- Since March 2009, the US S&P has outpaced the developed world's stock markets by 87% and emerging markets – which had surged before the crisis – by 89%
- The strengthening dollar, bolstered by higher US rates, encourages foreign investors to buy US stocks, as they can gain from the currency if the underlying equity market goes off the boil
- A stronger dollar directly weakens the value of US companies' overseas earnings, which have dropped from a third to a fifth of total earnings since the dollar hit its low during the crisis
- The S&P now sells at a multiple of 27 times its average earnings in the past 10 years. This is well above its 10-year average and roughly where it was on the eve of the credit crisis in 2007 (Prof Note: Hogs get slaughtered, pigs get fat!)
- A further issue with valuation concerns profits. S&P 500 companies' earnings per share are at a record and gained more than 10% on an annualized basis in the third quarter. But those profits were buoyed by QE, which enabled financial engineering such as borrowing to buy back stock
- Revenues have been far slower to recover than earnings – even if they did grow at a clip of more than 5% in the most recent quarter, once energy companies are excluded
- That means earnings owe much to profit margins, which are now at historic highs and tend to be cyclical
- …the US economy is not growing fast enough to give workers much negotiating power
- US companies are buying back their own stock at a record rate. So far this year, more than 90% of their announced earnings has gone back to shareholders, either through buying back shares or as dividends – suggesting executives see few promising investment opportunities
- Finally, much of the "buy US" enthusiasm rests on a view that the Fed is out of kilter with other central banks

Answer: A Modest Proposal. It is a satire upon which Swift advocates the poor in Ireland sell their children to the rich.

24 November 2014

Question: The Romantic poets (Romantic period started 1798) reached beyond 18th century restraints, how?

Shale revolution pushes US crude oil imports from Open to 30-year low – Pg. 1

- US imports of crude oil from Opec nations are at their lowest level in almost 30 years, underlining the impact of the shale revolution on global trade flows
- The lower dependence on imports from the cartel, which pumps a third of the world's crude, comes amid advances in hydraulic fracturing that have propelled domestic US production to about 9m barrels a day – the highest level since the mid-1980s
- The impact of the shale boom on Open members has varied, with African countries such as Algeria and Libya hit hardest, while Saudi Arabia and Venezuela have remained fairly strong
- Nigeria, which produces crude similar to the quality from North Dakota, has been the biggest victim of US shale. Barrels stopped flowing altogether in July, having reached a 1979 peak of 1.37m b/d
- Kuwaiti and Iraqi imports have accelerated, while those from the UAE and Qatar have been at nominal levels for decades. Iranian imports are banned under sanctions

US retailers' Black Friday sales push moves online – Pg. 19

- The race is on. Retailers have kicked off the holiday shopping season earlier than ever this year, moving the battle for Middle America's dollars online in the run-up to Black-Friday, the biggest US shopping event of the year

Answer: By communing with realities and absolute principles, such as love, beauty, and truth, that existed outside the boundaries of everyday life.

22 November 2014

Question: Jonathan Swift's most famous piece, the times classic Gulliver's Travels, has Gulliver visiting what land of small people? After becoming beloved by this high court he is then charged with treason for a variety of crimes. Which crime is the most infamous?

Bank of England opens probe into whether staff helped rig auctions – Pg. 1

- The investigation is focused on the firefighting era at the start of the financial crisis when the BoE ran a series of auctions as a way of supporting liquidity in the interbank lending markets. It lent in the interbank-lending markets. It lent money for various time periods against low and even negative interest rates in exchange for a wide range of collateral such as asset-backed securities

Fed eyes commodity curbs – Pg. 10

- The US Federal Reserve plans to move forward with a rule that could limit banks' ability to handle physical commodities such as oil and natural gas, taking action after years
- Possible measures include requiring more capital to be held against positions, demanding better risk management and improving information on the opaque commodities trading business
- The regulator is under pressure to show it is adequately monitoring the risks an environmental catastrophe such as an oil spill present to the financial system

China cash rates jump to 9-month high – Pg. 13

- China's money market interest rates rose sharply this week, amid fears that a regulatory change intended to channel more lending to small companies will force banks to park trillions of extra renminbi at the central bank
- The cash squeeze, which unfolded before the PBoC unexpectedly cut interest rates after market close yesterday, propelled the cost of a two-month interbank loan to close at 6% yesterday afternoon, the highest level since February and up from a close of 4.5% a day earlier,…
- The rate cut, which is aimed at lowering borrowing costs in the real economy, will not directly affect liquidity in the interbank money market, but it is likely to ease sentiment, on expectations that the central bank will follow up with corresponding actions to inject cash into the banking system via their tools

Central banks ease investor fears after unsettling signals on growth – Pg. 14

- US stocks were at record highs, Brent crude was back above $80 a barrel and the dollar was at a four-year peak as a burst of central bank firepower helped soothe concerns over the outlook for global growth
- By midday in New York, the S&P 500 was up 0.7% at 2,066 – putting it on track for its foruth record closing high this week – after earlier touching a fresh all-time intraday high of 2,071.46. The equity benchmark was up 1.3% over week

Answer: Lilliput, land of small people. His most infamous crime: "making water", i.e. public urination.

21 November 2014

Question: Who was Jonathan Swift's (1667-1745) beloved? (Hint: Think Seinfeld)

Hedge fund unmasked as mysterious short seller – Pg. 1

- A $15bn New York investment group has used anonymous offshore companies to profit from some of the largest short-selling attacks in Europe over the past three years, including the unraveling of the UK's Quindell
- Tiger Global's extensive use of anonymous offshore companies raises doubts about the effectiveness of new European rules aimed at forcing disclosure of those who make big bets against the shares of a company
- The rules were adopted in 2012 in the wake of a backlash against anonymous traders who profited from falling bank share prices during the financial crisis. They require investors,

including hedge funds to disclose to national regulators any net short position making up more than 0.2% of a company's share capital
- Since the rules were introduced, Tiger Global has used four Cayman Islands registered companies to declare its short positions. Most other hedge funds use their own names

US store groups shop at home for growth – Pg. 16
- During the financial crisis, retail chiefs abandoned fantasies of world domination to focus on the less glamorous business of cutting costs and tending to domestic survival. But as other industry sectors have returned to cross-border mergers with gusto, retailers have held back
- The strength of the US economy recovery growth relative to Europe and Japan is another factor keeping retailers on home turf
- Since 2012, cross-border mergers and acquisitions involving US retailers have declined

Spice island offers case study in debt traps – Pg. 22
- The small Caribbean island of Grenada offers a salutary lesson on the dangers of loading up with debt for governments tempted by easy money
- Since defaulting on close to $200m of international bonds in 2013, Grenada has been trying to negotiate a restructuring deal with its creditors
- On top of this external debt, borrowed in US dollars, Grenada also stopped servicing US $68m in local currency debt, borrowed in Eastern Caribbean dollars (Prof Note: Which has a defacto peg to US currency)
- The island nation of 110,000 people relies on nutmeg and tourism to fuel its economy but both industries have suffered following hurricanes and the 2008 global financial crisis and unemployment is high (Prof Note: Nevis has 18,000 people and when I was paying social security I was nearly tackled by someone that learned I was adding head count, i.e. they wanted a job)
- Governments across the Caribbean have struggled with huge debts and significant budget deficits in the past decade. St. Kitts and Nevis, Antigua and Barbuda and Jamaica have all restructured their debts.

Answer: "Stella"

20 November 2014

Question: Paradise Lost is vivid in its portrayal of Satan. What piece, also written by Milton, describes the redemptive triumph of Christ?

BoJ says inflation looks set to hit 1% - Pg. 2
- …less than half the target the central bank set last year as it sought to take the world's third-largest economy out of deflation
- Anaemic private consumption and aggressive cutting of inventories helped Japan to tip into a technical recession between April and September, ….
- Last month the BoJ quietly dropped its commitment to hitting the 2% target within "about two years" of the start of its ultra-aggressive easing programme in April 2013

Banking makes you less honest, research finds – Pg. 3

- …researchers call "a dramatic loss of reputation and a crisis of trust in the financial sector" as a result of rogue trading, rigged interest rates such as Libor and tax evasion scandals
- (Prof Note: It continues to bother me that I could dishonestly borrow $10.0m much easier than I can borrow $1.0m honestly)

Lower petrol prices cut two ways for economy – Pg. 4

- The shale oil revolution means that the US is no longer just the world's top oil consumer – and thus a beneficiary of falling prices – but the top producer as well
- Their broad conclusion is low oil prices will still have a large stimulative effect, helping the US and world economies through a sticky patch, but they could slow the growth of domestic oil production
- The numbers on how a fall in oil prices help US consumers are formidable. The country consumes about 135bn gallons of gasoline a year. The price is down about 20%; from $3.50 a gallon in the summer to $2.90 today
- Multiply the two together and it generates an annualized saving of about $80bn a year. That equals about 0.7% of total US consumption, and it should show up in the fourth quarter as higher real incomes, which people can spend on something else. It is the equivalent of a large, unexpected and instant tax cut
- The US is rapidly becoming an oil power again, but for the foreseeable future, its gasoline-fuelled consumers will mean cheap oil amounts to a stimulus

Iceland jails former Landsbanki chief – Pg. 16

- Iceland secured a conviction against the last of the former chief executives of its three largest banks as the country at the heart of the financial crisis continues to take a lead in prosecuting top bankers' misdeeds (Prof Note: Go Iceland!)
- The Icelandic record stands in sharp contrast to the US and UK where the former leaders of the biggest failed banks have not faced criminal charges (Prof Note: Disgusting!!!)
- The three largest Icelandic banks imploded in the autumn of 2008 after amassing equivalent to 10 times the size of Iceland's economy as they funded a buying spree by local businessmen abroad
- Iceland, one of the countries hardest hit by the financial crisis, protected its domestic banking industry by transferring the local assets of Glitnir, Kauphting and Landsbanki to new lenders

Answer: Paradise Regained (1671)

19 November 2014

Question: William Shakespeare is an anagram. What does it spell when the letters are rearranged?

Slower trade growth blamed on structural changes in China – Pg. 2

- The world economy is unlikely to see the same heated growth in trade that fuelled globalization before the 2008 financial crisis, largely because China's manufacturers are turning inward, …
- For the past two years world trade has expanded more slowly than the global economy, the first instance in decades of that happening
- In 1993, imported parts made up more than 60% of Chinese exports, the IMF and World Bank point out. That number is now 35%

Residential Data [China] – Pg. 2

- Chinese house prices fell for a second straight month in October, registering the steepest annual drop since the data series began in 2011
- Nationwide residential property prices fell an average of 2.5% from a year earlier in October

Prudential expects further fall in US 'variable annuity' sales – Pg. 19

- The chief executive of Prudential has predicted a further decline in sales of policies that promise a guaranteed income to US savers as persistently low interest rates make the insurer more cautious about the capital-intensive products
- …more recently the group has sought to reduce sales of the annuities, which offer customers guaranteed returns even though they can be invested in volatile assets like equities

Iron ore suffers in China's weak housing market – Pg. 22

- A drop in new home prices in almost all Chinese cities tracked by the government was behind the latest downward move in prices. China is heavily dependent on imports of iron ore, buying about 75% overseas
- New home prices had dropped in October in 67 out of 70 cities from a year earlier, and in 69 during September,…

Long-term gauge for US inflation slides – Pg. 24

- The 10-year US break-even inflation rate currently reflects an expectation that consumer prices will rise an average 1.86% each year for the next decade. That is the lowest level since October 2011 and below the Fed Rsv's target of at least 2%
- During the past decade the US break-even rate, which reflects the difference between nominal Treasury and Treasury inflation protected securities (Tips), has tended to range between 2 and 2.5%
- The fall in market expectations of US inflation reflects a global disinflationary trend that alarms policy makers in the UK, the Eurozone and Japan. Falling commodity prices and a stronger dollar, against the backdrop of modest US wage gains, have combined to pull US inflation expectations sharply lower this year
- The University of Michigan's consumer sentiment survey last week showed a drop in long-term US inflation expectations from 2.8 to 2.6%, the lowest level since 2009
- That came as the Fed's preferred measure of inflation was up to an annualized rate of 1.4% in September

Answer: I am a weakish speller

18 November 2014

Question: While my mistress' eyes are nothing like the sun; Coral is far more red than her lips' red; if snow be white, why then are her breasts dun; if hairs be wires, black wires grow on her head….My mistress, when she walks, treads on the ground: (but what of my love?)

Japan slips into recession and heads towards snap election – Pg. 1

- Yesterday's preliminary data for the period between July and September was far worse than markets expected, showing that the economy shrank 1.6% quarter-on-quarter on an annualized basis
- With recession or stagnation hitting Russia and Brazil as well as Japan, and with the Eurozone flirting with another dip in the third quarter, posting growth of only 0.2%, many of the big motors of global growth are stuttering
- "The Eurozone is teetering on the brink of a possible third recession, with high unemployment, falling growth and the real risk of falling prices too….
- Japan's largest contraction, coming after a 7.3% shrinkage on an annualized basis in the second quarter, followed a jump in sales taxes in April that hit consumer spending

Shock data blow Abe's 'three arrows' off target – Pg. 3

- …the heels of a 7.3% contraction in the second quarter – sealed the deal for a deferral o the second stage of the consumption tax increase, scheduled for next October
- Even on a nominal basis, taking account of price rises, Japan's economy has shrunk for two quarters I a row in the wake of the sales tax increase in April

Growth slows in Chinese students heading to US – Pg. 6

- Growth in the number of Chinese enrolled in US higher education has dropped to its slowest rate in seven years
- But China remains the biggest country of origin for international students at US universities and growth remains in double digits, …
- The number of international students in the US grew 8% to 886,000 this year, with growth driven mainly by Chinese and especially mainland undergraduates… (Prof Note: At an average of $40,000/year that is $35.0B (billion with a "B") or 0.25% of GDP…we better be nicer to the Chinese students…we need them!)
- Chinese student enrollments rose 16.5% this year to nearly 275,000, down from 20% growth or more every year since 2007. Undergraduate numbers rose 18%, down from a 26% rise the previous year

Bonds – Pg. 7

- On October 15, the yield on the benchmark 10-year US government bond, which moves inversely to price, plunged 33bps to 1.86% before rising to settle at 2.13%. While this may not seem like much, analysts say the move was seven standard deviations away from its

intraday norm – meaning it might be expected to occur once every 1.6bn years (Prof Note: Aye Caramba!)
- One worry is that the US Treasury market might have suffered a pronounced loss of support for prices – or "liquidity" in financial parlance – due to changes that have swept over Wall Street including the rise of computer driven trading
- Unlike other bond markets, US Treasuries are viewed as being open for business of the entire global trading day. They also enjoy safe-haven status during times of tension

Answer: …And yet, by heaven, I think my love as rare As any she belied with false compare. (Shakespeare Sonnet 130. Shakespeare moves away from Elizabethan England which modeled Sonnets after that of Petrarch.)

17 November 2014

Question: What is Paradise Lost?

Brussels weighs options to build investment fund – Pg. 3
- The EC is considering the creation of investment funds seeded with cash from either the EU budget or the European Investment Bank, as the centerpiece of a new growth plan aimed at enticing private investors to finance European infrastructure
- The package would amount to less than 0.8% of EU GDP over three years. But struggling economies within the EU are counting on it as one of the few sources of investment spending available at a time they are having to cut their budgets to meet tough EU-mandated deficit targets

Diners caught in net of rising fish prices – Pg. 15
- Diners could soon be paying more for their sushi as the price of fishmeal, the main feed for farmed shrimp, prawns and salmon, leaps to a new high
- Prices have surged fourfold in the past decade as supplies have been affected by a change in climate as well as increases in demand
- Experts say fish farming will continue to grow as the amount of fish caught in the wild has leveled off since the 1980s

Sovereign debt rule change would spark 1tn (euro) rebalancing – Pg. 19
- More than 1tn (euro) of government bonds may have to change hands if eurozone regulators press ahead with proposals to toughen rules governing banks' sovereign debt holdings, …
- A limit on banks' exposure to their own government's debt could prompt a 1.1tn (euro) rebalancing of euro area sovereign debt portfolios, mostly away from banks' home governments, …
- As a share of government debt, the largest rebalancing would be in Spain, where bonds with a value of more than 20% of general government debt would have to be sold

Answer: The greatest English epic (1667) which presents the fall of Satan and of Adam and Eve, and hust the origin of evil. It was written by John Milton (1608 – 74) who is considered the most important poet of the neoclassical period. (Prof favourite Quote: "Better to reign in hell than serve in heaven.")

15 November 2014

Question: What is the difference between a person with a college degree from a Brazilian school and one without, during a criminal process in Brasil, in case the defendant is kept in jail?

Forex traders face bonus clawback – Pg. 1

- Five banks at the heart of the foreign exchange rate rigging probe are preparing to claw back millions of dollars in bonuses from individual trader as the industry seeks to shore up its reputation in the wake of the latest scandal to hit the banking sector
- Under European rules, they have the power to take this step, but in practice they have largely restricted themselves to withholding as yet unpaid bonuses
- The forex scandal revealed that groups calling themselves "the players", "the three muskateers" and "a co-operative' tried to rig key currency benchmarks including at least one priced by central banks, …
- Other penalties could be looming for forex traders involved in the scandal. The UK's Serious Fraud Office and the US Department of Justice have launched criminal probes against individuals

Goldman promotion round highlights caution on costs – Pg. 13

- The appointment of 78 new partners at Goldman Sachs this week signalled that the US investment bank remains keen to keep a lid on costs
- ….Goldman forecast the top echelon of its staff would be slightly lower at 467 members when the new intake begins next year
- The title "partner" no longer confers co-ownership of Goldman, which floated in 1999

Dollar gains as strong US data provide contrast with Eurozone – Pg. 16

- The dollar touched a four-year high against a basket of its major rivals as fresh signs of strength in the US economy provided a stark contrast to the difficult picture painted by the latest data from the Eurozone
- …Brent rallied to $78.21 after touching $76.76, the lowest since September 2010
- Gold staged a strong rally in spite of the dollar's firm tone, with traders pointing to a bout of short-covering after the meatal fell below $1,150 a troy ounce

Answer: A defendant with a Brasilian college degree is kept in a "special prison", that means an individual cell with a bathroom or outside common jail, i.e. military bases. The privilege ceases after a final decision is reached (there is no more possibility of being appealed).

14 November 2014

Question: In Swahili, what does 'Pole, Pole' mean?

Investment fund aims to unlock US visa regime for would-be entrepreneurs – Pg. 1

- The fund, named Unshackled, and backed by co-founders of Yahoo and Palantir, has raised $3.5m to give early stage funding to foreigners working in the US who want to quit their job and launch a start-up but cannot because they need an employer to sponsor their visa
- Unlike traditional venture funds, which invest capital in exchange for equity, Unshackled will take equity but also hire founders as employees, allowing them to keep their work visas while building their own companies
- Current US immigration law has frustrated the Valley, where tech companies say they face a shortage of engineers and starting salaries for young developers can top $100,000. The US offers far fewer visas for skilled foreign workers, known as H-1bs, than the number of applications it receives, and fewer executives are optimistic that the federal government will raise that cap soon
- For foreigners who win the H-1b lottery, launching a company of their own is tricky as they must remain formally employed to keep the visa

China central bank resists calls for easing – Pg. 6

- Even as Japan and the EU embark on renewed rounds of quantitative easing to ward off deflation, the BoC is holding the line against a big stimulus
- Consumer price inflation remained mired near a five-year low in October, while the government's purchasing manager's index hit a five-month low. That followed growth in economic output in the third quarter that was the slowest since the financial crisis

India regains top gold consumer title – Pg. 22

- India has regained its position as the world's top consumer of gold, overtaking China in the third quarter as demand for jewelry surged almost 60%,…
- Gold hit a four-year intraday low of $1,132 a troy ounce…

Reversal of fortunes as US munis surge – Pg. 22

- The advance has catapulted municipal bonds, or "munis", to the top-performing position among US fixed-income investments, with year-to-date returns of 8%
- The biggest draw of the securities comes from their tax advantages. Most investors in munis are wealthy individuals seeking long-term streams of income and tax breaks. As an incentive to invest in public projects, and to keep borrowing costs low, interest income from munis is exempt from state and local taxes too
- The advantage is clear. An investor in a 35% tax bracket would have to find a taxable security, such as a corporate bond, that yields more than 8% to earn the same amount of income as a muni…

Answer: Slowly, Slowly….just what I heard when climbing Kilimanjaro. The irony, I could not have gone more "Pole" had I tried!

13 November 2014

Question: Who is the greatest nondramatic Elizabethan poet?

Six banks hit with fines of $4.3bn in global forex rigging scandal – Pg. 1

- The penalties prompted questions over how comprehensively banks have reformed in the wake of the financial crisis
- At UBS, the failings occurred despite the fact that it received whistleblower reports ovr two years alleging misconduct by forex traders, …
- The fines took the total by US regulators this year to $56.5bn, making it the most expensive year for banks on record since 2007… (Prof Note: And which CEO/President's lost their positions? Just curious!)

Eurozone policy makers braced for weak growth figures – Pg. 2

- Figures are expected to show that the eurozone's economy grew just 0.1% between the second and third quarters of this year,…
- Growth that meagre would leave Eurozone GDP at a level almost 2.5% lower than before the collapse of Lehman Brothers in the autumn of 2008. Unemployment in the currency area remains stuck at 11.5% and inflation is as low as 0.4%, well below the ECB's target of just under 2.00%
- The region's largest economy, Germany, looks set to expand by 0.1% after shrinking by 0.2% over the last quarter

BoE expected to keep rates at historical low for longer as it cuts inflation forecast – Pg. 3

- Interest rates in the UK look set to remain on hold for an extended period after the BoE slashed its inflation forecasts …
- Sterling fell and UK government bond futures rallied as traders hardened their belief that rates will stay at their historical lows until next autumn
- But a cooling in the housing market, a worsening outlook in the Eurozone and a series of cautious speeches from policy makers mean rates are now predicted to say low for longer

US to warn Europe on risk of 'lost decade' – Pg. 4

- Mr Lew's comments highlight fears of more trouble in Europe hurting US growth and his frustration at Europe's unwillingness – in particular that of Germany – to loosen its fiscal belt

IEA warns on impact of oil price dip – Pg. 13

- Investment in US shale oilfields will fall by a tenth next year and result in a decline in production, if the price of oil continues to hover around $80 a barrel, …
- A near 30% fall in the price of Brent since mid-June, to $81.67 this week, has hit shares of shale oil explorers in the US and caused jitters in countries that rely heavily on oil revenues to fill government coffers,…
- Oil supply is expected to rise by 14m barrels a day to 104m barrels a day in 2014,…

Regulators prise open London gold market – Pg. 22

- This month London's prized benchmark, or fix, which is used by miners, refiners and central banks to trade gold bars and to value derivative contracts, was handed to the Intercontinental Exchange to run electronically form early next year
- New physically settled gold contracts in East Asia could draw in business the City has traditionally enjoyed

HK scraps restrictions on buying renminbi – Pg. 22

- Hong Kong has scrapped restrictions on how much renminbi residents may buy in a day, with aim of boosting liquidity ahead of the launch of a cross-border equity-trading scheme

Answer: Edmund Spenser (1552 – 99), whose romantic and allegorical The Faerie Queen (1590 – 96) is one of the great English epics and stands apart from all other 16th century narrative poetry.

12 November 2014

Question: Why is 11 November Veteran's Day?

Mexico set to shake up bond market – Pg. 22

- Mexico is ushering in the next generation of government debt with changes that could shift the balance of power away from so-called vulture fund investors and prevent a repeat of Argentina's debt crisis
- When mexico significantly changed government debt contracts a decade ago, the alterations were taken up by Brazil an Uruguay less than two months later
- The first determines how easily creditors can block a country from restructuring debt. The second factor addresses the pari passu, or "equal treatment", clause that the holdout bondholders used to stop Argentina from paying out on restructured debt unless it paid the too
- In a registration statement with the US SEC, Mexico said that in future it would issue debt written under New York law, with collective action clauses that provided the option for a vote compelling all bondholders to accept restructuring terms if at least 75% agreed
- The pari passu clause has been clarified so that equal treatment does not mean equal payment. And creditors who want to hold out against a restructuring deal need at least 25% of investors in a bond to agree before they can bring a lawsuit against the country

Touch of fear fails to damp Nordic appeal – Pg. 22

- Denmark's government debt may amount to less than half of GDP, but its households are the most indebted in the world, borrowing more than 320% of their disposable incomes
- The IMF has warned of the risks that ballooning household debt poses to Nordic countries, and bankers say sovereign debt investors are increasingly wary about the situation
- Yesterday Sweden's Financial Supervisory Authority announced its long-awaited plan to reduce the risks of household debt, which equals 174% of consumer disposable incomes. The FSA wants new mortgage borrowers to repay more of their mortgages so that the loan to value rate falls to 50%

- Oil-rich Norway is one of the few countries in the world without net debt, and Sweden's public debt is about half that of its Eurozone neighbours

Answer: World War I – known at the time as "The Great War" - officially ended when the Treaty of Versailles was signed on June 28, 1919, in the Palace of Versailles outside the town of Versailles, France. However, fighting ceased seven months earlier when an armistice, or temporary cessation of hostilities, between the Allied nations and Germany went into effect on the eleventh hour of the eleventh day of the eleventh month. For that reason, November 11, 1918, is generally regarded as the end of "the war to end all wars."

11 November 2014

Question: What is the current percentage of female veterans (of total population of veterans) that are female?

Bitter history tempers hope of regeneration – Pg. 6

- On Friday, judge Steven Rhodes approved Detroit's plan to slash $7bn of its more than $18.5bn in debts, ushering the city out of the largest municipal bankruptcy in US history 15 months after it filed. The plan calls for $1.7bn in investment to remove more than 80,000 vacant buildings and empty parcels and restore fire, police, emergency and other services
- ….pension cut by 4.5% and his healthcare benefits severely curtailed as part of the restricting plan…

Party mood eludes Europe's debt bankers – Pg. 20

- ….the ECB found that banks had overvalued their assets by 48bn (euro)…
- One reason why banks have not come to market is that they front-loaded their funding in the first half
- In December the central bank will offer its second round of funding under its "targeted long-term refinancing operation" After an nderwhelming first take-up, banks are expected to take fuller advantage of the cheap four-year money next month
- There is a fundamental reason for banks not borrowing: low demands for loans

Answer: Slightly over 10% (Happy Veterans Day Veterans!!! Enjoy your day….you earned it!)

10 November 2014

Question: When was the first gold found in California?

Toughest austerity cuts yet to come for Britain – Pg. 5

- Mervyn King, then bank of England governor, reportedly predicted that whoever won the 2010 election would have to make such painful cuts that their party would be out of office for a generation
- Instead of balancing the books by 2015, Mr Osborne is now looking to complete the job by 2018-19, meaning Britain faces almost a decade of austerity
- But even if the deficit remains, the public's appetite for cuts is waning.

Fewer managers beat market in 'abysmal year' – Pg. 19

- Fewer fund managers are beating the market this year than at any time in over a decade, piling further misery on a profession that faces increasing investor skepticism
- The largest active fund managers have been losing market share to low-cost index trackers and exchange traded funds (ETFs) after academic studies showed them perennially underperforming the stock market after fees
- In addition, widely help technology and energy stocks had a dismal October, amid concerns about global growth, potentially extended stock valuations and a sliding oil price
- BofA data cover all US large-cap equity funds, including those tilted towards value stocks or growth companies, that are actively managed. Only 17.7% are beating the Russell 1000 index of large-cap stocks so far this year. That compares with 40.5% for 2013
- Since the bank began calculating performance from 2003, there has only been one year – 2007 – when a majority of active managers beat the market
- ETFs attracted a record $199bn in the US alone in the first three quarters of 2014, taking the amount in these index-tracking products to $2.6tn, …

Answer: 24 January 1848 at Sutter's Fort, CA

8 November 2014

Question: How many prisoners did Alcatraz hold?

Plunging rouble raises spectre of fresh financial crisis for Russia – Pg. 1

- Russia faces the risk of financial instability, the country's central bank warned, after dramatic gyrations in the currency against a backdrop of renewed tension in Ukraine revived fears of a full-blown currency crisis
- The rouble is a casualty of falling oil prices, which have plunged by more than 25% since mid-June, geopolitical tensions with the west over Ukraine and sanctions that have shut some of Russia's biggest companies out of western capital markets
- For many ordinary Russians, the currency's recent slide has evoked painful memories of the financial crises that rocked Russia in 2008-09 and 1998
- It also defended its earlier decision to, in effect, free float the currency, a move that was rigorously stress-test yesterday when it dropped as much as 4% to record low against the dollar, before jumping more than 2 following speculation that the central bank would take action to halt the crisis, and then retreating again. The bank said the volatility was part of an adjustment following Wednesday's policy changes

Robust recruiting points to early interest rate increase – Pg. 2

- The US economy added 214,000 jobs in October as a solid labour market backed up the Federal Reserve's decision to halt its QE3 round of asset purchases this month
- The unemployment rate dropped from 5.9 to 5.8%
- The continued decline in the unemployment rate – despite more people coming into the labour force – suggests the US is getting closer to full employment

- There was still no sign of real wages rising, however, with average hourly earnings up 2% on a year ago – barely in line with inflation. Rising wages would be a sign the jobs market really is tightening and that companies were having to fight for staff
- There was still no sign of real wages rising, however, with average hourly earnings up 2% on a year ago – barely in line with inflation. Rising wages would be a sign the jobs market really is tightening and that companies were having to fight for staff
- Payrolls growth has been remarkably stable this year, in another sign of how the recovery has become entrenched, and less vulnerable to shocks. Jobs growth has exceeded 200,000 in eight out of 10 months this year

Answer: 1,576

7 November 2014

Question: How big is Alcatraz Island in San Francisco?

OECD urges members to encourage growth or risk stagnation as country outlooks diverge – Pg. 3

- The OECD has urged member states to redouble their efforts to encourage growth, warning that the global economy faces a diverging outlook and months of exchange rate instability
- Outlining growth forecasts similar to those from the IMF last month, with global growth rates predicted to rise from 3.3% this year to 3.9% in 2016, the OECD said there was an increasing risk of stagnation in the Eurozone
- The expected rise in interest rates in the US next year, at the same time as the BoJ and ECB sought to loosen policy, would cause disruptions….
- In potentially difficult circumstances, with the US showing robust recovery while Japan, the Eurozone and some emerging markets lag behind, …
- The OECD usually urges governments to reduce public borrowing

Improving jobs market could see Fed raise rates – Pg. 4

- The US is set for another strong month of jobs growth that would again raise hopes for global growth and validate the US Federal Reserve's decision to end asset purchases this month
- Evidence of an improving jobs market is abundant. New claims for unemployment insurance fell to 278,000 last week and are running at their lowest level since the 1970s, when the population was much smaller
- Rising wages, a signal the US is getting close to full employment, will be crucial to the Fed's decision on when to raise rates
- A tighter labour market and rising wages could trigger some recovery in the share of national income going to workers, which is at record lows

US commercial property at record high – Pg. 22

- Years of low interest rates and intense competition between lenders have helped push US commercial property prices to a new record – surpassing the last peak reached at the height of the credit bubble by 0.2%

- US commercial property prices completed a "peak-to-peak" round trip in just under seven years, …
- ….commercial property prices have completely recovered after falling 40% from their 2007 peak, US house prices have recovered to only 55% of their peak value, after having fallen as much as 35%
- Sales of commercial mortgage-backed securities (CMBS), which package loans secured on everything from office buildings to shopping malls, have surged as investors seek out the riskier but higher-yielder assets

Answer: 22 Acres

6 November 2014

Question: What three books represent the foundation of Chinese Literature?

Russian end to automatic support for rouble spurs fresh plunge for currency – Pg. 1

- Russia's central bank in effect announced a free float of the rouble yesterday, a step that triggered a fresh plunge in the currency but was intended, eventually, to stabilize it
- Hammered by falling oil prices and western sanctions, the rouble has lost more than a quarter of its value against the dollar since the start of the year
- The rouble's slide has accelerated partly because the bank's policy of automatic interventions was an easy target for speculators making one-way bets
- A weak rouble is not necessarily all bad for the Russian economy. It will help exporters and offset the effect of weak oil prices on government revenues

Bank of Japan raises the QE bar for Europe – Pg. 2

- The Fed's decision to deviate from its counterparts in Japan and the Eurozone after years of aggressive monetary easing has already helped the ECB's policy makers, weakening the euro to a fresh two-year low of $1.25 on Monday
- …the divergence between the eurozone's monetary guardian and the US central bank should lift headline inflation from its current level of 0.4% by strengthening the dollar and raising the cost of imports

China looks to ease rules on foreign capital – Pg. 6

- The new regulations would reduce from 79 to 35 the number of sectors in which foreign companies are required to form joint ventures with domestic businesses or are limited to minority stakes
- Examples of newly opened sectors include rare wood processing, high-end Chinese spirits brands, movie theatres and certain types of bulldozers and earth movers

Strauss-Kahn investing firm collapses after apparent suicide of key partner – Pg. 15

- The collapse of LSK marks the latest twist in several extraordinary years for Mr Strauss-Kahn, once the darling of the French establishment. IN 2011 he was forced to leave the IMF after a maid in a New York hotel accused him of sexual assault

Bank of China targets US with bond – Pg. 22

- Bank of China is set to become the first mainland Chinese lender to sell US dollar bonds directly to US investors, as it begins marketing Basel III compliant debt to global fund managers
- BoC is rated by all three main rating agencies, although the bonds themselves will probably carry a BBB plus rating because of the legal complexities involved with a Chinese company issuing debt offshore

Answer: The Shujing ("Book of Documents"), a collection of historical accounts, contains some material that may date to the early Western Zhou period as well as later materials. The Chunqiu ("Chronicles of Springs and Autumns") is a chronicle of the aristocratic state of Lu for the years 722 – 481 BC. The Shijing ("Book of Poetry") preserves over 300 poems from the Zhou period, comprising liturgical hymns, folk songs, elite poetry, and other types

5 November 2014

Question: In the U.S. the Republican and Democratic parties are represented each by what animals?

ECB pressed to act after Brussels slashes 2015 economic forecasts – Pg. 1

- The Brussels forecast, which predicts the currency bloc growing only 1.1% next year, down from a forecast of 1.7% just six months ago, is one of the most serious indicators yet that the long hoped-for recovery from the continent's debt crisis may be stalling
- The forecasts for Germany and France, the two largest Eurozone economies, were among the most dramatic revisions. The 2015 GDP forecast for Germany, the bloc's economic engine, was cut from 2% in May to 1.1%; France went from 1.5% to 0.7%
- Particularly troubling for the ECB, whose governing council meets this week amid fears of deflation, were sharp cuts in inflation projections, with consumer price forecast to rise just 0.5% this year and 0.8% next year

Warnings from Japan for the Eurozone – Pg. 9

- The BoJ plans to purchase Japanese government bonds at an annual rate of $705bn, or 16% of GDP. The balance sheet of the central bank is set to jump towards 80% of GDP. This would make the BoJ's balance sheet relatively far bigger than those of the US Federal Reserve, ECO and the Bank of England. In addition, the BoJ plans to lengthen the maturity of its asset purchases to between seven and 10 years
- The BoJ is combating the consequences of a bad policy error that it, alas, supported. The decision to raise the consumption tax this year was mistaken: it was mistimed, since it was introduced before the desired shift in inflationary expectations to an annual rate of 2% had been entrenched; it was a tax on private consumption, of which Japan has too little, instead of on private savings, of which it has too much; and it did not address the structural cause fo the latter, which is the chronic financial surplus of the corporate sector (the excess of its gross earnings over investment)

- An alternative monetary policy does exist: direct financing of fiscal deficits by the central bank (also known as "helicopter money")
- The Japanese are where they are for three reasons. First, the Bank of Japan pursued too tight a monetary policy, especially in the early 1990s, to punish the sins of the bubble economy. Second the government added too rapid a tightening of fiscal policy in 1997. Finally, the Japanese never dealt with structural excess savings in the corporate sector. This mistakes entrenched the disinflationary pressure that the BoJ now seeks to end with its desperate expedients

Blackstone's real estate unit near to sale of US warehouses – Pg. 16

- The likely transaction comes as the US economic recovery appears to be on a more solid footing, and at a time when the markets expect interest rates to go up. The rates at which commercial borrowers raise debt over what the US Treasury pays have already started to rise
- Investors tend to view real estate as the best hedge against inflation…
- One of the attractions of warehouses over offices is that they are less capital and management-intensive. Moreover, there has been virtually no new supply in the US for years

Answer: Democrat (Donkey) and Republican (Elephant). Prof Note: As a child my donkey was shot when it broke through the fence and wandered onto the airport runway. Hence, Sparky II was born!

4 November 2014

Question: In November 1975 Bill Hudnut, whom I am incredibly honoured to call "my friend", was elected Mayor of Indianapolis. On the night of his victory Richard Nixon personally calls and congratulates Bill and provides him what advice?

US economic growth fails to counter mood of cynicism ahead of midterms – Pg. 1

- For a nation that has prided itself on its inveterate optimism and the belief that each generation would be better off than the last, negative sentiment about the future is the new normal
- This midterm election will cost $4bn, …

Norway – Pg. 7

- Every day for the past 13-and-a-half years, Norway's oil fund has grown by an average of $165m. This has been good news for the country's 5m residents, who have all become krone millionaires, at least on paper
- …$860bn and transformed itself into the world's biggest sovereign wealth fund, with a 100-year plus horizon
- …beginning to flex its muscles by taking a more active stance on corporate governance issues. Its investment strategy is also changing, with the fund buying more real assets such as equities and property while investing less in Europe and more in emerging markets
- ….assets are almost twice the size of last year's GDP

- …fund now owning 2.5% of every listed European company on average, it is harder for it to shirk its ownership responsibilities

US and European lenders raise fears over 'living will' cash reserve demands – Pg. 13

- US and European banks fear they will be forced to boost their cash reserves by tens of billions of dollars to win regulatory approval of their "living wills", which lay out how a failing institution could be wound down in a crisis
- In August, US regulators rejected the living wills of 11 banks from JPMorgan to Barclays, and required them to make improvements that would garner approval for the 2015 submission
- One reason was the reliance on some form of government liquidity to keep alive the operating subsidiaries of a failing institution so that they could be recapitalized or sold. At present, certain banks that face a liquidity crunch can tap the discount window as part of the Fed Rsv's lender of last resort programme's but regulators have told lenders not assume continued access

Downsizers are transforming US housing landscape – Pg. 17

- Today's retirees can expected – with average luck – two decades of life ahead of them. For those that are fit, well and quite possibly still working, the thought of a traditional retirement community may not appeal. But neither does the thought of having to move house each time your health deteriorates, or your support needs increase

Answer: "Pop the Champaign cork but drink the coke!"

3 November 2014

Question: Homer, the Greek blind poet composed and sang two great poems that are the cornerstones of western literature. What are they?

Obsession with growth risks hurting recovery, China warned – Pg. 4

- China's cooling economy has roiled commodity markets, prompting slowdowns in places such as Latin America, Australia and Germany that had been big beneficiaries of the Chinese boom
- The Chinese economy grew at its slowest pace in the last quarter since the depths of the global financial crisis, and is almost certain this year to register its weakest annual growth rate since 1990
- The deceleration has happened even though credit is expanding faster than GDP, local governments continue to borrow far more than they can afford, and investment in everything from steel production to property is rising fast, while sales fall
- Given falling demand, the rise I all these indicators is unsustainable and, at some point soon, they will have to come down, inevitably causing China's growth to slow more sharply
- With a 7.3% expansion in the third quarter from a year earlier, China still has the fastest-growing big economy in the world, but as recently as 2011 it was growing by nearly 10%

Pace of reshoring in Eurozone companies increases – Pg. 19

- Companies in the Eurozone are reshoring an increasing number of operations, despite the bloc's stagnating economy
- The main activities to be offshored included production, tax, legal and IT.

Answer: The Iliad and the Odyssey (800 BC)

1 November 2014

Question: What is the most important work of early Egyptian literature and when was it "published"?

BoJ stuns markets with fresh QE – Pg. 1

- The dollar jumped as much as 3% against the yen, while the price of gold fell sharply. Equity markets around the world surged, led by a nearly 5% rise in the Nikkei 225 index
- Aggressive moves by central banks to bring down borrowing costs have propelled equities, bonds and real estate sharply higher since the global financial crisis
- The BoJ plans to expand the monetary base by some $712bn a year, mainly by stepping up purchases of longer-term Japanese government bonds
- Bu the dollar's strength weighed on a range of commodities, pushing the price of everything, from gold to oil, lower. Gold tumbled to $1,161 an ounce, its lowest since August 2010

Fed dissenter fears below-target inflation – Pg. 2

- The US Federal Reserve risks making the same mistake as Japan in the 1990s by letting inflation run below target, ….
- With inflation running below the 2% target for a couple of years, …
- …most Fed officials are reasonably confident inflation will return to target now the unemployment rate is down to 5.9% and falling
- A fall in expected inflation could lead to lower wage demands and fewer price rises by companies, creating a downward spiral of further drops in inflation
- The Fed said it would delay rate rises if progress on inflation is slow, ….

Yen at seven-year low as BoJ opens floodgates – Pg. 15

- The yen fell to a near seven-year low against the dollar after the Bank of Japan's unexpected decision to open its monetary policy floodgates
- The other big event this week underpinned dollar strength after the Fed Rsv removed its remaining $10bn of monthly asset purchases and issued a more hawkish statement than many had expected
- Among the worst hit against the dollar this week was the euro as investors focused on the likely policy response to persistently low inflation in the Eurozone

Answer: 'Book of Going Forth by Day' (earliest portions ca. 2300 – 2100BC; aka 'Egyptian Book of the Dead')

Halloween 2014

Question: What famous Nathaniel Hawthorne house is in Salem?

Strong US growth beats forecasts – Pg. 1

- The US economy expanded at an annualized rate of 3.5% in the third quarter of 2014, ending eyars of mediocre domestic growth and shaking off the more recent weakness in other big global eoncomies
- But the details portray an economy that is steady, not accelerating.
- …the strongest contributors to growth were all volatile and vulnerable to revision

Shadow banking nears pre-crisis peak as regulation hits mainstream lenders – Pg. 1

- The broadest measure of shadow banking assets tracked by the Basel-based Financial Stability Board grew by $5tn to surpass $75tn last year in 20 countries plus the euro area. That represented 120% of those countries GDP – approaching the high of 123.4% recorded in 2007
- The strongest growth among big economies was in China…
- Shadow banks include a broad array of institutions engaged in bank-like activities including money market funds, finance companies and real estate investment trusts

US boom times as distant as ever – Pg. 4

- In order to deliver a sustained expansion, the US needs consumption, business investment and housebuilding to pick up at home, but all have been held back by a lack of income growth for US households. Without wage rises, the US will stay stuck on a path of growth between 2 and 2.5%
- Even if overall US growth is mediocre it is still a bulwark for the rest of the world economy. Exports account for just 13% of US GDP, so the struggles of the Eurozone are unlikely to cause the US too much harm

Dollar eyes four-year high as Fed's upbeat comments offer support – Pg. 23

- …US equities rallied back towards record peaks as participants continued to weigh up the Federal Reserve's unambiguously upbeat assessment of the US labour market
- The dollar index – a measure of the US currency against a weighted basket of its peers – rose 0.2% to 86.12, but was well off an early high of 86.49
- The view certainly held sway among gold investors, as the metal sank $12 to $1,199 an ounce, …
- The two-year US government bond yield was down 1bp from Wednesday's three-week high of 0.49%. The 10-year Treasury yield was 1bp lower at 2.32%

Answer: House of the Seven Gables

30 October 2014

Question: Why is the emblazoned "A" important to Salem?

Federal Reserve shifts focus to rate rise to mark end of QE era – Pg. 1

- In marked change of language, the rate-setting FOMC highlighted an improvement in the US labour market. Dropping its previous view that there was "significant under utilization" of labour resources it said instead that this was "gradually diminishing"
- It marks a big shift in the Fed's horizons away from aggressive monetary stimulus via its third round of asset purchases – QE3 – and towards the need for an eventual rise in interest rates from their current level close to zero
- It noted, however, that "market-based measures of inflation expectations have declined somewhat", a sign of continued concern

Financial markets fly to infinity and beyond – Pg. 1

- Infinity, it turns out, lasted a little more than two years. In September 2012, the US Fed Rsv administered one of the greatest market shocks of recent years by announcing it would buy $40bn of mortgage-backed securities every month (subsequently raised to $85bn, including Treasury bonds), and do so indefinitely
- The S&P 500 is up 42.75% over the infinity era
- Now, with eternity over, the dollar is rising, putting pressure on the US economy, and everyone must deal with QE's other consequences. Stocks look overvalued and bubbly, just as the bond market is signaling concern about an economic slowdown

Global bankruptcy law comes back to life – Pg. 20

- Investors, lawyers, international organizations, governments and trade groups all backed new clauses that would bind investors in government debt to a majority decision if a country defaulted and restructured its bonds
- The idea of international bankruptcy first came to public attention in the early 2000s after Argentina defaulted on nearly $100bn in foreign bonds
- The main argument raised against the bond clauses is that they address only a small proportion of a country's debt. The changes apply to foreign-law debt, not domestic-law debt, and there is no plan to make alterations to existing debt, only to new bonds issued

Dollar jumps after Fed ends QE and adopts more hawkish tone – Pg. 21

- The dollar rallied strongly while US government bond prices and gold retreated after the Fed Rsv confirmed it was concluding its programme of asset purchases and delivered a slightly more hawkish policy statement than many had expected
- The Fed upgraded its assessment of labour market conditions by dropping its previous view that there was "significant under utilization" of labour resources
- In the US government bond markets, the yield on the policy-sensitive two-year Treasury – which moves inversely to its price – was up 7bps at 0.49%, after earlier showing a gain of just 1bp. The 10-year yield was up 4bp at 2.33%
- Gold extended earlier losses to stand $16 weaker at a three-week low of $1,209 an ounce

Answer: It is the letter featured in Nathaniel Hawthorne's Scarlet Letter.

29 October 2014

Question: What is the name of the most famous Salem architect…and for what style are they famous?

China consumption data hide sharp slowdown, say analysts – Pg. 2

- While multinationals have been bleating about tumbling sales in China, official retail data from the world's second-biggest economy tell a more robust story
- China's National Bureau of Statistics meanwhile, says retail sales grew 12% in the first nine months of 2014, down modestly from 13% last year
- China's leadership has embraced the goal of increasing the role of consumption in driving overall economic growth, while pulling back on investment
- Foreign brands have also lost market share to local rivals…

Sweden cuts rates to zero in battle against deflation – Pg. 4

- Sweden's central bank cut interest rates to zero – a record low – as it stepped up its increasingly anxious fight against deflation
- The world's oldest central bank is in the global spotlight as it seeks to combat inflation. Sweden has experienced falling prices in 16 of the past 24 months
- Some analysts have suggested the Riksbank's next move could be to cut rates to below zero or launch asset purchases along the lines of the quantitative easing policy used in the US and the UK

Funds buckle up for redemption surge – Pg. 22

- Extolled for their haven status, a renewed rush into government bonds this past month has come at the expense of money flowing into equities as investors wait for calmer conditions and greater clarity over the global economy and central bank policy
- The renewed appetite for US Treasuries and fixed income, despite their meagre yields, underscores an unsettling outlook for the world's largest economy and its central bank, the Fed Rsv, which is expected to formally end its latest installment of quantitative easing this week
- ….the recovery in share prices appears based on the expectation that Fed rate rises will not loom for at least another year, and also for an expansion of the ECB's balance sheet that maintains an appreciable amount of global liquidity

Answer: While we at Georgetown contend it is Meghan W. with her "personal" style, the more widely accepted, outside of pure academic circles, is Samuel McIntire for is 'Federal' style.

28 October 2014

Question: Which very famous and wealthy CEO went to only public schools all the way through high school and college, including Salem High School and the University of Massachusetts?

Rebound in sales of risky assets raises fears over quantitative easing's legacy – Pg. 4

- When the Fed began asset purchases in late 2008 the premise was simple: unleash a tidal wave of liquidity to force nervous investors to move out of safe investments and into riskier assets
- …big worry over QE: that the liquidity unleashed by the Fed has stimulated demand in financial markets more than the real economy
- US regulators last year issued new guidelines to govern banks' lending to companies with weak balance sheets
- …proponents of such securitizations say they have history on their side. CLOs defaulted at a rate of less than 0.5% during the crisis. The housing bust taught many investors that Americans would sooner lose their homes than their cars, giving further impetus to post-crisis sales of subprime auto ABS

Financial bank on ageing clients for new source of revenues – Pg. 19

- Ever since HSBC, Barclays and Santander were fined for mis-selling savings products to elderly clients a few years ago, many lenders have been reluctant to focus on such a sensitive segment of the population
- As the world ages, the value of assets under management is expected to expand from $64tn to $102tn
- (Prof Note: Only invest in what you understand! I have reviewed strategies for 60+ clients provided by wealth "advisors" and responded with "I do not understand but the words have multi-syllabic!")

End of rock star era for leveraged loans – Pg. 24

- Issuance of collateralized loan obligations, a type of securitization that packages such loans into bonds, also soared to a record of more than $100bn this year, eclipsing the $97bn reached in 2006,…
- Loans come with fewer protections for lenders or investors, known as "cov-lite" loans, have become the norm rather than the exception in the market – evidence of the intense scrum for assets that favoured sellers over buyers
- Fearing that years of low interest rates have led to overheated credit markets, US regulators including the Federal Reserve and the Office of the Comptroller of the Currency have released new guidance to govern banks' leveraged lending
- Last week the Fed confirmed a Financial Times report that it would incorporate the guidance in its annual stress test of the banking sector

Answer: No it is not Meghan W. but rather Jack Welsh, Former CEO of General Electric and a huge proponent of the dividend growth model which he later admitted was not correct.

27 October 2014

Question: In relation to Salem, Mass, who is Giles Corey?

Italy comes under pressure after nine banks fail ECB stress tests – Pg. 1

- Italy's central bank was thrown on the defensive yesterday as its banking sector emerged as the standout loser I health checks aimed at restoring confidence in the euro area's financial sector
- Across the euro area 25 banks emerged with capital shortfalls following an unprecedented regulatory effort aimed at dispelling the cloud of uncertainty surrounding the European banking sector's health
- German banks emerged largely unscathed, with only one technical failure, while Spain clawed its way through with no shortfalls

Falling US cash piles signal fresh confidence – Pg. 3

- US companies are starting to run down their cash balances for the first time since the recession – a sign of returning confidence – but they remain reluctant to invest in equipment (Prof Note: are they doing share-buy backs???!!!)
- It is a sign of animal spirits returning to the US economy. But growth will not accelerate until the cash is invested in new factories and machinery
- At the end of the second quarter, the non-financial business sector held $2.58tn in cash and money market funds, ….
- Investment has been slow to recover after the recession. Non-residential fixed investment is just 5% higher than in 2007, making it one of the main causes of the slow economic recovery, despite high corporate profits

Jobs market success heralds end of QE – Pg. 3

- The end of US Federal Reserve asset purchases this week marks the climax of an unprecedented monetary campaign, but there is no room for a triumphant declaration of victory
- Barring a big shock, the US central bank will taper its last $15bn-a-month of asset purchases to zero, completing the third round of quantitative easing it began in September 2012
- The original goal of QE3 was a substantial improvement in the outlook for the labour market. It can declare that mission accomplished
- When QE3 began more than two years ago, with the Fed buying assets at a pace of $85bn a month, the unemployment rate stood at 8.1%. It is now down to 5.9%
- The other issue for the rate-setting FOMC is how to handle its pledge of low rates "for a considerable time after the asset purchase programme ends"

Answer: The only man accused of witchcraft and the only person pressed for witchcraft. While he never admitted to witchcraft, during his pressing and after each attempt to have him admit, he would say, "More Weight". Meaning he wanted additional stones placed upon him, i.e. he would not admit witchcraft. (Prof Note: I learned two sayings while in Salem that I am working into my parlance, "More Weight" and "I have manure on my boots!")

25 October 2014

Question: When did the Sale Witch Trials occur?

Why is Brussels demanding EU budget back payments? Pg. 2

- Britain has been systematically contributing too little to EU finances because its past estimates of gross national income have been too low
- Britain was found to be under-recording the size and contribution of its charitable sector
- The biggest windfall is enjoyed by France, which is expecting to receive a 1bn (euro) rebate in December
- The mechanism to calculate contributions to the EU budget is not open for negotiations. This is an agreed and long-standing principle, where countries pay towards the common budget according to their respective wealth

Income drop stokes anti-establishment mood – Pg. 4

- The US economy has grown but incomes have not – creating a mood of sour populism directed largely by Barack Obama that threatens to sweep Democrats from power in mid-term elections in early November
- Household incomes have fallen in every US Senate battleground save Alaska and South Dakota
- …8% fall in incomes since 2007 means households feel worse off regardless
- The contrast between GDP, up nearly 7% since 2007, and falling median incomes reflects both a drop in the share of output that goes on wages and the fact that most income gains have gone to the richest households

Eating their lunch – Pg. 9

- Tastes are changing in the US, and this is bad news for the world's largest restaurant group. The children who grew up eating Happy Meals are not hungry for Big Macs
- Throughout the US, McDonald's largest market, the company's fortunes in recent years have tracked those of its crucial low-income customers, who have not recovered from the financial crisis
- The company has seen same-store sales in the US fall in 10 of the past 12 months
- By contrast, Chipotle on Monday reported a 19.8% rise in same-store sales and a 57% jump in profits
- So-called fast casual restaurants are marketed as healthier alternatives to traditional fast foods
- …US consumers have become more concerned about the obesity epidemic….

Answer: 1692 – 1693…I just spent the weekend in Salem, it is definitely a must for all Goblins!

24 October 2014

Question: What is the difference between MIRR and IRR?

Housing costs put squeeze on city dwellers – Pg. 3

- City dwellers around the world pay $650bn more in housing costs than they can afford yearly, as rapid urban growth meets a constrained supply,…

- For the first time in history, more than half the world's population lives in urban areas and the proportion is set to rise to two-thirds by 2050…
- …land costs in leading global cities accounting for up to 60% of the cost of building a home,…
- The Urban Land Institute, a US-based think-tank, said global "gateway" cities, the world's leading urban areas, were struggling to provide affordable housing for their workforces (Prof Note: Holy cow…I did not know ULI was a "Think-Tank". Does that make me a "Thinker?!" ☺)

CME a winner after wild Wednesday – Pg. 20

- As US Treasury yields plunged and then rebounded, interest rate trading volumes exploded across government bonds and also in the closely linked exchange markets housed in Chicago and operated by CME Group
- With investors scrambling to unwind bets that the Fed Rsv would raise interest rates during 2015, the CME enjoyed a record day in futures and options volume for the sector, surpassing May 2013's "taper tantrum" peak
- The CME reported 25m contracts for interest rate futures and options, surpassing the record 19.4m in May 2013, when markets experienced first signs of last summer's so-called taper tantrum
- Another factor is the fact that cash US Treasuries and the CME's interest rate futures are highly liquid instruments, which can help investors offset losses from holding bonds that suffer from a lack of depth

Answer: Modified Internal Rate of Return (MIRR) bifurcates the discount rate and the re-investment rate. IRR considers the two values equivalent.

23 October 2014

Question: +/- 1 standard deviation about the mean for a normal distribution describes what percentage of the data?

China flexes its economic muscle – Pg. 1

- China's outbound direct investment is for the first time set to exceed investment in into the country, highlighting the ongoing shift of global economic influence in the east
- Outbound direct investment rose 21.6% in the first nine months compared with last year to $75bn
- From Africa to Latin America to the US and Europe, cash-rich Chinese investors are snapping up real estate, companies and other assets while growth at home is poised to fall to its slowest annual pace in nearly two-and-a-half decades
- …with $4tn in government-administered foreign exchange reserves and Beijing's active policy of supporting offshore acquisitions, there is enormous potential for a much larger flow of investment abroad

Big nations snub Beijing bank launch – Pg. 2

- China will officially launch a $50bn Asia Infrastructure investment Bank tomorrow as it steps up its challenge to global financial institutions such as the World Bank that it feels are dominated by the US and its allies
- But only 20 mostly small economies, many of them in effect client states of China, will become founding members of the bank at the ceremony in Beijing after Washington lobbied furiously to stop other countries from signing up
- India will be the only large economy to sign up to the Chinese initiative…
- The new bank will initially focus on building a "new silk road', C…projects will include a direct railway link from Beijing to Baghdad
- The AIIB and a "Brics bank" that includes Brazil, Russia, India, South Africa and China "represent the first serious institutional challenge to the global economic order established at Bretton Woods 70 years ago this summer", …

Answer: 68%

22 October 2014

Question: On the list of trades for a house, what did I miss yesterday (whoa did I get a lot of emails! I knew I was on hallowed ground when I asked the question…I am a finance guy not a construction guy. I am a lover, not a fighter!)

Chinese growth at slowest pace since depths of financial crisis – Pg. 1

- China's economy grew at its slowest pace since the depths of the global financial crisis in the third quarter and is on track for its worst annual performance since 1990, when the country was subject to international sanctions in the wake of the Tiananmen Square massacre
- The government yesterday described the 7.3% year-on-year expansion in economic output in the third quarter as China's "new normal" …
- After more than 30 years on steroids, the world's second-largest economy is being dragged down by industrial over-capacity, ever-rising debt levels and a slump in the property sector, the key growth driver for the past decade
- China's "new normal" comes amid increasing evidence that emerging economies are entering a sustained phase of slower growth while the Eurozone flirts with the spectre of deflation, dragging down commodity prices and making investors skittish about the global economic outlook
- China's housing sales in the first nine months of the year fell 10.8% compared with the same period a year earlier, …
- Chronic overcapacity, particularly in industries that supply the real estate sector such as steel and cement, has led to China's longest period of producer price deflation on record, with prices falling at the factory gate in September for the 32nd straight month

Debate rates over QE's effect on inequality – Pg. 6

- Since quantitative easing began in the US, Japan, and UK, their central banks have created billions of dollars, yen and pounds to buy financial assets. Bond and equity markets have staged huge rebounds and income inequality in most advanced economies has risen sharply

- …does QE help the rich at the expense of the poor?
- There is no doubt that raising asset prices was part of the purpose of QE
- (Prof Note: Look at the equity markets in the U.S. since 2009. The rich purchase equities, the poor survive. With this perspective, who benefited?)

Financial crisis safeguard given US approval – Pg. 24

- A rule requiring banks to retain some credit risk when they sell mortgages and other loans has been approved by US regulators – a key measure aimed at curbing the kind of risky behavior that fuelled the financial crisis
- Lending oversight agencies have been under pressure to finalize the "risk retention" requirement as part of sweeping Dodd-Frank financial reform
- The proposal requires banks to keep at least 5% of the credit risk of certain mortgages and other loans when these are bundled into bonds, part of an effort to align the incentives of financial groups that create such securitizations with the interests of the investors they sell them to

Answer: Foundation! Sorry…I am in the process of razing a house and the foundation will remain.

21 October 2014

Question: What are the main trades, in rough order, when building a residential home?

ExIm warns of cost to US exports from rise of China's development banks – Pg. 1

- US companies risk losing out in the global export battle as a proliferation of Beijing-based development banks boosts Chinese rivals, …
- The moves by Beijing, which has three export financing institutions, are seen as an attempt to challenge the post-war economic order built around the IMF and the World Bank
- ExIm said it supported 1.2m US jobs between 2009-13, though it finances just 2% of all US exports

ECB bond-buying scheme begins – Pg. 4

- …started to buy covered bonds, in its latest attempt to revive lending in the Eurozone and stave off economic stagnation
- The purchases included at least two Spanish issues, one German and one French, …
- Asset-backed securities are bundles of sliced and diced loans that are placed in specially-created vehicles and are not included on a bank's balance sheet
- Covered bonds are debt securities backed by the same kind of loans but that remain on a lender's balance sheets

Investors weigh Venezuela debt default – Pg. 24

- In the famous Big Mac index of global currency values against the US dollar, Venezuela makes a surprise entrance as the third most expensive place in the world to eat a burger

- For investors in the country's debt, it is not good news. Nor is the fact that oil prices are dropping, reserves are falling and the country is experiencing a widespread shortage of basic goods
- The cost of buying insurance against a failure by Venezuela to make a payment on its debt via five-year credit-default swaps is now higher than for any other country and last week rose to levels on seen for five years

Answer: Carpentry (framing), Roofer, Window Install, Plumbing/Electrical (rough-in), HVAC, Drywall, Plumbing/Electrical (finish), HVAC, Carpentry (finish), Flooring

20 October 2014

Question: What are two typical costs that can be overlooked when renting a residential unit in and around Washington DC?

Companies target baby boomers and the $15tn silver economy – Pg. 1

- The global spending power of the now-elderly "baby boomers" generation – who have more money, live longer and are more active than their parents – will reach $15tn by 2020,…
- Consumption spending among those aged 60 and over rose 50% faster than those under 30 in the past two decades,…

Boston Fed chief calls for end of QE – Pg. 2

- Mr Rosengren said Fed asset purchases have achieved their stated goal, the jobs report for September is already in and his economic forecasts have not changed

Euro fall offers mild respite in deflation war – Pg. 2

- The unorthodox steps the European Central Bank has taken since June – including a programme of private sector asset purchases – have caused a steep fall in the euro. The single currency is down some 10% against the dollar and 5% on trade-weighted basis from its peak earlier in the year
- …the ECB must contend with a fall in oil prices that all but wipes out the impact of a sliding currency. A weaker euro should swiftly raise the cost of imported energy.
- A cheaper euro will also please business leaders who have long called for action to curb the value of the currency. But economists warn it is hard to tell how far this bout of depreciation will boost the region's anaemic recovery
- In theory, a rise in corporate profits supports business investment, hiring and consumption. But analysts warn the relationship between exchange rates and export volumes is not clear-cut
- Countries where exports account for a bigger share of GDP stand to gain the most

The Silver Economy – Pg. 6

- The concept of retirement – and old age itself – is being reshaped by a record number of baby boomers who are, or are approaching 65

- Fertility rates in developed countries, and in many emerging economies such as South Korea, have fallen so far that they face a shortage of younger workers and consumers. It means that the number of those who once could be counted on to buy homes, cars, motorbikes, clothing and other consumer goods is also likely to shrink in the future
- …the wealthiest fifth of those aged 50 to 64 spend more each week on food and alcohol, recreation, restaurants, hotels and transport than those of more coveted 30 to 49-year-old age group
- …because people are entering retirement in good health – and with far greater wealth than earlier generations – they are spending time and money in different ways to their parents

Heavy borrowing to buy equities adds investors' anxieties to skittish market – Pg. 13

- Investors borrowed a record amount of money to buy US equities during the bull run, a risky strategy now casting a shadow over the S&P 500 amid market turbulence
- An upsurge in market volatility as US stocks dropped 6.2% from last month's record peak has put the spotlight on those investors that borrowed money – known as margin trading – to help boost returns

Chinese property developers rebuild their models as housing flags – Pg. 17

- China's hard-pressed property developers are responding to a housing market downturn by parking their bulldozers and turning to a variety of new businesses ranging from hog farming to solar panels to online shopping
- China's large, primarily state-owned property developers were among the main beneficiaries of the government's stimulus largesse, unleashed in 2009 in response to the global financial crisis
- China's property sector, in spite of its size – seven of the world's top 10 developers by sales are Chinese – remains almost entirely reliant on sales of physical property. Unit sales typically account for 80-90% of revenue, highlighting the appeal of diversification

Answer: A listing Agent will require 75% of the first month's rent and a management company 4 – 8% of gross revenue. Do not forget these numbers when calculating your returns.

18 October 2014

Question: What is the process for moving a street light on Nevis?

Yellen risks backlash after remarks on inequality – Pg. 2

- …"greatly concerned" by rising income and wealth inequality, and asked whether it was compatible with American values
- It marks a big step in defining Ms Yellen's term at the Fed.
- She described the rise in inequality using recent Fed research and then laid out four "building blocks" for economic opportunity in the US: resources for children, affordable higher education, business ownership and inheritances
- She pointed out the benefits of early childhood education and the inequality built into the US school system, which is largely funded by local property taxes, so rich areas spend more

and get the best teachers (Prof Note: So is that not the point of trying to succeed, so one can afford a home in a better area and afford their children a better education?! Are we socialists or capitalists?!)
- She argued that owning a business or getting an inheritance were important routes to economic mobility

Wild price swings a flashback to crisis – Pg. 13
- The "flash crash" in US Treasury yields was the tensest moment in the most turbulent week in markets since the Eurozone crisis. Global equity and bond prices swung sharply, oil prices fell and "spreads" widened between government borrowing costs in the weakest Eurozone countries and in Germany
- Markets, in effect, were dealt a "growth shock" as investors reeled form a toxic combination of economic forecast downgrades by the IMF in Washington last week, concern about china, falling inflation rates, a stalling German economy and worries in the US about the impact of a stronger dollar

Answer: Just ask the electric company to move it…done! If only things were so easy in the States!

17 October 2014

Question: What is a fundamental difference between schools on Nevis and the U.S.?

Market turmoil casts further doubt over Europe revival – Pg. 1
- Turmoil across global financial markets and a spike in Greek borrowing costs yesterday reignited fears about Europe's recovery and the structural problems left over from the Eurozone debt crisis
- …Greece's benchmark bond yields rose above 9% as mounting political instability raised doubts about Athens' ability to sustain its heavy debt burden
- Concerns about low global growth kept Wall Street under pressure, …
- Yields on a 10-year Treasury, the benchmark US borrowing rate, which dropped below 2% on Wednesday for the first time since mid-2013, stood at 2.14%

St Louis Fed chief calls for taper delay – Pg. 2
- The US Fed Rsv should carry on with its asset purchases this month…
- Mr Bullard's remarks are the first sign of serious concern at the US central bank over a bout of market jitters about global growth and the risk of deflation in the Eurozone

Oil price fall sparks Venezuela default fears – Pg. 5
- When Venezuela last week demanded an emergency Opec meeting to try to stop the fall in energy prices, its was not the socialist country's peers in the oil-producing cartel that paid attention but rather its increasingly worried bond investors on Wall Street
- Although Venezuela has the world's largest energy reserves, its deteriorating economy has forced President Madura to slash imports to cover foreign debt payments amid a severe

hard currency crunch that has already produced shortages of almost everything, from toilet paper to medical supplies
- Four years ago, Venezuela responded to the hard currency shortfall of the oil price drop by issuing $51bn of dollar-denominated debt. It also borrowed $50bn from China, which is being repaid with 450,000 barrels a day of exports
- This week, Harvard University economists…said there was an almost "100% probability" the south American country would default on its foreign debt

US crude price dips below $80 a barrel – Pg. 22
- …falling to a low of $79.78 earlier today
- Global economic worries have deepened after data from China showed consumer inflation at almost five-year lows, while producer prices in the US declined for the first time in more than a year
- Gold rose 0.1% to $1,242.40 a troy ounce as investors sought a haven amid a global market rout

Answer: Prayer exists in Nevisian schools.

16 October 2014

Question: A drop of X% is considered a market correction?

Fear returns to stalk markets – Pg. 1
- Rising concerns about the global economy triggered a "flash crash" in US Treasury yields yesterday, as losses spread across stock markets and a new wave of investors appeared to give up on their bullish bets
- The yield on a 10-year Treasury, a key barometer of the strength of the US economy, fell below 2% for the first time since the Fed Rsv began talking about removing its monetary stimulus
- The US S&P500 was off 2.8% at 1,825 at lunchtime in New York. It has fallen 9.9% from its September peak, putting it within a few points of an official 10% correction, and has given up all its gains for the year (Prof immature note: I told you to rebalance and move from equities!)

Chinese inflation close to 5-year low – Pg. 2
- Chinese consumer prices rose at their slowest pace in almost five years in September, in the latest sign of flagging growth that may encourage Beijing to adopt further targeted easing measures
- The consumer price index rose 1.8% year-on-year in September, down from 2% growth in August and at its slowest pace since January 2010
- The weak property market also affected consumer prices through the housing component, which tracks rental prices

- The government has launched a string of targeted monetary and fiscal stimulus measures this year, including lower reserve rations for small banks, direct loans from the central bank to large state-owned lenders and easing of rules on mortgage lending

Bank of Canada turns skeptical on forward guidance – Pg. 3

- One of the first central banks to use forward guidance has turned skeptical on the policy, after Bank of Canada governor Stephen Poloz said it is best saved for times of crisis
- The Bank of Canada governor argues guidance is best used when interest rates are stuck at zero and the central bank wants to create a one-way bet to stimulate the economy
- In normal times, though, Mr Poloz said a better policy was maximum transparency about how the central bank understood risks to the economy, so markets can predict how it will treat new data and adjust asset prices accordingly
- Canada avoided the worst of the Great Recession, but its economy has struggled to reach full capacity since then, with unemployment still well above pre-crisis levels at 6.8%. After a couple of early rises, interest rates have been stuck at 1% since 2010

Austerity tames US budget deficit amid sluggish recovery – Pg. 4

- The US public finances have staged dramatic turnaround as budget deficit fell below 3% of GDP for the first time since 2007
- The deficit for fiscal year 2014 came in at just 2.8% of GDP, far below peak recession levels of more than 10%, as tax revenues recovered and spending fell in real terms

Answer: 10.0%

15 October 2014

Question: What is the import duty for electronics on Nevis?

Oil price hits four-year low as watchdog cuts demand forecast – Pg. 1

- The price of oil tumbled to a four-year low after the west's energy watchdog cut its forecast for oil-demand growth and said that it did not expect Opec to cut supply when it meets next month
- A glut of crude in the market, partly driven by the US shale boom, combined with weakening oil demand as the global economic outlook darkens has pushed the price of oil to its lowest level since 2010
- Oil consumption has been hit by the worsening outlook for the world economy

Germany lowers growth predictions – Pg. 2

- Berlin has slashed its growth forecast for this year and the next, a move that highlights the government's mounting concerns about the impact stagnation in the Eurozone, geopolitical crisis in Ukraine and the Middle East and a slowdown in emerging markets are having on the German economy
- …Berlin still expects Germany to avoid a recession, defined as two successive quarters of contraction

Saudi prince sounds oil price alarm – Pg. 5

- …the kingdom's 2014 budget was 90% dependent on oil revenues…
- Gulf oil producers, most of which have large cash reserves, seem to be betting that the short-term pain of declining oil revenues from lower prices will close off competing supplies and revive the lowest global oil demand since 2009
- Oil prices are reaching levels that, if sustained, threaten the ability of some gulf states to meet domestic spending commitments, forcing a drawdown on reserves or debt issuance
- Saudi Arabia needed an oil price of $89 a barrel in 2013 to balance the budget, up from a "fiscal break-even" of $78 a barrel in 2012,…

UK takes first orders for debut renminbi bond – Pg.

- Britain has attracted orders of nearly 600m (sterling) for its debut government bond denominated in China's currency as the UK becomes the first western country to issue debt in renminbi
- Russia this week set up a currency swap facility with the People's Bank of China
- While the UK bond is a first for a national government, the Canadian province of British Columbia became the first foreign government entity to sell a dim sum bond in late 2013
- The dim sum bond market – renminbi-denominated issues outside mainland China – began in late 2009
- Most of the stellar growth has come from demand for capital from Chinese companies rather than multinationals

Answer: 60.0%! This is a 1.6X multiplier to the price of all consumer electronic goods. We should appreciate how fortunate we are in the U.S.

14 October 2014

Question: Who recently spit in my face?

Rulemakers lay down terms for taming shadow banking risk – Pg. 1

- Global regulators have taken a landmark step towards taming risk in a key segment of the shadow banking system, outlining tougher rules on collateral for short-term lending which will effect both banks and non-bank players
- Shadow banks have emerged as a big regulatory concern as risk migrates out of the traditional banking sector, into more thinly policed reaches of the financial markets
- Shadow banks can include a broad array of institutions engaged in bank-like activities, among them hedge funds, private equity groups and money market funds
- The global standards are intended to stop excessive lending, and so avoid a repeat of the reckless behavior that helped precipitate the 2008 financial crisis. They also take aim at a vital part of the shadow banking world, known as the repurchase, or "repo" market
- The FSB wants a minimum 1.5% haircut for corporate bonds with a maturity of between one and five years, up from 1% before, and a 6% haircut for equities, instead of 4% previously.

The latter would mean that a borrower would have to post $106 of equity collateral for a $100 loan

Bernanke joke underscores questions on QE's efficacy – Pg. 3

- QE – the policy of buying bonds to drive down long-term interest rates when short-term rates are already at zero
- In theory, Fed purchases of Treasury bonds should have no effects. All that happens is the central bank swaps one kind of government debt – money – for another kind of government debt, in the form of a long-term Treasury bond. That can make a difference only if investors have a strong preference for one kind of debt over the other; Mr. Bernanke's argument is that, in practice, they do

Bernanke's failed mortgage application exposes the flaw in banking – Pg. 11

- …banks have a unique ability to intermediate credit, because of the valuable information they gather and hold. As he [Bernanke] put it, "the real service performed by the banking system is the differentiation between good and bad borrowers"
- The modern banking system does very little of the information gathering that many economic models have in mind
- Banks rely heavily on credit scoring, even though the process of scoring can be flawed
- Modern banks are not savvy, information collecting business lenders. Instead, they take very leveraged bets on real estate. They borrow short with government-subsidized liabilities such as deposits, and they lend long against property assets. They do so with very little equity to cover their losses in case things go wrong
- Meanwhile, the very thing that banks are meant to do well – selecting businesses to lend to, so that they can grow, invest, hire employees and boost local economies – has fallen by the wayside
- (Prof Note: I recently purchased a property and went through an 18 month IRS audit. The more unpleasant of the two: the loan on the property.)

Fitch warns over effect of rate rises on CMBS – Pg. 24

- Bonds comprised of commercial mortgages could be susceptible to ratings downgrades if the Fed Rsv were forced to raise US interest rates sharply, Fitch Ratings has warned
- Sales of securitizations backed by the kind of home loans that caused the most trouble during the crisis have largely disappeared in the years since 2008 but issuance of other types of structured finance deals has rebounded sharply
- Most residential mortgage-backed securities, or RMBS, sold after 2008 are forecast to be unaffected, because most of their underlying loans are fixed rather than floating rate

Answer: Poseiden! Then I spit right back in his face! Thank you for your concern again. I was, in fact, in the islands during the Hurricane. Please note that the Four Seasons closed for the weather but Cat Ghaut remained open and FULLY operational! We suffered some minor damage to a few palms on the far side but fought back Poseiden's fury. Again, fought while the Four Seasons shuttered their course! "You know you love Nevis! Go with your gut, Cat Ghaut, Nevis!"

13 October 2014

Question: What is a 'cantilever'?

Emerging markets slowdown fuels concern for global outlook – Pg. 1

- Growth in emerging markets is at its lowest ebb since the aftermath of the financial crisis due to a combination fading dynamism, a sputtering performance in eastern Europe and Latin America's slowdown
- Christine Lagarde, the IMF's managing director, said there was "clearly a major slowdown in countries like Brazil and Russia", pointing out that the end of quantitative easing would send shock-waves to emerging economies
- The most rapid deterioration has come in eastern Europe, where a faltering German economy has clobbered the companies that form its industrial supply china. In Latin America, industrial output contracted in August, partly due to dwindling demand for commodities form a slowing China and partly due to slower consumer demand amid high inflation

Money well spent? – Pg. 7

- Share buybacks are not new, but US companies have been gorging themselves on their own stocks in recent years – in part spurred on by activists such as Mr. Icahn. But they are also a broader reflection of how the Federal Reserve's aggressive policy of lowering interest rates has benefited financial assets – notably stocks, bonds and house prices – even as the recovery in the broader US economy has been halting
- The longevity of QE and suppression of interest rates has created fertile conditions for the buyback boom. In the 12-month period to the end of June, S&P 500 companies have returned a record amount of cash to shareholders, consisting of $533bn in buybacks and paying out $332.9bn in dividends, …
- Buybacks are executed secretly since market knowledge of their size and actual timing would push prices higher and cost the company more
- Thanks to cost-cutting and low interest rates, companies have generated record profits I recent years. But the missing component has been solid revenue growth because of sluggish economy. As a result, many companies have decided that the bgest option for deploying their cash flow is in acquisition and buybacks
- With the central bank ending QE and poised to start normalizing interest rate policy in 2015, the buyback boom has shown signs of easing, potentially removing a vital pillar of support for the equity bull run

US home loan rates dip after Gross goes – Pg. 16

- Yields on government-backed mortgage securities – which move inversely to prices – fell to their lowest level in 16 months last week after a flight to higher quality assets and speculation that Mr Gross's move might heighten demand for mortgage debt
- US interest rates have fallen sharply in the past week with the yield on the 10-year Treasury also declining to a 16-month low below 2.3%

Answer: a beam or other structural member that projects past its support at one end and is free at the other.

11 October 2014

Question: If you were to look at your wall, what plaques would you see, i.e. how have you been recognized by your peers?

Oil hits four-year low on growth fears – Pg. 1

- Fears about weakening global growth drove oil prices to a four-year low yesterday, at the end of a turbulent week for financial markets that also saw world share prices drop to the lowest in seven months
- Brent…sank to $88 a barrel, a level last seen in December 2010, on concerns that slowing economies around the world would struggle to absorb growing supplies.
- If prices remain low it could test the finances of US shale projects, which have higher production costs than conventional developments…
- The IMF added to the gloom this week by downgrading its 2014 growth forecasts and warning of a four in 10 chance of another Eurozone recession
- Those fears were intensified by a sharp fall in German exports in August

UK is continent's hotspot for investors – Pg. 2

- Southern Europe may have been the bazaar for Chinese investors seeking cheap deals in the west since the start of the debt crisis, but the UK has emerged as the continent's prime destination for Chinese cash
- Chinese have invested twice as much into the UK since the start of 2012 as they have done over the past seven years – and, by some estimates, even more than the total from the previous three decades
- One option which is increasingly popular among wealthier Chinese business people is the Tier 1 investor Visa, which fast tracks applications for permanent residence in the UK in exchange for investments of 1m (sterling), 5m (sterling), or 10m (sterling)
- The scheme is explicitly different from "golden visa" regimens that have been launched in cash-strapped Eurozone countries such as Portugal and Malta. To avoid real estate speculation, the UK only allows applicants to allocate up to a quarter of their investment to buying property. The rest of the investments have to be in UK companies or UK bonds, and cannot be in businesses focused on property development
- The maximum investment allows visa-holders to apply for residence after just two years

Squeeze on US 'muni' bond sales boosts prices – Pg. 15

- US states and cities have cut borrowing by 6% so far this year as they rein in spending and tap other sources of funding for infrastructure projects and the maintenance of public services
- New issuance of "muni" bonds have been slowing in the past couple of years in the aftermath of the financial crisis, which ripped holes in municipal budgets

- In addition to fiscal austerity, a growing number of states and city governments in the US have been turning to partnership with private entities – known as P3s – or tapping into direct credit lies with banks to meet their funding needs…
- The state of California was the largest of general obligation bonds, at $4.8bn, followed by the commonwealth of Puerto Rico, with $3.5bn

Answer: I met a senior salesperson from Pfizer recently and asked about interview questions (always trying to look out for all of you!). His #1 question was above. He stated that in his opinion, if one had not been recognized by one's own peers, why should he hire them? How would he recognize them as an outstanding performer if others in their past had not already.

10 October 2014

Question: What is "FBO"? (urban parlance)

Tensions rise between Abe and Bank of Japan over yen – Pg. 2

- Yen depreciation was supposed to be one of the key planks of Shinzo Abe's plan to banish deflation and stimulate growth. But the currency's fall has now put the Japanese prime minister on the defensive and created a source of friction with the Bank of Japan
- Higher import prices were hurting households and small companies….

Geithner pressed over AIG's bailout terms – Pg. 16

- Hank Greenberg, who was the insurer's largest shareholder before the rescue and is seeking $40bn in damages. He has accused the government of imposing illegally harsh terms on AIG and not properly compensating investors
- Mr Geithner said on Wednesday that "the world was falling apart" and the government often found itself in uncharted territory
- David Boies, Mr Greenberg's attorney, questioned Mr Geithner about his moral hazard rationale in explaining why AIG faced terms different from bailed out banks. Mr Geithner has said that those provisions were necessary to disincentivize other companies from taking risks and expecting a bailout, especially because AIG was a non-bank that the Fed did not supervise at the time

Banks shun packaged UK mortgage deals – Pg. 22

- The primary reason for the fall is simple: banks do not need the funding. After volumes rose in the wake of the crisis – 2010 saw a nearly tenfold increase in ABS issuance year-on-year to $30bn – they declined sharply in 2012 after the Bank of England's "funding for lending" scheme (FLS), which offered banks cheaper funding than selling ABS on the open market
- In 2010 smaller banks and building societies accounted for 5% of MBS issuance. This year they account for two-thirds,…

Answer: I learned a new acronym today, "FBO". I always ask students for new slang to remain 'hip'. Of course I am still nursing the wounds suffered when in the mid-nineties my students taught me the term, "short-bus' and I used it in a work meeting that sent me to HR shortly thereafter. (this would be the beginning of many HR trips in my career but those are for later stories) 'Facebook Official' apparently is the step prior to

engagement when young individuals announce their dating status. Of course I do not have a Facebook account and have been thinking for years it was just a fad. Sometimes I do feel old!

9 October 2014

Question: What is the time period associated with the Neoclassical period in English literature and what are the basic attributes?

'Golden visas' for Chinese investors are passport to riches for hard-up Europe – Pg. 1

- Cash-strapped governments across Europe are reeling in investment from Chinese millionaires and other big spenders by offering "golden visa" residence permits in exchange for house purchases
- …most Chinese buyers are acquiring golden visas as a "Plan B escape route" and donot intend to become permanent EU residents, …

IMF warns over health of eurozone's banks – Pg. 2

- Eurozone banks need a fundamental overhaul of their business models, the IMF warned yesterday, saying lenders were still not in a position to be "athletes" supporting economic recovery six years after the financial crisis
- The IMF's warning on banks' health came as it fretted that low interest rates in the Eurozone were not sufficient to support risk-taking that was beneficial to economic growth, but might nevertheless be encouraging the build-up of financial vulnerabilities
- The IMF found that a quarter of the 300 banks in advanced economies it examined did not have adequate capital buffers or profitability to support lending growth of 5% a years. Most of these banks were in the Eurozone, where the proportion of lenders unable to support the recovery stood at 46%, representing 60% of assets

Bad loan bank agrees to bail out China's first domestic bond default – Pg. 8

- A state-owned bad loan bank has agreed to bail out china's first domestic bond default, in a move that could reinforce the assumption that even risky credit enjoys an implicit government guarantee
- A precedent-setting default would force investors to evaluate borrowers more carefully, resulting in rational risk pricing and, ultimately, improved capital allocation, …
- The rescue also comes as rating agencies warn that defaults are likely to rise as the economy slows and borrowers grapple with the overhang from a huge increase in corporate and government debt since the global financial crisis

Geithner clashes with lawyer for Greenberg over bailout of AIG – Pg. 18

- AIG's losses "were the result of a cumulative effect of a series of years, months and weeks" of management decisions, …
- Mr Greenberg is seeking $40bn in damages after accusing the government of imposing unfairly onerous terms on AIG and not justly compensating shareholders in the $182bn bailout.
- Mr Geithner said the scale of AIG's losses and assistance it needed led him to conclude that the company had taken excessive risks

- But he said he was not aware of efforts to assess whether AIG's decisions were imprudent at the time they were made and did not know how that could be assessed
- The issue of whether the government controlled the company is one of the issues in dispute, and Mr Boies showed emails in which Fed employees referred to the government as AIG's largest shareholder

Traders cut bets on faster Fed rate rise – Pg. 22

- Speculative investors are liquidating derivative bets that favour a faster pace of policy tightening by the Federal Reserve during the next three years
- The move reflects worries that the path towards higher interest rates next year in the US will be curtailed by slowing global growth and sliding inflation expectations. In addition, the dollar's rise since the summer effectively represents a tightening of financial conditions. Further strength in the currency is seen weighing on export growth and reducing inflation prospects, thus slowing the pace of US rate hikes out to 2017

Answer: Neoclassical (1650 – 1800). Basically it is the enlightenment period noted for its distaste of superstition and fantasy. It signals the end of Puritan Domination in England and American Colonialism. Notable writers include John Lock, Voltaire, Ben Franklin, Thomas Paine and Thomas Jefferson.

8 October 2014

Question: What is the time period associated with the Renaissance/Reformation period in English literature and what are the basic attributes?

IMF warns of third Eurozone recession since financial crisis – Pg. 1

- The IMF has sounded the alarm on the health of the Eurozone economy, warning there is now a four in 10 chance that the single-currency area will slide into its third recession since the financial crisis
- The sharp contraction in industrial output, which fell 4% between August and July, followed a batch of poor industrial orders data this week. The sluggish figures show that Germany has begun to suffer from the weakening of demand for its exports, owing to geopolitical tensions and the slowdown in the rest of the Eurozone
- The IMF forecast yesterday that the single-currency area will expand by as little as 0.8% in 2014 and 1.3% in 2015
- The IMF predicted the US growth to remain robust, with conditions ripe for acceleration

Bank of Japan gives slightly bleaker economic assessment – Pg. 2

- The BoJ has downgraded its assessment of the economy, with one board member warning of more challenges in its quest to reach a 2% rate of inflation
- It also noted an "uneven" recovery in private consumption and a "pause" in the rate at which business sentiment was improving, in the wake of April's consumption tax increase

Inflation outlook poses challenge for Fed – Pg. 22

- The US inflation market has an unpleasant message for US policy makers: the stimulus of quantitative easing has waned and another round may be required
- October marks the formal completion of quantitative easing, of QE, by the Fed against the background of a charging dollar, weakening commodity prices and collapsing inflation expectations in Europe and Japan
- Fed policy operates under a dual mandate, charged with boosting employment and achieving a target rate of 2% for annualized core inflation, which strips out food and energy prices. Since the depths of the financial crisis in late 2008, the Fed has sought to combat disinflation via successive rounds of QE
- A key measure followed by the Fed that tracks five-year inflation expectations starting five years from now has approached the red zone. The so-called 5yr/5yr break-even rate loiters at 2.17%, near its low from September 2011 – which precipitated the Fed's Operation Twist – and just above the financial crisis nadir of 1.95% seen in December 2008
- The annualized US consumer price index price index dropped to 1.7% in August, and has eased from 2.1% in June
- While the unemployment rate dipped to 5.9% during September, annualized wages only grew at 2%, down from a 2.1% path in August, suggesting little evidence of a tighter jobs market sparking higher wages

Answer: (1500 – 1650) This period reflects a time in which literature was infused with artistic, religious and intellectual movements across Europe. It is also when Modern English is established. It transitions a period of time form the Tudor's (War of Roses and all the Henry's that sat on the English throne) through the Elizabethan (Saves England from Spanish Invasion) into the reign of Charles I. Shakespeare and John Milton are the two most notable of this period.

7 October 2014

Question: What is the time period associated with the Medieval period in English literature and what are the basic attributes?

China changes tack with huge bet on European assets – Pg. 1

- As investors fled Europe in the worst days of its sovereign debt crisis, China-based firms surged in, with cash flowing from China into some of the hardest-hit countries of the Eurozone periphery
- Total annual Chinese investment in Europe has dropped from the peak years of 2011 and 2012…

IMF proposes sovereign bond overhaul after Argentina fight – Pg. 6

- …the IMF has warned that the US court's decision could make future sovereign debt restructurings more complicated. The fund has made two major recommendations aimed at changing clauses within bond contracts, a move that financial institutions also back
- The first change proposed by the IMF is a modification of the equal treatment "pari passu" clause used by US hedge funds to claim full repayment on Argentine bonds. The fund supports changing this clause to explicitly exclude the obligation to pay holdout investors

- Second, the IMF recommends the inclusion of a clause that can bind all investors to a decision made by a super-majority of 75% of creditors if a country defaults and attempts to restructure its debt

Wall Street struggles as boost from payrolls data begins to fade – Pg. 23

- Asian and European stock markets made a positive start of the week as afterglow from Friday's robust US non-farm payrolls report helped bolster confidence in the outlook for the global economy
- …Wall Street itself was far less sanguine, in spite of a sharp rise for Hewlett-Packard shares, as trading conditions remained choppy ahead of the start of the quarterly earnings season

Eurozone inflation gauge hits record low – Pg. 24

- A closely watched gauge of inflation rates expected by financial markets has fallen to the lowest on record, ….
- The Eurozone inflation rate expected over five eyars starting in fives years' time fell to 1.88% yesterday…
- By keeping inflation expectations in line with their targets, central banks aim to affect pricing behavior and keep actual inflation rates under control
- Although the Eurozone inflation rates implied by swap markets appears in line with the ECB's target of an annual rate "below but close" to 2%, they have historically remained firmly above that level

Answer: 500 – 1500AD. This is when the English language transitions from Old English to Middle English. It is a literary period that captures the advancement of tribal cultures such as the Goths and Vikings as they expand throughout Europe. Typical literature includes Viking sagas, medieval battles, and seafaring ballads. This period also transitions into fables, poems and theological works by English and French Philosophers.

6 October 2014

Question: What is the time period associated with the Classical period in English literature and what are the basic attributes?

Pimco's Gross triggers sell-off in interest rate derivative positions – Pg. 1

- Investors have liquidated hundreds of billions of dollars of positions in interest rate derivatives contracts, an asset class favoured by Bill Gross, in moves that traders suggest show Pimco cashing in holdings to meet redemption demands
- Under Mr Gross Pimco's Total Return Fund was a large investor in three-month "eurodollar" interest rate contracts…
- The appeal of these contracts is that they will gain value should the Federal Reserve raise interest rates at a slower pace than markets expect

Foreign banks in Russia turn to rouble bonds for finance following sanctions – Pg. 1

- The two biggest foreign banks in Russia have been heavily tapping the rouble bond market to replace funding from their parent companies in Europe as they rush to reduce their exposure to the country
- They also illustrate how foreign banks with large operations in Russia are pushing their offshoots in the country to finance themselves on a standalone basis, rather than relying on credit lines from their western parents
- The Russia bonds are a more expensive form of finance for SocGen, costing it 10-11% a year, against the coupon of about 4-5% it usually pays on its bonds

Warning over global economic growth – Pg. 2

- The global economic recovery is stalling and too reliant on the US, …
- The IMF is expected to cut its estimate of global growth in 2014 from 3.4% to a little over 3% this week as poor second-quarter figures from Germany, Japan and other countries weigh on the outlook. As recently as April, the IMF was expecting 3.6% growth this year, faster than the long-term average
- The Tiger index – Tracking Indices for the Global Economic Recovery – shows how measures of real activity, financial markets and confidence compare with their historical averages

An unconventional tool – Pg. 7

- Since September 2008, the balance sheet of the US Federal Reserve has expanded by $3.5tn to close to 25% of US GDP
- QE involves the creation of central bank money on a large scale. That makes it "quantitative". It is one of the family of unconventional policies employed in the aftermath of a crisis that damaged the financial system and caused a deep recession
- The Fed has to be particularly imaginative because the US financial system was more complex and more dependent on "Shadow Banking" – intermediation outside of the banking system – than those of other advanced economies. Liquidity provision was extended to non-bank entities, for example, such as securities firms
- In addition, central banks purchased assets outright. The purchase of private assets was expected to support markets and improve the impaired balance sheets of banks and other financial intermediaries. The purchase of government bonds was expected to persuade the holders to shift their portfolios towards riskier assets
- Asset purchases are also designed to reinforce monetary policy
- By reducing the availability of assets, QE causes investors to shift towards assets deemed close substitutes. This should raise prices and lower yields
- The Maturity Extension Programme – Commonly known as "Operation Twist" and worth $667bn – ran from September 2011 to December 2012
- A closely related line of criticism is that QE is preventing the deleveraging of the private sector and keeping "zombies" (both corporate and governmental) out of bankruptcy or default
- Another line of criticism is that QE, particularly by the Fed, guardian of the world's principal reserve currency, has disruptive global spillover effects. Emerging economies, notably Brazil and China, have made these complaints particularly strongly

Answer: Basically include all the Greek and Roman legends, and philosophy and early Christian writings. This period ends with the fall of the Roman Empire and the proliferation of Christianity. It is also when the first bible was written.

4 October 2014

Question: What are the 8 generally recognized periods of English literature?

US jobs tally lifts rate expectations – Pg. 1

- September's report showed 248,000 new jobs, compared with expectations of 215,000. The unemployment rate fell by 0.2% to 5.9% and upward revisions of 69,000 jobs erased the seeming weakness of last month's report
- The fall in unemployment highlights the US economy's strength, in contrast to Europe's feeble growth and a slowing China. It means the Fed cannot rule out an interest rate rise as early as March
- There was no sign of wage growth in the report, however, and the percentage of US workers participating in the labour market fell to its lowest level since 1978

Pacific island wins reprieve in hedge fund spat – Pg. 4

- The tiny Pacific island of Nauru, which was briefly during the 1960s and 1970s one of the world's richest countries, has been granted a reprieve from financial ruin in its battle against a US hedge fund
- The Firebird fund owns bonds issued by Nauru on the Japanese stock exchange in the late 1980s, on which the government subsequently defaulted. The hedge fund sued Nauru in 2011, with a Japanese court ordering the island nation to pay Y1.3bn
- …the 21km sq island, with population of about 10,000 is afflicted with social and environmental problems

Brent crude slides to lowest since 2012 – Pg. 13

- …dropped just over $2 to $91.74 a barrel, a level last seen in June 2012
- …fallen by 20% since mid-June, when Islamist militants first began advancing across Iraq, spurring anxieties about supply disruptions
- Weak demand for crude from European refineries has built up supplies in the North Sea, while stocks in the Atlantic Basin have risen as US shale oil production has displaced the need for oil from West Africa. Demand from Asia has also been sluggish, helping to keep the price of Brent crude down

Challenges deepen for central bankers – Pg. 13

- …Eurozone growth has stalled and inflation slumped this year, the ECB has expanded ledning and turned short-term market interest rates negative
- The ECB was not the only central bank in a spot of trouble. Bleak data on Japanese industrial production prompted reports that the Bank of Japan could halve its growth forecast for this fiscal year, currently 1%

Dollar surges on interest rate rise expectations – Pg. 13

- The dollar was propelled yesterday by stronger than expected growth in US job creation – to a fresh two-year high against the euro and a near one-year peak versus the pound

Answer: Classical, Medieval, Renaissance/Reformation, Neoclassical, Romantic, Victorian, Modern, and Postmodern

3 October 2014

Question: The Daiquiri drink was first introduced to the U.S. where?

Lagarde warns of 'new mediocre' era – Pg. 2

- The world economy is threatened by a "new mediocre" of low growth for a long time,…
- The IMF's most recent forecasts in July called for global growth of 3.4% this year and 4% in 2015, but those numbers are likely to be slashed when the fund releases its estimates next week
- Among advanced economies, Ms Lagarde said she expected the strongest growth in the US and the UK, and the weakest expansion in the Eurozone

China to cap local government debt in effort to contain risk – Pg. 2

- China's central administration will impose hard caps on local government borrowing, in its boldest move yet to control financial risks form an explosive rise in regional debt
- An official audit released late last year showed that total local debt had reached $3tn by the middle of 2013, raising total government debt to 58% of GDP and up 67% from the end of 2010
- ..combined with a similar jump in corporate debt, helped push China's overall debt-to-GDP ratio to 261% in June this year, up from 148% in 2008

Economic data fail to credit territory's role as a gateway for mainland China – Pg. 3

- The crucial role of Hong Kong as an investment gateway to mainland China places big constraints on Beijing as it considers how to deal with throngs of protestors clogging the streets of the territory's financial district (Prof Note: No where on the globe have I ever seen more "Hollywood" high-end cars then in the parking garages of the CBD in Hong Kong)
- On the surface, Hong Kong's relative importance to the economy of greater China has diminished substantially. Hong Kong's share of combined GDP has fallen from 16% in 1997 to only 3% last year, as growth on the mainland has far outpaced that of the former British colony. In terms of exports, Hong Kong's share fell from 51% to 17% over the same period
- The role of Hong Kong as a financial centre and proving ground for financial reforms is also pivotal. Top leaders have set a goal of establishing Shanghai as s global financial centre by 2020 but market participants agree that the city has a long way to go before it can plausibly supplant Hong Kong

Equities fall further as investors prepare for Fed to turn off the tap – Pg. 21

- Global equities suffered further steep falls as the mood among investors remained cautious amid increasing uncertainty about the outlook for global growth, particularly given the likely termination of the Federal Reserve's quantitative easing programme later this month (Prof immature Note: You heard it here first! I told you so weeks ago!)

Answer: The Daiquiri Lounge at Army Navy Club in Washington DC. It was named after Daiquiri Beach in Cuba where our servicemen were met with Daiquiris at one point! Drink up men!!!

2 October 2014

Question: What was the only novel published by Oscar Wilde?

Scalded banks halt submissions to benchmarks as Libor fears endure – Pg. 1

- Some of the world's largest banks have stopped contributing to dozens of financial benchmarks to avoid further litigation risk in the wake of the Libor and foreign exchange rate-rigging scandals
- Their withdrawals have already helped speed up revamps of the silver and gold fixes and reforms to some interbank lending benchmarks so that they are based on actual transactions rather than bank submissions
- Banks have already paid more than $6bn for wrongdoing in the Libor rate affair…

Chicago Fed chief calls for patience on rates – Pg. 5

- The US Federal Reserve should be willing to overshoot its 2% inflation goal to make certain the economy is back on track,… (Prof Note: This will benefit Real Estate)
- Mr Evans said if he had to come up with new guidance he would focus on inflation, because unemployment may get down to 5.5% - a level some Fed officials thing is full employment – before prices start to accelerate. That will make inflation and wages the crucial factors in deciding when to raise rates
- He said a vital point was to make sure that inflation was not only on its way back to 2%, but that it would stay there, and had not just been pushed up by a rise in commodity prices or some other passing factor

IMF urges shake-up of banker pay incentives – Pg. 5

- Banks should consider paying bonuses in the form of debt and giving their creditors a greater voice in boardrooms in an effort to keep risk-taking under control, ….
- The IMF analysis highlights the danger that the interests of shareholders clash with those of bondholders, who are more conservative when it comes to risk-taking
- To address this conflict, the IMF suggests a "better mix of incentives" for executives, including long-term illiquid bank debt as part of top employees' compensation, potentially with a long-vesting period
- Banks could alternatively link pay to movements in banks' credit default swaps, which gauge the danger of the company going out of business….
- Bankers' willingness to take short-term bets in the hope of driving up their bonus payouts was seen as one of the ingredients behind the financial crash of 2008

New York and London vie for financial crown – Pg. 15

- The UK dominates in currency trading and over-the-counter interest rate derivatives, accounting for 41 and 49% of turnover in each market, respectively…
- By contrast, the US has a 19% share of currency trading and 23% of OTC interest rate derivatives
- London recently became home to the first clearning bank outside Asia for the renmibi, boosting its attempt to be the leading offshore trading centre in the Chinese currency

Answer: The Portrait of Dorian Grey (his main writings were published in newspapers and literary publications) (Prof Note: Ok…this was a student submitted question…while this may show my lack of true education…I had not even heard of Oscar Wilde…I have some reading and research to do this weekend!)

1 October 2014

Question: In Alexandre Dumas' The Three Musketeers, what were the names of the three Musketeers?

South Pacific island faces financial ruin in bank account freeze – Pg. 2

- Not long ago it was one of the world's richest nations due to an abundance of phosphate, a key ingredient in fertilizer formed from bird droppings. But the tiny south Pacific island of Nauru warned yesterday it faces financial ruin following a US hedge fund's court order to freeze its bank accounts
- The plight of Nauru, a 21 sq km island with just 10,000 inhabitants, has been defined by a mining boom that created vast wealth but severe social and environmental problems. In the 1960s and 1970s, Nauru boasted one of the world's highest per capita GDP as demand for phosphate exports surged.
- But when the phosphate resources ran dry in the late 1980s, the island became crippled with debts and most of the trust's assets were sold. Almost a third of the working age population are unemployed and islanders suffer among the highest rates of diabetes and obesity in the world due to poor diet (Prof Note: The Phosphate comes from bird droppings, i.e. this was completely forseeble by the islanders AND investors)

IMF warns debt imbalances pose 'systemic risk' to global economic stability – Pg. 5

- Debts owed by borrower to surplus countries have kept growing in the wake of the 2008-09 crisis and still threaten the global economy, …
- According to the IMF's estimates, the net foreign liabilities of the US increased from 14% of annual output in 2006 to 34% in 2013. For Spain, they went up from 70% of annual output to 103%, while in Italy the increase was from 24% to 36% of output
- That was offset by large increases in net foreign assets for Japan, up from 41% to 62% of GDP, and Germany where the rise was from 27% to 46% of GDP
- "The status of the US dollar as a reserve currency seems, if anything, more secure now than in 2006"

- The US deficit has shrunk by more than half since 2006, from 5.8% of output to 2.4% in 2013. China's surplus, while still large in absolute terms, is down from 8.3% of output in 2006 to 1.9% in 2013. It has almost halved in relation to global GDP
- Top of the surplus list today are Eurozone countries such as Germany, which earns 7.5% of GDP more from abroad than it pays each year, and oil exporters including Saudi Arabia, Kuwait and Qatar

Rouble hits record low on capital control fears – Pg. 20

- The rouble touched a fresh record low against the dollar yesterday after reports that Russia's central bank was considering imposing capital controls to stem the outflow of money from the country
- Any fresh defence of the rouble would be an abrupt change of tack by the central bank, which had not intervened in currency markets for months despite its slide. Instead, it has widened the band in which it allows the rouble to fluctuate in a sign that it intends to meet a January deadline for allowing the currency to trade freely
- Russia has seen an acceleration of capital outflows from the country since the US and Europe introduced sanctions against it

Answer: Porthos, Athos, and Aramis

30 September 2014

Question: What was the first novel ever written on a typewriter?

Shale boom to put US on top of petroleum output league – Pg. 1

- The US is overtaking Saudi Arabia to become the world's largest producer of liquid petroleum, in a sign of how its booming oil production has reshaped the world of energy
- US production of oil and related liquids such as ethane and propone was neck-and-neck with Saudi Arabia in June and again in August at about 11.5m barrels per day…
- With US production continuing to boom, its output is set to exceed Saudi Arabia's this month or next for the first time since 1991
- Riyadh has stressed that the US's growing role should not overshadow its own critical role in oil markets. It says it has the ability to increase its output by 2.5m barrels a day if needed to balance supply and demand

Emerging markets face dollar threat – Pg. 2

- The term "carry trade" sounds innocuous, even benign. But at the US dollar continues to surge, the multi-trillion dollar flow has engorged emerging markets risks reversing, threatening growth in much of the developing world, …
- Investors engaging in the carry trade borrow in a low-interest currency such as the US dollar to invest in the higher-yielding domestic debt of emerging markets.
- The effects of a shift in sentiment away from EM local currency bond markets is already visible

- Issuance of local currency debt has also slowed, with just $22bn in bonds launched, compared with a monthly average of $62bn over the past year, …

US household confidence at highest level since 2010 – Pg. 6

- The finances of US consumers have improved sharply in the past couple of years and are now able to support faster growth in spending, …
- A net 24% of households think they will be better off in a year's time, the highest level since January 2010, …

Failure to reform housing finance is a missed opportunity – Pg. 24

- The long-term downwards trend in the share and strength of labour in national income has been depressing both demand and inflation in most developed economies, as real wages have stagnated or even declined
- Workers tend to be poorer and less likely to aim (or be able) to pass on wealth to subsequent generations than the owners of capital and land. Hence they will generally have a higher (marginal) propensity to consume. So, the trend weakness in returns to labour has simultaneously tended to hold down consumption, output and inflation

Fed 'repo' tests drive scramble for safety – Pg. 24

- Yields on short-term Treasury bills, viewed as ultra-safe securities, have dipped below zero as the assets attracted heavy buying in the run-up to the end of the third quarter, meaning that money market funds and other big investors are effectively willing to pay the government for holding their cash over the period

Answer: Tom Sawyer

29 September 2014

Question: Franz Liszt (1811 – 1886) most famous symphonic poems was titled what?

Economists warn on record debt levels – Pg. 2

- A "poisonous combination" of record debt and lower growth suggests the global economy could be heading for another crisis
- …predicts interest rates worldwide will have to stay low for "very, very long" time to enable households, companies and governments to service their debts and avoid another crash
- Although the burden of financial sector debt has fallen, particularly in the US, and household debts have stopped rising as a share of income in advanced economies, the report describes the continued rapid rise of public sector debt in rich countries and private debt in emerging markets, especially in China
- The total burden of world debt – private and public – has risen from 160% of national income in 2001 to almost 200% after the crisis struck in 2009 and 215% in 2013
- The report expresses most concern about economies where debts are high and growth has slowed persistently – such as the Eurozone periphery in southern Europe and China, where growth rates have already fallen from double digits to 7.5%

Spanish ghost town shows signs of life – Pg. 2

- Spain's notaries say the number of property sales rose 16% in June, the sixth month in a row that saw annual growth
- At the height of the construction boom in 2006, Spain saw more housing starts than Germany, France, Britain and Italy combined. The frenzy left the country with 650,000 empty flats at the end of last year – an overhang that analysts believe will keep a lid on price increases and building activity for years to come

Answer: Les Preludes

27 September 2014

Question: Felix Mendelssohn (1809 – 1847) composed A Midsummer Night's Dream as an overture to what English author?

Bond king Gross in sudden exit from Pimco after 43-year reign – Pg. 1

- Mr Gross earned his bond king nickname for his superb long-term record, and he helped build Pimco into a behemoth of the asset management industry
- His departure comes in the same week it emerged that Pimco's $3.6bn Total Return Exchange Traded Fund was being examined by the SEC over the pricing of some assets

Wall Street set for autumn chill – Pg. 15

- On the surface, an S&P500 just shy of record territory and a 10-year Treasury yield of roughly 2.5% suggest a good deal of complacency among both equity and bond investors
- The divergence between high equity valuations and the low risk-premium of the bond market faces tests during October, however, starting with the latest monthly read of employment, the formal completion of quantitiative easing by the Federal Reserve and quarterly corporate earnings
- …S&P dropping 1.6% alone on Thursday…
- As investors adjust their portfolios with three months left in the financial year, they must choose whether chasing market returns or turning defensive will be the appropriate strategy
- Bright spots have been healthcare, technology and financials, all handily outperformed the broader market's modest gain since the start of July
- The S&P trades at about 15.6 Times estimated earnings for the next 12 months, above the 10-year average of 14.1 Times, …
- S&P 500 profits are forecast to increase 11.5% during 2015, a figure that looks vulnerable as the dollar strengthens

Answer: Shakespeare

26 September 2014

Question: Franz Liszt (1811 – 1886) relates to Chopin, how?

Asia ready for Fed tightening, says bank – Pg. 2

- The ADB maintained its annual growth forecast for the region at 6.2% but trimmed its estimate for southeast Asia from 5% to 4.6% because of political unrest in Thailand, weak commodity exports from Indonesia and a slowdown in government spending in the Phillippines
- …since tapering started, the worst hit Asian markets have rallied strongly, in contrast to emerging markets in other parts of the world

US hands foreign companies tax perk – Pg. 16

- The US this week unveiled proposals to discourage controversial mergers known as "inversions", which American companies have used in part to gain tax-free access to earnings parked outside the US
- A US Treasury official said that measures to make it harder for inverted companies to access offshore cash would not apply to foreign companies that acquired a US business and its cash pile
- US companies have used inversions to establish addresses in countries with low tax rates, enabling them to access offshore cash without triggering US taxes that become payable when overseas-earnings are repatriated
- …US non-financial companies hold about $950bn in overseas cash and liquid investments
- European companies have spent $175bn so far this year on acquisitions of US businesses,…

Asia governance slips as policing picks up – Pg. 19

- Corporate policing in Asia has improved even as companies' own governance has slowed, …
- Hong Kong and Singapore rank joint-first ahead of Japan, …

Answer: One of the creators of modern piano techniques.

25 September 2014

Question: Frederic Francois Chopin (1810 – 1849) aka…

Euro weakness strengthens hand of ECB policy makers – Pg. 1

- The euro is heading for its weakest quarterly showing since the climax of the Eurozone crisis in a lift to policy makers as they aim to fend off the threat of deflation and lift the bloc's flagging economy
- The single currency fell below $1.28 to the dollar for the first time in more than a year…
- The depreciation stems from the radical steps taken by the ECB to loosen monetary policy since June, including this month's cuts in interest rates and the announcement it would start buying private sector assets
- The Fed has hinted at possible rate rises by the middle of next year, but the currency and bond markets are pricing in an increase by March, if the US economy gathers momentum

Land of Opportunity – Pg. 8

- For almost two centuries, economists on the left and right have regarded LVT as the best of all possible taxes, with almost magical powers of equity and efficiency.
- The story of the tax goes back to the great classical economist Adam Smith, and David Ricardo. Ricardo not only made a fortune in the City of London – he was holding a year's worth of British government bonds when Napoleon lost at Waterloo – but also invented chunks of economic theory, including a profound analysis of land
- …some land is better than other land and nobody can make any more of it. Thus, whenever the economy grows, part of the benefit goes to owners of land
- LVT is the only tax that does not distort economic activity at all. If you tax wages, people work less; but if you tax land there is still just as much land as before
- And LVT has more advantages. You cannot move land, so you cannot dodge the tax. It also creates a powerful incentive to use land to the full, thus boosting the supply of houses
- …penalizing idle land is what the tax is all about

A British property tax that is fit for purpose – Pg. 10

- Two of the UK's main political parties now back a "mansion tax", a surcharge on houses worth more than 2m (pounds)
- The mansion tax has one advantage behind it but several flaws. In its favour is the insight that council tax is deeply regressive, charging the same amount for all houses above a certain price. A mansion tax would address this.

Draghi's new weapon in war on deflation – Pg. 26

- Central banks believe controlling expectations about future inflation rates is crucial to controlling actual inflation because they determine price-setting behavior. In central bank parlance, the steep fall in the swap rate implies inflation expectations are in danger of becoming "unanchored"
- In the US, there is more emphasis on signals derived from US Treasury Inflation projected securities (TIPS)

Answer: "Poet of the Piano"

24 September 2014

Question: Schuann (Robert Schumann 1810 – 1856) wrote a powerful love song (lied) which was titled…?

US banks face higher penalties if they defy Fed guidance on leveraged lending – Pg. 1

- The Fed has begun to warn banks defying its guidelines that making risky leveraged loans could affect its assessment of their loan loss rates in the next stress test, ….
- The decision to link leveraged lending specifically to the Fed's annual "comprehensive capital analysis and review" for the first time is likely to alarm Wall Street, since failing the test constrains a bank's ability to pay dividends to shareholders or to its parent company

- More than a third of loans sold in 2014 have come with leverage that exceeds the six-times earnings guidance
- The Fed move is not an enforcement action and is not considered to be an additional capital surcharge, but it is likely to influence bank actions

Banks poised to cut mortgage rates in flagging market – Pg. 4

- China's biggest banks plan to lower interest rates on home mortgages, …highlighting Beijing's concerns about the flagging property market and its impact on the broader economy
- The banks will also increase that discount to as much as 30% off the central bank's benchmark, up from 15% previously…
- A 30% discount off the People's Bank of China's benchmark long-term lending rate of 6.55% implies an interest rate of 4.59% - below the weighted-average rate of 6.96% for all loans
- Moody's estimates that real estate and related sectors contribute 25% to China's GDP, and the country's housing decline has contributed to a broader slowdown in factory output and investment
- Real estate transaction volumes fell 8.3% in floorspace terms in January to the end of August this year, compared with the same period last year, the fastest decline in more than two years. The inventory build-up has caused investment growth to slow to 13.2% in the first eight months of 2014, the slowest year-on-year pace in more than five years

Treasury market cuts inflation outlook – Pg. 24

- The US bond market has cut expectations of inflation to the lowest level in nearly three years, highlighting the challenge facing the Federal Reserve as it moves towards ending its easy money policy
- Expectations for inflation over the next five years, has measured by comparing yields on Treasury inflation protected securities and those of nominal Treasury bonds, have approached their double low of June 2013 and December 2011
- A drop in the so-called break-even rate for the next five years towards 1.62% from 2.1% earlier this summer reflects the influence of a stronger dollar and lower commodity prices that have reduced inflationary pressure in recent months

Answer: Ich grolle nicht

23 September 2014

Question: Chopin (Frederic Francois Chopin) (1810 – 49) was one of the most original composers of the Romantic era. That said, how was he truly unique?

Economics faculties rethink formulas – Pg. 2

- Since the financial crisis, student groups have attacked economics departments for failing to deal with the world's most pressing social issues, including inequality and global warming

- They have also criticized professors' reluctance to teach a range of economic theories, with courses instead focusing on neoclassical models which they claim do little to explain the 2008 meltdown
- (Prof Note: I just learned that Johns Hopkins is suspending the Wealth Management class for at least a year. In my not-so-humble opinion, this is the most important class for students to take as it focuses on managing a life with a $250,000/year salary rather than managing someone else's $100.0m portfolio)

Fed rate-setters to lose policy hawk when Plosser steps down – Pg. 3

- Mr Plosser frequently dissented in favour of tighter monetary policy during this eight years in office and his retirement could shift the balance of rate-setting FOMC
- Supports of tight monetary policy, who worry most about inflation, are often labelled "hawks"
- He contributed to several important changes at the Fed, including its adoption of a formal 2% inflation goal, and the addition of much more information to its published forecasts

Argentina lashes out as economy worsens – Pg. 8

- Argentina suffered another setback last week in its fight with holdouts, which it calls "vultures", after a US appeals court dismissed a request made by Citi's Argentine branch that would allow the bank to transfer Argentine government payments to creditors who hold restructured dollar bonds issued under local law
- …the economy is worsening, with consensus forecasts predicting a 1.5% contraction this year, while 40% inflation is prompting capital flight. The black market peso has slid to 15 to the dollar, compared with 10 at the start of the year
- To protect dwindling foreign exchange reserves – down 10% this year to around $28bn – the government is seeking an $11bn Chinese currency swap, with $800m expected this year, and has imposed tighter capital controls despite their recessionary impact

Norway's $880bn oil fund urged to increase its risk-taking – Pg. 18

- The world's largest sovereign wealth fund has run a conservative strategy in the 18 years since it was founded, investing nearly all of its money in equities and bonds with a tiny allocation to property
- But after increasing its assets by almost sevenfold in the past decade, Norway's oil fund is facing questions about whether its strategy is best suited to its size and its long-term focus on investing for more than 100 Years

Answer: His creative life centred about the piano.

22 September 2014 – Not done

20 September 2014

Question: Is love a tender thing?

California calls time – Pg. 8

- Once the preserve of members of the super rich with an appetite for risk, hedge funds have been transformed by this rush of money, with pensioners now making up 36% of the $3.1tn invested in hedge funds globally…
- This week Calpers, the largest public sector pension fund in the US, said it was eliminating its entire $4bn of investments in hedge funds, citing concerns over their expense and complexity
- Hedge funds – small private investment managers that can make bets across multiple markets – have historically promised their investors outsized returns in exchange for a fixed management fee of 2% of their investment a year, and 20% charged on any profits they make
- To put it another way, since the start of 2008 public sector pension plans paid about 72 cents for every dollar of investment gain they got back from hedge funds….

Signs of hawkish Fed bias send dollar soaring – Pg. 15

- Foreign exchange markets refocused on dollar strength as signs of a more hawkish bias among Federal Reserve policy makers became the dominant theme again, pushing the US currency to a six-year high against the yen
- Asian currencies remained under pressure from the dollar but the Indian rupee pared its weekly losses to 0.3% after gaining 0.2% …

Answer: It is too rough, too rude, too boisterous, and it pricks like a thorn. (Shakespeare: Romeo and Juliet)

19 September 2014

Question: What is Shakespeare's longest play?

Draghi's attempt to jump start stuttering Eurozone falls flat – Pg. 1

- The low take-up of the loans will pile pressure on the ECB to consider more radical measures such as quantitative easing, though the idea continues to face resistance in Germany, Europe's largest economy
- Inflation, at 0.4%, remains well below the ECB's target of just under 2%. Meanwhile, investors continue to doubt policy makers' ability to keep prices on track, with an important measure of longer-term inflation expectations falling yesterday
- With rates at rock bottom, the only real option left in the ECB's toolkit is as it seeks to revive a Eurozone economy hit by weak demand and the east-west standoff over Ukraine is QE, or large-scale purchases of government debt

Economists weigh risks as falling prices become reality for some German companies – Pg. 4

- Even though Germany has weathered the Eurozone crisis better than other countries, the country is now seeing an economic slowdown, with a shock of 0.2% drop in GDP in the second quarter of 2014

- A key element in classic deflation is falling wages – and in Germany real wages are rising in response to low unemployment and skills shortages. However, rising wages are nto really boosting consumption

Deeper reform of housing finance is vital for stability – Pg. 11

- Housing finance matters. In most high-income countries it matters more than any other form of finance
- Countries finance housing in different ways. In the US, for example, such finance is ocialized to an astonishing degree. In the UK, it comes from (more or less) private banks
- Amazingly, lending to individuals secured against dwellings accounts for two-thirds of the balance sheet of the British banking system, if one ignores lending by financial institutions to one another
- The US practice of implicitly guaranteeing the liabilities of government-sponsored mortgage underwriters such as Fannie Mae and Freddie Mac while allowing their managers commercial freedom has proved disastrous
- …lending against property, including for purchases of housing but also commercial buildings, must be the focus of efforts at making "macroprudential" policy work. This will include changes in permitted loan-to-value ratios in response to movements in credit and asset prices
- …consideration must be given to shifting away from inherently inflexible debt contracts to shared-equity contracts

Answer: Hamlet

18 September 2014

Question: Romeo and Juliet, what are their surnames?

Fed renews vow on low rates but hints at faster pace of rises through 2015 – Pg. 1

- The US Federal Reserve maintained its commitment to keeping rates low for a "considerable time" after it stops buying assets in October but elected to raise the pace of future rate rises
- The Fed's statement shows the building pressure for a change of guidance, with new interest rate forecasts pointing to a faster pace of rises. Instead of an interest rate of 1% to 1.25% at the end of 2015, the FOMC now expects a rate of 1.25-1.5%
- That implies five rate rises during 2015. Given that there are eight meetings in the year, the Fed would have to start raising rates by June 2015 at the latest – and raise rates at every meeting after that – to reach that level
- The Fed also announced a new exit strategy for how it will go about raising interest rates when the time comes. It will announce a new target range for the federal funds rate, up from its current level of 0-0.25%, and then use the interest it pays to banks on their reserves as the main tool to achieve it
- It will keep reinvesting in the huge bond portfolio it has built up until after its first rise in interest rates. By the end of 2016, the FOMC now expects an interest rate of 2.75% to 3%. That implies a further six rate rises during 2016 – a fairly rapid pace of tightening

Central bank to pump $82bn into lenders – Pg. 4

- China's central bank plans to inject $81bn into the banking system, …
- The move is seen by many as a response to the economy slowing last month
- Previous supportive measures in recent months include RRR cuts for rural lenders, an easing of local home purchase restrictions and easier access to funding for property developers and SMEs
- China launched a Rmb4tn spending package – equivalent to $570bn at the time – in the wake of the financial crisis in early 2009, the damaging after-effects of which include huge debts and chronic over-construction

Global recovery is precarious, warns the IMF – Pg. 4

- …rising geopolitical tensions and the prospect of tighter monetary policy in the US risk damping the outlook for global growth
- This week, the Organization for Economic Co-operation and Development cut its forecasts for 2014 growth for all large economies except India

Wells Fargo eases homebuyer loan standards – Pg. 18

- WellsFargo, the biggest originator of US home loans, is easing lending requirements for people buying apartments, …
- More than two-thirds of Americans think that now is a good time to buy a property, but many assume that they need higher downpayments…
- Sales of existing condominiums fell 4.8% in July from a year ago to 600,000…

Answer: House of Montague and House of Capulet

17 September 2014

Question: Simply put, what is a Mambo?

G20 cracks down on corporate tax avoiders – Pg. 4

- …steps to increase transparency, close loopholes and limit the use of tax havens
- Four countries – thought to be the UK, Luxembourg, the Netherlands and Spain – disagreed with 40 other states over how to stop governments poaching other countries tax revenues by offering reduced rates on the income generated by intellectual property
- The rest of the measures – tackling opacity, arbitrage and treaty abuse – have been agreed by 44 countries representing 90% of the world's economy
- Another far-reaching measure lays out new standards designed to put an end to the abuse of tax treaties through treaty "shopping"

Families see their incomes remain stagnant – Pg. 4

- The US has suffered another year of stagnant incomes as the economic recovery fails to translate into rising prosperity for average households
- Inflation-adjusted income for the median household rose just 0.3% in 2013, …

- The lack of any rise in household incomes shows why consumption growth is still sluggish …
- The median US household earned $51,939 in 2013 and the median household of working age earned $58,448, up by 0.4%
- The official poverty rate fell from 15% to 14.5%, the first decrease since 2006, but is still two percentage points higher than it was before the recession
- There was also a small narrowing in the gender pay gap, with the earnings of women rising by 2.1%

Fed tool alters money funds' links with banks – Pg. 18

- Money market funds appear to be eschewing certain transactions with European banks in favour of the reverse repo programme tool created by the US central bank last September to help it wind down its emergency economic policies
- Money market funds have usually undertaken repo transactions with large private banks such as JPMorgan Chase and Deutsche Bank, lending them cash with their assets pledged as collateral. The transactions are often-ignored but crucial segment of the financial system that help lubricate the markets

EM stocks tumble as capital returns to US – Pg. 20

- Emerging market stocks have tumbled as investors move capital back in the world's biggest economy amid growing speculation that the US will soon raise interest rates
- The FTSE Emerging Index, which consists of big developing countries including China, Brazil, India and South Africa, has lost almost 5% over the past nine days, the longest streak of declines since 2001

Answer: American Swing with a hitch-kick as a predecessor to the back-step. (this is simplified explanation but no less accurate)

16 September 2014

Question: What is the difference in count between international and American cha cha?

Greenspan, Zoellick and McCain warn Scots against voting for independence – Pg. 1

- A Yes vote for independence would be an economic mistake for Scotland and a geopolitical disaster for the west…
- Despite nationalist claims to the contrary, he said there was no chance of London's agreeing to a currency union
- The US is worried that a Yes vote could increase the chances that the rest of the UK might vote to leave the EU, which US officials believe would make Britain a much less potent partner

Central bank governor urges lenders to expose 'bad apples' – Pg. 6

- Central bank governor Raghuram Rajan has urged Indian lenders to begin "rooting out the bad apples" amid corruption worries over public sector institutions, while calling for a shake-up in bank infrastructure lending

- In India, many banks lending to infrastructure projects rely on credit advice provided by external organizations such as consultancies or rating agencies, or assessments made by other banks, …
- Confidence in state lenders, which control about three-quarters of assets, was shaken last month by a bribery scandal following the arrest of the head of Syndicate Bank, a mid-tier lender, on allegations of soliciting payments from a private sector steel company
- With bad loans continuing to rise, Mr Rajan also called on banks to "take lessons" from past mistakes by introducing far-reaching changes to infrastructure lending practices, in anticipation of a ramp-up of "trillions of dollars" in new spending under Prime Minister Narendra Modi
- Indian banks usually fund sectors such as power and road development, given the country's shallow and under-developed corporate bond market, placing strain on lenders when projects are delayed

'Ratings shopping' on the rise amid US securitization surge – Pg. 16

- A practice decried for exacerbating the credit boom has returned with a bank as financial firms that sell securitized bonds seek out the rating agencies that are most likely to give their deals favourable evaluations
- Sales of subprime mortgage bonds have withered since the financial crisis, but issuance of some other types of securitization is surging
- Sales of bonds backed by loans used to finance car purchases by the least credit-worthy borrowers have reached pre-crisis levels in the US…
- While losses on subprime auto asset-backed securities remained low during the crisis, there are concerns that riskier loans made by specialized lenders are being bundled into bonds
- The creators of such securitizations typically pad the debt with extra cash or introduce safety features – known as "credit enhancements" – to generate higher ratings
- US sales of commercial mortgage-backed securities, or CMBS, have also staged a recovery, with $102bn of deals last year – the most since the $231bn issued in 2007

Nasdaq nears dotcom bubble level – Pg. 22

- …a return to the technology bubble closing peak of 5,048.62, attained more than 14 years ago
- Currently the Nasdaq sits less than 10% below that record of March 2000, having staged a remarkable comeback for an index that tumbled 80% to a nadir of 1,114.11 in October 2002
- Following the stock market crash of 1929, a generation unfolded before the DJIA fully rebounded from a decline of 90% by 1932 to match its pre-Great Depression high in late 1954
- During the past 14 years the make-up of the market has changed in many ways. By the end of 2013 the index had about half as many components as in 1999 – about 2,500 versus 4,700 - …
- At 38%, information technology companies remain a large component of the index, but account for a much lower percentage of market capitalization than their 57% share at the end of 1999,…
- Another important difference is the fact that today's Nasdaq is split between old giants that produce hefty revenues and cash flows – Microsoft, Oracle, Intel and Cisco Systems – and new companies at the cutting edge of innovation, such as FaceBook, Tesla, Netflix and numerous biotechs

Answer: American (one two cha cha cha) and International (Two Three Four and a One (hold the one)). Several have already asked, no my shoes retired in 2006 though I may return to the floor early next year but, most likely, no competitions ever again (but, never say 'never'))

15 September 2014

Question: How do American Style and International Style Ballroom count the Foxtrot?

Italy fears chill wind of deflation – Pg. 2

- The appearance of deflation in Italy suggests a worrying spread from Spain, another peripheral Eurozone economy, where it reared its head this year. It is now stalking the home of Rome-born Mario Draghi, the ECB president, who has sounded the alarm about the need to restore growth across the continent and taken aggressive and unorthodox measures to do so

Prosperity of Scotland hinges on five tests – Pg. 6

- Currency: An independent Scotland should assume the rest of the UK would refuse to enter a formal currency union
- Reserves: To defend a currency peg, an independent Scotland would need foreign exchange reserves in excess of 15bn (sterling)…
- Public Finances: The division of the UK's assets and liabilities would involve tortuous talks
- Productivity: In the long-run, an independent Scotland's prosperity would rest on the nation's ability to raise its growth rates to sustain higher living standards
- Demographics: Scotland's population is set to age more rapidly than that of the UK, adding to public finance pressures and healthcare costs

Banks lend more abroad as confidence returns – Pg. 6

- Banks have started to lend more abroad for the first time in nearly three years, in a sign that confidence in the sector is recovering after years of uncertainty
- Lending overseas is an important gauge of banks' behavior as it reflects their confidence in the global economy
- In the Eurozone, cross-border interbank lending went up for the first time since early 2012, indicating foreign peers are trusting their counterparts in the single currency area once again. For all these improvements, the big picture remains one of retrenchment: the latest rise was not enough to offset the sharp pace of cutbacks

Answer: American: Slow, Slow, Quick, Quick; International: 4 and 1, 2, 3 (possibly "4 and a 1" if you want to adjust timing slightly)

13 September 2014

Question: International Ballroom consists of what 10 dances Separated into two categories?

Eurozone warns on fiscal rules – Pg. 2

- Eurozone leaders are warning that the currency bloc risks facing a new market backlash if it strays from its fiscal rules, an apparent message to France and Italy that their push for more flexibility will be viewed skeptically when they submit their budgets to Brussels next month

Death knell for the wallet – Pg. 7

- Apple controls the hardware and software in its iPhone, improving security from the silicon to its fingerprint reader. As the world's most valuable company, it has the clout to cajole banks and retailers to adopt its technology
- The list of early Apple Pay partners is impressive, including 11 biggest US card issuers, representing 83% of the market, and retailers such as McDonald's and Walgreens which together have 220,000 US stores ready to receive iPhone payments
- Part of the reason the 50-year-old credit card system remains "antiquated" is because it relies on a complex ecosystem of players that rarely agree on how best to change their industry
- MasterCard and Vis now cover the cost of card fraud, but from next year will hold retailers responsible if they do not use the "chip and PIN" technology that is widespread in Europe but nearly unheard of in the US

Ready or not, FX volatility is back – Pg. 14

- But now the fortunes of large economies are diverging and a long-awaited rally in the dollar is shaking the market back to life. Since the start of July the greenback has gained 5.5% against the euro, as ECB easing finally curbs the strength of the single currency
- There are signs, however, that investors are growing more sensitive to geopolitical risks that were all but ignored earlier in the year
- …volatility in FX can be self-sustaining, as swings in exchange rates trigger hedging strategies

Answer: Modern (Waltz, Tango, Foxtrot, Viennese Waltz, and Quickstep) and Latin (Cha Cha, Rhumba, Samba, Jive, and Paso Doble)

12 September 2014

Question: What is the largest Scotch producing region (by geography?)

Venezuela bond struggle raises spectre of default – Pg. 8

- Venezuela is struggling to meet its international bond payments…
- A Venezuelan default could be widely felt. The country accounts for 7% of emerging market benchmarks, meaning that a default could force redemptions of other investments by passive index-tracking funds
- Venezuelan credit default swaps also rose to levels comparable to Argentina, even though Buenos Aires is already in default after it refused to comply with a US legal ruling ordering it to pay holdout creditors
- Venezuela's market rout began in July after Citgo, which operates three refineries and 6,000 gas stations in the US, was put up for sale with a reported price tag of $10bn (versus market valuations of $7bn, plus $2bn of debt)

Sales of ultra-long US munis surge – Pg. 22

- Investors are seizing the chance to lend money to US companies and municipalities for up to 100 years in exchange for a chance to capture higher yields for longer
- Longer-dated bonds have higher duration, meaning they are more vulnerable to interest rate increases
- Long-term corporate debt has generated a total return of 11.5% so far in 2014 compared with a 3.6% return on corporate bonds maturing in 10 years or less, …

Digital currencies set to remain niche, says BoE – Pg. 24

- Digital currencies are very unlikely to achieve widespread usage, the Bank of England has said …
- …Bitcoin and its imitators pose little risk to monetary or financial stability
- The BoE's economists acknowledge digital currencies' potential to disrupt existing payment systems, underlining that the key innovation of such currencies is the use of a decentralized ledger to record payments, cutting out intermediaries such as banks
- They also note that a decentralized approach could be extended to other assets, such as shares and bonds, that already exist only as digital records
- Jurisdictions have taken different views on whether cryptocurrencies should be defined as money or assets for tax and other legal purposes. The BoE sidesteps this debate by noting that only a few thousand people worldwide regularly use digital currencies as money

Answer: Highlands

11 September 2014

Question: Which Scotland region boasts the most distilleries?

France to miss budget deficit target – Pg. 4

- France has officially declared it will heavily overshoot its already twice-delayed budget deficit target next year, defying reluctance by skeptical European partenrs to grant more time to bring its public finances within EU limits
- …required deficit target of 3% of national output was being pushed back a further two years to 2017 in a new sign of the deepseated economic problems…
- …deficit would reach 4.3% of GDP in 2015 after a level of 4.4% this year…
- The government has seen its popularity slump as zero growth in the first half of the year and rising unemployment have dashed its hopes of a quick recovery and undermined its plans to repair the public finances

Another country – Pg. 7

- It is not hard to see why the prospect of Catalan secession, distant as it may appear, is so alarming to Spain. Catalonia accounts for 16% of Spain's population but almost a fifth of the economy
- Catalonia is home to many of Spain's largest corporations and best research institutions

- No fewer than five of the 11 players that won Spain the World Cup in 2010 are Catalan
- The Catalan referendum campaign has triggered calls for a similar plebiscite in the Basque country, traditionally the main focus of secessionist tensions in Spain

Worries about timing of US rate rise unsettle equities – Pg. 21

- Long-dated Treasury yields were also higher as the bond market awaited a 10-year debt sale yesterday, and a 30-year bond issue today. The US two-year Treasury yield is 0.57% and 10-year yields are up 3bp to 2.53%, near a five-week high
- The Fed is expected to start lifting rates from record lows by about middle of next year, and investors are attuned to any hit of more hawkish policy statement after next week's meeting

Answer: Speyside

10 September 2014

Question: What are the five colours of Johnnie Walker from low to high?

Dollar rises as prospect increases of Fed move – Pg. 1

- Investors are chasing the US dollar to new highs against a broadening range of currencies, as markets adjust to the diverging outlook for the world's major economies and the prospect of interest rate rises by the Federal Reserve (Prof Note: I just locked in a 15-year rate at 3.25% for a real estate purchase at the end of this month)
- The weakening economic outlook in the Eurozone and Japan, combined with a new hint that Fed policy makers could change their guidance on interest rates, have shaken the $5tn-a-day foreign exchange market out of a period of record low volatility
- Emerging markets currencies especially sensitive to US interest rates have fallen this week

BoE governor rejects sharing of the pound with independent Scotland – Pg. 1

- The governor of the BoE warned yesterday that a currency union between the UK and an independent Scotland would be "incompatible with sovereignty" in a marked hardening of his position against sharing the pound

G20 urged to meet challenge of low-quality jobs – Pg. 4

- The world's largest economies are failing to create enough jobs and too many of those that are being produced are too low quality to generate a meaningful boost to global growth, …
- The lack of employment and stagnant wages were contributing to rising inequality as well as holding back consumer spending and therefore growth in advanced economies, …
- Youth unemployment in the grouping's advanced economies remains at historic highs. By 2012 the portion of long-term jobless on unemployment rolls in rich economies has also risen almost a third, from about a fifth on the eve of the global financial crisis, raising the possibility of long-term "scarring" in labour markets

Trump rues bad hand as casino group bearing his name folds – Pg. 13

- So far this year, four Atlantic City casinos have closed – having been hit hard by competition from 20 rivals to have opened across the mid-Atlantic region since 2006

Moody's to rejig bank ratings – Pg. 16

- The new resolution plans are designed to impose losses on bank creditors, who will be "bailed in" – forced to take losses or convert to equity – before taxpayers are called on to inject rescue financing
- Before 2008, investors in bank debt were generally assumed to benefit from an implicit taxpayer guarantee, but this is changing now that losses have been imposed on bank creditors in Cyprus, the UK and most recently Portugal as part of bailouts or restructurings in recent years
- Moody's said the proposals would affect the ratings of about half of banks' senior unsecured bonds. It said about 30% would be upgraded and 21% would be cut

Answer: Red, Black, Double Black, Green, Gold and Blue. Personally, I drink Macallen as Johnnie Walker is a bit pedestrian for my palate. Yeah…that's right, bring it on you Johnnie drinkers! After my Chipolte gaffe…I am ready! ☺

9 September 2014

Question: There are four types (Regions) of Scotch, what are they?

Sterling hit amid Scottish split fears – Pg. 1

- But fears over Scotland's financial sector have increased after a Sunday Times/YouGov poll gave the Yes side a narrow lead, indicating that the 307-year old union was under serious threat
- Global investors are concerned about the consequences for Spanish markets if Scotland votes to secede, as Madrid is contending with a Catalonia separatist movement

Wall St squeezed middle stranded in 'few hundred thousand' bracket – Pg. 1

- ..in the boom years before 2008, up to 16% of Wall Street's bankers were managing directors. Now that has shrunk to 12%
- Goldman Sachs is in the final stage of its biennial selection of new "partner managing directors", the most coveted class, where base salary is about $900,000 and bonuses can be a multiple of that
- Bankers stuck at vice-president or director, the levels beneath managing director, complain that the problem is aggravated by a "bottleneck" of senior talent: the people who occupy the top positions are less willing to cede them (Prof Note: Call to students…slay the Grey Hairs…slay them through education and GREATER talent!)

Lew warns of tax inversion threat – Pg. 2

- Jack Lew has warned a rush of foreign takeovers by American companies seeking to redeuce their domestic tax bills risks reversing recent cuts in the country's $492bn budget deficits

Detroiters seek vision of hope through the dust of decay – Pg. 2

- Across Detroit are roughly 80,000 blighted buildings, and empty plots of land…
- Detroiters in the 132 square miles of struggling neighbourhoods that surround its resurgent 7 Square mile centre have felt left behind
- Detroit's population has shrunk from 1.85m in 1950 to less than 700,000 today

UK housebuilders – Pg. 14

- Although house price growth has slowed, the annualized rate is still 9.7% - …

Indonesian stocks hit record on economic reform hopes – Pg. 22

- The Indonesian stock market hit a fresh record high yesterday, with investors betting that incoming president Joko Widodo will push through economic reforms and slash the ballooning fuel subsidy bill
- Indonesia, like India, has benefited from an election-driven rally this year after suffering during last year's "taper tantrum", when investors sold off assets from emerging markets reliant on foreign funding because of fears about the impact of the US slowing its quantitative easing

Answer: Highland, Lowland, Speyside, and Island (Islay)

8 September 2014

Question: Robert Frost, the great American poet, said what about fences?

Call for changes to Fed's guidance on rates – Pg. 4

- A particular issue is the Fed's guidance of low rates for a "considerable time" after it stops buying assets in October. A section of the FOMC feels that phrasing is a dangerous hostage to fortune after steady economic progress that could require rate rises early next year.
- The Fed still views the timing of a first rate rise as entirely dependent on the economy's progress. But many Fed officials have grown concerned about a market tendency to fixate on calendar dates, often in the second half of 2015, rather than update the odds of a rise as data changes.

Fernandez likely to see out term with battle cry for 'fatherland' – Pg. 4

- In the aftermath of the default, Ms Fernández's approval ratings jumped as she defiantly stood up to Argentina's "holdout" creditors, who rejected debt restructurings accepted by 93 per cent of bondholders after the country's previous default in 2001 and then won a US court order to be paid in full.
- Some have argued that the only way to solve Argentina's economic woes is to reach a deal with the holdouts, whose legal victory is preventing Buenos Aires from borrowing on the international capital markets. Otherwise, with central bank reserves nearing critically low levels, an economic crisis might arise before the end of her term in December next year.

Rise in deals that miss debt guidelines – Pg. 15

- More than one-third of private equity-backed borrowers this year took on debt that exceeds regulatory guidelines aimed at curbing risky lending, up from 19 per cent last year, research has shown.
- The share of US leveraged buyouts taking on debt of more than six times the target company's earnings before interest, taxes, depreciation and amortisation now matches levels seen in 2007, before markets froze.
- The euro-denominated leveraged-loan market has been more cautious, with debt financing of more than six times EBITDA accounting for about a quarter of the total this year. That is up from a 13 per cent share in 2013, but well below the 51 per cent share reached in 2007, when the market was double its current size. But buyout houses typically tap into the US credit market, which is more liquid, for their larger European buys.
- The euro-denominated leveraged-loan market has been more cautious, with debt financing of more than six times ebitda accounting for about a quarter of the total this year. That is up from a 13 per cent share in 2013, but well below the 51 per cent share reached in 2007, when the market was double its current size. But buyout houses typically tap into the US credit market, which is more liquid, for their larger European buys.
- Banks lending at more than six times ebitda must decide whether the target company is a "pass" or a "non-pass" – often based on whether they think it can repay the debt within five to seven years based on conservative earnings projections.

Answer: "Good Fences make Good Neighbours!" Amen brother!

6 September 2014

Question: What was Bob McDonnell's big mistake (my opinion)?

Weak jobs data pose dilemma for Fed – Pg. 4

- …pace of US jobs growth slowed to a disappointing 142,000 in August
- The unemployment rate fell slightly from 6.2 to 6.1%
- Revisions to earlier months lowered jobs growth by a further 28,000 and there was another drop in labour force participation, with the percentage of adults in the workforce falling from 62.9 to 62.8%
- ….little sign of another Fed priority: wage growth

China developers' borrowing hits record – Pg. 11

- Global investors are lending money to Chinese property developers in record amounts this year, in spite of a deteriorating housing market and warnings from rating agencies over the state of the sector
- Offshore bond issuance from mainland property companies is on track for a record year, …
- The rise in offshore borrowing has coincided with tighter credit conditions within China that have forced developers to look overseas for funding

- Falling housing sales have also hit the most important cash generator for developers. Sales have dropped 8.2% so far this year by value, which price cuts introduced to entice buyers have dented margins

Eurozone borrowing costs hit negative territory – Pg. 12

- Short-term government borrowing costs have dropped firmly into negative territory across much of the Eurozone after the ECB's unexpectedly aggressive action this week to shore up the region's fragile economy
- The ECB plans from next month to buy asset-backed securities and covered bonds – different types of securities backed by bundles of private sector loans

Answer: Personally profiting…wearing the Rolex and driving the Ferrari. With social media and pictures lasting into perpetuity, people need to think much more. Bob, was a $6,500 watch really worth it?! You are a public servant, does the public wear $6,500 watches?!

5 September 2014

Question: Name several composers from the Twentieth Century.

Goldman Sachs revives plan to issue Islamic bonds – Pg. 13

- ..aiming to become the second global financial institution to issue sukuk
- Having tried and failed three years ago to launch a sukuk, Goldman Sachs is aiming to follow HSBC's Middle Eastern unit, which became the first global bank issuer of Islamic bonds in 2011
- Rating agency Moody's has suggested that 2014 will prove a landmark year for sovereign sukuk, following the UK government's issuance of an inaugural Islamic bond and debut sales by Hong Kong and South Africa that conclude this month

Kerviel head for early release after appeal win – Pg. 14

- Jerome Kerviel will walk out of jail on Monday, a Paris court ruled yesterday, in a move that will reduce the rogue trader's stay behind bars to just over 110 days
- (Prof Note: And the lesson learned…white collar crime does pay!)

Consumer shares pick up with firmer US economic activity – Pg. 21

- Consumer discretionary stocks climbed yesterday, buoyed by new stimulus measures from the ECB and data that showed firmer US economic activity than some economists had expected
- The sector, which remains among the worst performing this year after a cold winter, has been lifted nearly 17% over the past two weeks as investors rotate back into stocks set to benefit from economic expansion
- The decision by the ECB to cut interest rates to a record low and to begin a programme of priate-sector asset purchases to spur economic activity also buoyed the sector and broader market

Answer: Bartok, Stravinsky, Prokofiev and Ravel

4 September 2014

Question: Name several composers from the Romantic period.

China fraud unit questions Morgan Stanley arm over 'princeling' details – Pg. 1

- The move comes against the backdrop of a wide-ranging anti-corruption campaign in China, as well as a US probe into foreign companies that hire "princelings" – the family members of China's elite – in order to win business (Prof Note: How is this similar than a hedge fund hiring Chelsea Clinton? I am VERY curious!)

UK economy gains statistical boost – Pg. 4

- Britain's economy has been much stronger since 2008 than previously thought….
- With a shallower recession in 2008-09 and more rapid recovery since, Britain's overall performance compares favourably with other G7 countries and eliminates a significant element of the recent concern over weak productivity
- In each of the three years between 2010 and 2012, real GDP growth was revised higher, increasing the growth rate over these three years by more than 1%

OECD warns of deflation and deeper poverty if wages cut – Pg. 4

- Further cuts in real wages in countries whose labour markets have been hardest hit by the economic crisis would risk creating deflation and deepening poverty,…
- For the OECD countries as a whole, real wage growth has been largely flat between 2010 and 2013
- The OECD said unemployment was finally on a downward path in many countries. After three years of little change, the average OECD harmonized unemployment rate covering 34 countries fell to 7.3% in June, down from a post-war high of 8.5% in October 2009
- That was still a significantly higher than before the downturn, when rates below 6% were seen. Almost 45m people were without work in the OECD area, 11.9m more than just before the crisis
- The OECD forecasts only a slow decline in average unemployment to 7.1% by the end of 2015
- The US jobless rate is forecast to fall from 6.2% to 5.9%, and Germany's from 5.1% to 4.7%, while Italy and the UK are expected to remain flat at 12.2% and 6.5%, respectively

Call to arms – Pg. 7

- Policy makers did not expect the crisis that began in 2007 (Prof Note: BS! Why then pick Ben Bernanke as Fed Rsv Chairman whose expertise was The Great Depression and Japan!)
- Under this new orthodoxy, monetary policy remains the principal tool of macroeconomic stabilization, with fiscal policy playing a subordinate role, if any
- The target of monetary policy is to keep inflation low and stable, though some central banks (notably the Fed) explain that the aim is the highest level of activity subject to hitting its inflation target

- …low inflation targets to which policy makers are committed are not high enough to ensure short-term interest rates can remain above zero in all circumstances
- The sensible solution seems clear: force banks to fund themselves with equity to a far greater extent than they do today
- …risk weights are almost certain to fail (Prof Note: Read article in entirety…quite good)

Answer: Brahms, Schumann, Tchaikovsky and Wagner

3 September 2014

Question: Name several composers from the Baroque Period.

Prospect of close vote on Scottish independence unnerves investors – Pg. 1

- With less than three weeks to go to a referendum that could end the 307-year-old political union at the heart of the UK, concern rose in Britain's financial services industry and at Westminster after an opinion poll gave the No campaign a lead of just 53 to 47

Top-tier US bond sales set to surge – Pg. 22

- Sales of highly rated US corporate bonds are expected to pick up sharply during September as global companies take advantage of low borrowing costs and look to fund acquisition activity
- For investors, US top-tier debt remains attractive even as the S&P 500 index of stocks has touched all-time highs. A bull run in US Treasuries pushed yields on the 10-year note to as low as 2.3 per cent last month, while total return on long-dated US Treasuries stands at 17 per cent

Sovereign debt plan takes on holdouts – Pg. 22

- At the root of their action is fear that more creditors might be persuaded to hold out against bond restructuring deals in the future – a development that could unsettle bond markets
- Their research found many lawsuits are filed by hedge funds – the so-called vulture funds castigated by Argentina – who are willing to sue over long periods of time in the hope of winning large amounts
- Another change would bolster existing "collective action clauses" to introduce a single vote binding all bondholders to a restructuring agreement so long as 75 per cent vote yes
- A series of government debt defaults in Latin America in the 1990s led to a decade-long debate worldwide about sovereign bond reform and the agreement that clauses should be introduced so that creditors had to work together when a country restructured its debt

Answer: Bach, Handle and Vivaldi. By the way, in interviews my senior year of college I was asked by Corning what X number of things I would want if stranded on a deserted island assuming basic necessities for living were provided. On my list were the sheet music for Vivaldi's Four Seasons and a piano. The interviewer then said, "You do realize the point is to get off the island?!" I said, "I grew up on Nevis, why would I want to leave?" My point was that Vivaldi's Four Seasons is so complex that I

never imagined ever mastering the piece and thus having a lifetime of study and entertainment. Corning did not offer me a second interview! ☺

2 September 2014

Question: The Renaissance Period was dominated by what type of music and name several known composers from the period.

Banks voice 'serious concern' over funding rules on shorts and swaps – Pg. 1

- Banks are sounding the alarm about a proposed global rule aimed at forcing them to fund themselves more safely, warning that it could have "severe" knock-on effects on short selling and other important equities market transactions
- The rule would also make it much more expensive for banks to provide equity swaps,…
- The banks also warn that the rules would impair the functioning of the equity swaps market, and boost associated with investment in equity indices

Fed ignores likelihood of weaker GDP growth – Pg. 20

- US GDP is likely to average 2% a year in future, rather than the 3% of the past 50 years
- The US labour force over the past five years has risen just 0.2% a year, in spite of a population increase of 10.1m. This in turn has caused a sharp decline in the labour force participation rate
- The second reason the US faces a more constrained long-term growth outlook has to do with productivity. Due to too little investment spending on equipment for workers to use, the total annual growth in the capital stock lower today than it was in the 2000s. That, in turn, is far below the average of the 1990s
- With the Fed, there are two broad problems. First, its economic forecasts seem improbably conservative. The unemployment rate has fallen at a rate of 0.8% per year since peaking in October 2009, despite real economic growth of just 2.2% annualized. If the growth rate does pick up to about 3% annualized between now and the end of 2016, as the Fed projects, it is hard to see why the unemployment rate would only fall by another 0.9% (from 6.2% to 5.3%) according to Fed projections
- The Fed's forecasts explicitly state that it regards a 5.4 per cent unemployment rate and a 2 per cent inflation rate to be consistent with optimal monetary policy. However, if this is the case, and given that monetary policy works with a lag, the Fed funds rate should be at the Fed's longterm target about 12 to 18 months before the Fed expects to hit these goals. Instead, its forecasts assume a Fed funds rate of just 2.5 per cent by the end of 2016 (well below its long-run target of 3.75 per cent), even though it will have gone below its goal on unemployment and will be within 0.2 per cent of its inflation goal.

Answer: Known for Melodies and harmonies and included Palistrina, Monteverde and William Byrd

1 September 2014

Question: Beginning with the Medieval Period (800 – 1400) (chant baby, chant…whhhoooooaaaaaaa), what are the remaining classical music periods in time and corresponding periods?

Recession puts brake on Brazil's once-booming car industry – Pg. 4

- The country's weak economy, which was revealed on Friday to have slipped into a technical recession in the second quarter, is undermining the industry, leading it to report its first annual fall in car sales in a decade last year – a trend that has continued into 2014
- After flirting with recession several times over the past few years, Brazil's economy in the first half of this year recorded its worst performance since the financial crisis of 2008-09 and is looking frail in the second half
- …global economy, which is forecast by the IMF to grow 3.4% this year, …

US small banks – Pg. 12

- The 6,656 FDIC-insured banks across America reported the second-highest net profits on record in their last set of quarterly results
- …lower expenses were the key profit driver. Loan provisions fell 22% to $6.6bn; loan losses shrank from $14bn to $10bn; goodwill impairments dropped from $4.4bn to almost nothing; and payrolls were a shade lower than a year ago
- Average tier 1 leverage ratio is at the highest level since 1991
- What prevented US banks as a group from posting even better results was the mediocre large banks
- …average loan volumes grew 7% in the quarter compared with the dreary 2% rise at the top 25 US banks
- …if the US Congress, as expected, eases capitalization standards for non-systemically important banks, small banks will be free to expand their loan books still further

Answer: Renaissance (1400 – 1600) (gotta love the church); Baraque (1600 – 1750) (gotta love complexity); Classical (1750 – 1830) (gotta love structure, i.e. sonata, symphony and concerto); Romantic (1830 – WWI) (gotta break the rules we just created); Twentieth Century (No rules…free love baby!)

30 August 2014

Question: On the cover the FT today, 'Symphonie fantastique', is featured top of fold and center. Who is the composer and what is the story behind the feature? What U.S. movie started with a shot of the CD cover for this piece, ruining the entire movie for me as it provided the entire plot?

Eurozone inflation hits five-year low – Pg. 1

- Inflation across the Eurozone has fallen to its lowest level in nearly five years, as pressure rises on the ECB to prevent the continent falling into deflation
- European economists increasingly believe that the ECB will be forced to undertake a form of quantitative easing, such as buying asset-backed securities, to help increase credit availability and avert a Japan-style deflationary period

- Individual countries were even harder hit. In Italy, inflation reached its lowest level since 1959 as consumer prices slumped 0.2% in August, triggering calls for the Eurozone central bank to signal to markets when it meets next week that it is ready to act
- Indications that the bank could take further measures to stimulate the Eurozone economy come amid expectations that the US and UK could raise interest rates in the next 12 months
- While the jobless rate in the US has fallen sharply in the past year to 6.2% in July, unemployment in the Eurozone remains stubbornly high at 11.5%, …
- The euro touched a 12-month low against the dollar of $1.3137 (Prof Note: …and hence why I have not really spent a holiday in Europe for years)
- The Eurozone economy failed to grow at all in the second quarter of the year compared with the first three months, … (Prof Note: The Eurozone, when taken in entirety, is larger than the U.S. market…this is a concern)

Rousseff dealt election blow as Brazil slips into recession – Pg. 2

- Brazil's economy suffered a technical recession in the first half of this year, with two consecutive quarters of contraction, …
- GDP declined 0.6% in the second quarter, when Brazil hosted the start of the 2014 soccer World Cup, …
- But her government is unpopular with investors, who accuse it of meddling with energy and fuel prices, ad hoc intervention in the financial sector and for implementing arbitrary tax changes in the industry

US munis set to get partial regulatory reprieve – Pg. 12

- The $4tn municipal bond market may get a partial reprieve from regulation that has threatened to raise borrowing costs for state and local governments
- The Federal Reserve is looking at letting banks use certain types of municipal bonds to comply with a new set of rules on liquid assets that the financial institutions could sell in the event of a credit crunch, a reversal of previous expectations
- Regulators, including the Fed, are expected to finalize rules on liquidity requirements for large US banks on September 3
- The new rules are aimed at preventing a repeat of the liquidity crunch at the height of the financial crisis in 2008 when some markets froze. Assets deemed to be of the highest quality and most liquid include Fed reserve and Treasury securities
- If muni debt is restricted from the pool of high-liquid assets, banks would have less incentive to buy the bonds, which are used to finance public works such as schools.
- Exclusions…could mean that state and local governments face higher borrowing costs at a time when local governments are trying to rein in spending

Answer: Hector Berlioz, composer, spied Harriet Smithson in a Shakespeare production and was instantly smitten. In nothing less than one of the greatest attempts in history to woe a woman, Berlioz creates Symphonie fantastique. Unfortunately, Ms. Smithson does not even attend the premier in Paris snubbing one of the greats! (Hector…if a symphony is not going to do it, I have no advice..I feel for you buddy! Try something smaller like a poem first, next time!) The movie I referenced was 'Sleeping with the Enemy'. The movie which describes a tumultuous relationship between man/woman has the

opening scene of the cover of Symphonie fantastique CD. I remember seeing the movie, having no idea about its contents, and feeling short changed as the plot was given away immediately by none other than Mr. Berlioz, i.e. one of obsession.

29 August 2014

Question: What killed the classical period in music?

New rules agreed for sovereign defaults – Pg. 1

- The International Capital Markets Association, whose members include banks, investors and debt issuers, has created new clauses for inclusion in sovereign debt contracts that will give countries the option to bind all investors to decisions agreed by the majority
- This will make it hard for small holdout investors to undermine restructuring deals by giving countries the option to employ a single vote across all bonds, with a 75% voting threshold, if it restructures its debt. The changes will hinder the chances of so-called "vulture" investors from buying up blocking stakes
- A further change is intended to make clear that the "pari passu" clause means equal treatment but not equal payments for bondholders

US growth revised upwards to 4.2% - Pg. 3

- The revision is more evidence of robust underlying growth in the world's biggest economy as it rebounded from a weather-affected 2.1% fall in the first quarter
- Treasury yields fell, however, with the 10-year note down to 2.34% as more bad news from Europe overwhelmed the encouraging US data
- Another strong sign was a robust rise in GDP income – 4.7% at an annualized rate – which can be more accurate than the widely used GDP measure
- (Prof Note: Student always ask me to tell them when I make large moves in my portfolio. Well, I liquidated a large portion of my equities today, i.e. about 20% of my net worth was liquidated and moved to Certificate of Deposits in different names and spread across different institutions (for insurance reasons))

'Fragile five' face risk of renewed EM turmoil – Pg. 20

- The two moons that govern the fortunes of emerging market investors are waning in unison. China's investment spending – the lodestar for EM commodity exporters – is slowing and the US Federal Reserve is sounding more hawkish toward unwinding monetary stimulus
- The last time such a lunar aspect held sway – in early 2014 – EM market mayhem ensued. Hit particularly hard were the currencies, equities and bonds of the so-called "fragile five" countries – Brazil, South Africa, Indonesia, India and Turkey
- In terms of geopolitical breakdown, the IIF statistics show an outflow from emerging Europe and Africa and sharply reduced inflows to emerging Asia and Latin America.
- In terms of currencies, only two "fragile five" currencies – the South African rand and Turkish lira – have depreciated this year so far, while the Brazilian real is up 5.1%, the Indonesian rupiah is up 4.2% and the Indian rupee is 2.4% higher

- Indonesia has raised domestic interest rates by 175bps since early 2013, boosted its foreign currency reserves, and is on track to reduce its current account deficit from a peak of 4.5% of GDP last year to an estimated 3% of GDP this year, …
- …India and Indonesia are in a much stronger position than their erstwhile fellow members of the "fragile five" – Brazil, South Africa and Turkey, which have made little or no progress in repairing their current account and fiscal deficits…

Answer: Beethoven killed classical! His music was so innovative it had to be called something else towards the end of his life, i.e. "Romantic"

28 August 2014

Question: The classical period in music, roughly 1750 – 1820, had many composers but the four "greatest" were….

Lagarde under investigation in French political scandal – Pg. 1

- Christine Lagarde, head of the IMF, has been placed under formal investigation by a French court on suspicion of negligence in a political scandal that dates from her time as finance minister under former president Nicolas Sarkozy

Lessons in store – Pg. 5

- But as friskola have proliferated, Sweden's confidence in for-profit schools has been shaken. Traditionally top of the class in education, Sweden has tumbled in international test rankings, with the OECD's most recent Pisa results showing scores falling dramatically in reading, maths and science to a position well below the average for developed nations
- "It's not always the fact that the private schools get worse results…but they do harm [to the system] because traditional municipality schools have to adapt to market system and they often lose their best pupils"…
- A working group is considering whether legislation should be introduced to prevent private equity groups from taking ownership of free schools because they do not have the "long-term interest" to make them succeed
- "If you really want to improve education you have to invest in the training of teachers and raising the teachers' competence and it takes time, " (Prof RANT: Why is it that I can sign off on a Master's Thesis and not teach high school algebra?! It is absolute BS! Public schools require indentured servitude, i.e. student teaching, to become "certified"…certifiably nuts perhaps!)

First-half fall in banks' forex earnings is fastest since crisis – Pg. 18

- Investment banks' earnings from foreign exchange trading fell at their fastest rate since the world financial crisis in the first half of 2014, hit even harder than other trading areas by low volatility and weak volumes
- The drop was also accentuated because of the comparison with a period when the launch of 'Abenomics' in Japan allowed traders to make hefty profits from the yen's rapid devaluation

- The prolonged underperformance of fixed-income divisions – whose earnings have been falling since 2012 – meant they have continued to bear the brunt of job cuts
- Job cuts and lower bonuses allowed investment banks to limit the squeeze on their margins

Central bankers face 'confidence bubble' – Pg. 20

- Central banks, which saved the world economy from catastrophe, face different challenges. They have to return advanced economies to stable and sustainable growth paths
- Over the past six years, betting on the "central bank put" – a belief that central banks would ride to financial markets' rescue – was hugely profitable

Answer: Mozart, Beethoven, Haydn and Bach.

27 August 2014

Question: Wells Fargo purchased Wachovia in the depths of the Great Recession. Who was the original intended buyer from whom Wells Fargo "stole" Wachovia?

Developers offer hefty discounts in strained China housing market – Pg. 1

- Developers began cutting prices this year but have so far failed to revive flagging volumes.
- More than 30 cities have also removed purchase restrictions introduced in 2010 to restrain price growth amid public anger over high prices
- Residential property sales fell 9.4% in floorspace terms in the first seven months of the year compared with the same period in 2013,…

Argentina hits back against trustee – Pg. 3

- Argentina has retaliated against the bank of New York Mellon's local operations after the lender refused to make payments to bondholders in order to comply with a US court ruling – a move that has also led a group of hedge funds to sue the US bank
- BNY Mellon's refusal to distribute the funds last month triggered Argentina's second default in 13 years
- BNY Mellon has said it will comply with US court orders, but as a trustee it also has a responsibility to dispense payments from Argentina to investors

Borrowing costs in France slide on ECB hopes – Pg. 20

- As France awaits its new government and the outcome of a domestic political battle over how best to tackle its economic woes, its sovereign borrowing costs are tumbling
- Europe's second largest economy is expected to put together a pro-reform government, after President Francois Hollande purged the cabinet following a revolt by leftwingers over austerity policies
- The yield on benchmark 10-year German Bunds has fallen below 0.95%, while the yield on shorter term two-year bonds is minus 0.02%

Answer: Citibank

26 August 2014

Question: Assuming no transaction costs, if you purchase a home for $440,000 and put $90,000 dollars in equity and assume no vacancy, 15-year mortgage and that rental income negates all expenses including the mortgage, what is the return on your investment?

Markets rally on Draghi QE hint – Pg. 1

- Global markets rallied yesterday on expectations that the ECB had moved a step closer to making billions of euros in asset purchases to jump-start the region's sputtering economy
- He acknowledged that a key measure of markets' Eurozone inflation expectations, which track how investors see inflation over a five-year period beginning five years from now, had dropped below 2%, the lowest since the Eurozone crisis

Fed urged to update guidance – Pg. 4

- The US Federal Reserve will soon need to modify its policy statement as the economy improves and asset purchases end, …
- The median forecast on the FOMC is for an interest rate of 1 to 1.25% by the end of 2015

Off target – Pg. 7

- Mr Abe has spent political capital freely on causes that he believes are important for Japan but that are unloved by the public, such as peeling back constitutional limits on military and restarting nuclear power plants idled after the 2011 Fukishima meltdown
- …6.8% annualized contraction in second-quarter GDP was confirmed by government data this month, doubts were growing about the premier's campaign to stimulate growth
- In short: baby boomers are retiring and taking the best-paid jobs with them. Their replacements are far more likely to be part-timers, contractors or other lower-wage workers, including their own offspring.

UK commercial property owners hit by tax change – Pg. 14

- Owners of commercial properties in the UK have lost 100m (sterling) of tax relief in the four months to the end of July after an obscure change to the tax regime, ….
- A change in April introduced a limit on how soon after buying a property its owners could claim allowances for spending on plant, equipment and machinery
- The new rules say owners must now claim the allowances within two years. Under the previous regime, there was no time limit.

Housing slowdown a 'major risk' to China – Pg. 20

- The property market is barely 15 years old and nobody has experienced a real crash because, before the late 1990s, most urban residents in post-Communist China were still provided housing by their "work unit"
- Banks started issuing home loans in 1997 and as recently as 1994 a central bank official charged with translating an American financial document has to look to Taiwan for an translation. No dictionary in Beijing included a word for "mortgage" (Prof Note: We should be so lucky in America! ☺)

- To understand the scale of the resulting building boom, consider the statistic: in just two years – 2011 and 2012 – China produced more cement than the US did in the whole of the 20th century
- The stock market has been in the doldrums since a massive bubble burst in 2007; returns on bank deposits are negligible or negative; and capital controls mean citizens cannot easily diversity their portfolios abroad
- All land is technically owned by the state and land sales made up 60% of local government's budgetary revenues last year, …
- Land prices have risen fivefold since 2008, …
- Prices in 55 of the 70 largest cities fell in June from a month earlier, compared with just 35 cities in May…
- The turning point seems to have come because China has simply built too much. Until 2011 the market mostly saw supply shortages, but today total floor space under construction is enough to satisfy well over four years of demand
- More than 90% of households own at least one home and, for those urban households that own apartments, nearly 76% of their assets are in real estate, …

Answer: Assume 2.00% escalation in price of home, i.e. $440,000 * 1.02^15 = $592,182. CF0 = 90,000 and CFT = $592,182, T = 15 years. F Clx; 90000 chs pv; 15 n; 592182 FV; i…13.3829%

25 August 2014

Question: What are the two key accounting standard bodies?

Jackson Hole left stymied by vague jobs data – Pg. 2

- High joblessness – currently 6.1% in the US – has served to obscure other changes for workers, such as the number of part time jobs. This vagueness about the rate of full employment makes it difficult for central bankers to know when to act on interest rates
- In the paper with most immediate relevance for the Fed, US academic Till von Wachter used data to look at people who spend a long period not working, rather than just those who are formally recorded as long-term unemployed. His conclusion was that, in terms of this "long-term non-employment", the Great Recession does not look much different to other recessions, such as in 1981

Sharing the wealth – Pg. 10

- In the 1919 US court case of Dodge v Ford, the Michigan court ruled that the purpose of a business is to return profits to shareholders. The best way to do this is through dividends, which is what the Dodge brothers were arguing for at the time
- But more and more companies are choosing to reward shareholders through buybacks – an odd reward, since the cash goes only to people who are selling the stock.
- A large chunk of what companies are buying back is stock earlier granted to employees as stock-based compensation. In a way, this disguises the true cost of employee compensation on the grounds that no cash is changing hands. But if those shares are bought back later using company profits, the argument is less compelling

Revenue recognition – Pg. 10

- This summer, two key accounting standard bodies, the US's FASB and the International IASB released harmonized rules on how revenue is to be recognized. The idea is to enhance the quality and consistency of reporting, and aid in the comparability of results across industries and nations
- The new standards, which take effect in 2017, mandate a clinical five-step process that includes such steps as "identifying separate performance obligations", "determining" then "allocating the transaction price", and recognizing revenue when the performance obligation is met

Answer: US's FASB and the International IASB

23 August 2014

Question: What is the current alert status in Iceland?

ECB chief softens tone on fiscal rules – Pg. 1

- …signaled he is becoming increasingly concerned about high unemployment and low inflation in the Eurozone by backing calls for countries to be allowed to apply strict rules on government deficits more flexibly
- The existing flexibility within the fiscal rules could be "used to better address the weak recovery and to make room for the cost of needed structural reforms", …
- Joblessness in the Eurozone is stuck close to record highs at 11.5% - with youth unemployment at 50% in Spain and 40% in Italy – while inflation in July feel to 0.4%, less than a quarter of the ECB's target of just under 2%
- Ms Yellen's move to a more neutral position on the amount of spare capacity in the US labour market marks a shift from her strong signals earlier this year and raises the prospect of earlier US rate rises

The former governor, the health pills and the hard-up wife – Pg. 2

- Mr McDonnell and Maureen, his wife of nearly four decades, are facing federal corruption charges for allegedly using the former governor's office to benefit a businessman in exchange for luxury gifts, cash loans and golf outings worth $140,000
- In an email to one of her husband's advisers who had told her such a purchase [Oscar de la renta dress] was not appropriate, Mrs. McDonnell wrote: "Bob is screaming about the thousands I'm charging up in credit card debt. We are broke, have an unconsciouable amount in debt already, and this Inaugural is killing us!" (Prof Note: Cry me a River!!! Orange is the new black!)
- Worried about paying for their daughter's wedding, Mrs. McDonnell got $15,000 from Mr. Williams to cover the costs of catering, …
- (Prof Note: Ridiculous!!! I thought "Virginia was for Lovers."?!)

Beijing to cut pay in state industries – Pg. 4

- China's president set out plans this week to reform the way managers at state-owned enterprises (SOEs) are paid and but wasteful expenditure at state groups
- The leaders of about 50 of the biggest central government-owned companies are appointed by the Communist party's central organization department and carry bureaucratic rank equivalent to cabinet ministers or vice-ministers. That fuels the public perception that they enjoy dual privileges as both business and political leaders

Global bond sales surge to a post-crisis high – Pg. 14

- Global economic uncertainty has failed to dent bond markets as debt volumes have surged to the highest since the financial crisis, buoyed by surging European issuance
- …worldwide bond volumes to increase 6% to $2.74tn so far this year from the same period in 2013
- Disintermediation is the process whereby companies turn to bond markets for funding as banks, under regulatory pressure to shrink their balance sheets, lend less
- The US accounts for the most global bond deals, equivalent to 30% of the global total, but its share has slipped 5% from 2013 in the face of resurgent issuance elsewhere

Answer: Code Red! Aviation has been restrictred from the area just where I drove through two days ago. Just like with Egypt, I managed to "escape" just prior to any issues. Mo/Ash…stand down, stand down. No reason to come get me…this time!

22 August 2014

Question: How could a graduate student see Iceland on a budget?

Spectre of Japan-style lost decade looms over Eurozone – Pg. 3

- Dire gross domestic product figures, which showed the eurozone's recovery had stuttered to a halt in the second quarter, and inflation at a four-and-a-half year low of just 0.4% in July have been a start reminder of the problems befalling the world's second-largest economic bloc
- With debt burdens worryingly high in parts of the currency area, low inflation and little growth risk causing another crisis. That has intensified calls for the ECB – with inflation well below target – to embark on broad-based asset purchases immediately
- The ECB has signaled it will not begin quantitative easing until at least the end of the year, preferring instead to gauge the impact of the package of measures announced in June, which include up to 1tn (euro) in the cheap loans for Eurozone banks. The central bank further believes that its health check of the bloc's biggest lenders, whose results will be announced in October, will help to boost investor confidence
- But unlike Japan, where joblessness has remained below 5.5%, unemployment in the currency area is 11.6%. If it does come, growth in the months ahead looks set to remain too week to dent joblessness

Banks count cost of toeing the line on US sanctions – Pg. 16

- Lenders are beginning to disclose the cost of complying. HSBS says it is spending $750m-$800m a year on its compliance and risk programme. That is up from $150m-$200m on last year and other rise is expected next year
- Banks also face a backlash from clients ditched because of scrutiny
- HSBC, which has withdrawn from 11 countries and sold 74 businesses since 2011, was accused of Islamophobia last month after it wrote to London's Finsbury Park mosque and charities that support Muslim, telling them to move bank

Eurozone banks push down yields – Pg. 20

- Robust bond buying by Eurozone banks has helped push governments' borrowing costs to record lows amid poor economic data
- Last month more than a tenth of all banking assets in Spain and Italy consisted of government debt, mostly domestic bonds, …
- Government debt does not incur any regulatory capital charge, while loans to businesses do
- Government debt as a proportion of Eurozone banks' assets has increased nearly every month since the end of 2012 and stands at 5.9%

Answer: I have no advice on how to reduce airfare. Hitchhiking is prevalent and while I have difficulty recommending it from a U.S. perspective, it is widely accepted here (Rental Car is $120 - $150 USD/day + Diesel), camping (250 – 300 euros for hotels/night AND these are for little more than hostels), food (bring your own, food is expensive). There are a fair amount of bikers but given the main road around the island is only two lanes (one each way), I do not recommend it. If you enjoy hiking I do recommend Iceland, especially the North. If planning the "perfect" Icelandic getaway here is what I recommend: Rent a car from airport and stay first/last night at Blue Lagoon clinic. Tour the island but have reservations pre-chosen. I like Icelandair Hotels but there are similar chains. Leave the area of the capital quickly as the crowds quickly diminish once outside the Golden Triangle (which is really a line, btw). My two cents…

21 August 2014

Question: What is the average cost of an "average", by my estimate of U.S. standards, hotel room in Iceland?

Britain edges closer to end of low-rate era – Pg. 1

- The BoE has moved a step closer to ending the era of ultra-low borrowing costs in the UK after two of the nine members on its Monetary Policy Committee voted to raise interest rates
- US policy makers believed the labour market had improved at a faster than anticipated rate over the past year but were concerned over "still-elevated levels of long-term unemployment"
- The pound was flat, closing at $1.6621

Argentine bonds hit as Fernandez plan dents hope of creditor deal – Pg. 1

- Investors shunned Argentine bonds yesterday, pushing prices to their lowest level in two months after a plan by President Cristina Fernandez to launch a voluntary debt swap dashed hopes of a quick settlement with some of its creditors
- …government was seeking to allow bondholders to exchange their debt under foreign law for bonds of the same value governed by local law…

Rethink urged on defining Asian poverty – Pg. 2

- The Asian Development Bank has joined growing calls for a radical rethink of the way poverty is measured, arguing that the number of people in Asia would jump by more than 1bn if more realistic criteria were used
- The World Bank is considering increasing its poverty line and the new Indian government is also looking into similar change as it struggles to work out how better to help the hundreds of millions of people who have hardly benefited from the economic growth of recent decades
- The ADB report said its poverty line of $1.25 a day was not enough to maintain minimum welfare in many parts of the region
- It said the number of poor in Asia would rise from 473m to 1.5bn as of 2015 if this was raised to $1.50/day and rapidly rising food prices and vulnerability to shocks were taken into account
- That would push up the poverty rate in Asia, which has been a vital indicator of global economic development, from 12.7% to 41.2%

McDonald's taken off Moscow menu – Pg. 3

- Russia's consumer protection agency yesterday said it would temporarily shut down four McDonald's restaurants, including the group's flagship Russian outlet, a landmarket since the fall of the Soviet Union (Prof Note: I use to eat their all the time in graduate school!)

Hedge funds spark review of Puerto Rico's economy – Pg. 11

- Hedge funds speculating on Puerto Rican bonds are claiming that a 60-year miscalculation of economic statistics may have caused investors to underestimate the island's ability to pay down its $70bn of debt

Emerging market equities now rated most attractive asset class – Pg. 18

- Twelve months ago Morgan Stanley coined the term "fragile five" to denote five large emerging market economies – Brazil, South Africa, Turkey, Indonesia and India – considered vulnerable to market turmoil
- Now, emerging market equities are regarded as the world's most attractive asset class…

Answer: 250 – 300 euros/night. Entrees at restaurants are running about $45 each. Iceland is VERY expensive.

All – Thank you for your concerns. As my questions/answers elude, I am in Iceland and we are currently under a volcano "watch" code: Orange. (Please note that I have seen no real concern here). This is not abnormal for Icelanders but I find it fascinating that we are updated so frequently. Currently we are in

the North East of Iceland having just been "North of the Wall" yesterday. I will circumnavigate the island passing by the glacier of concern this afternoon and head back to the U.S. at the end of the week. Please know this is not my first volcano 'crisis' as when working in Alaska in 1992 Mt Spur erupted. I never did get all the ash from my car and could still find it when I finally sold the car in 1998. I will keep you posted as to the Volcano watch. (Mo/Ash – if it erupts you may need to come get me!)

20 August 2014

Question: What is the population of Iceland?

Climate change risk for south Asia GDP – Pg. 3

- South Asian economies will be badly squeezed by climate change within a few decades if no action is taken to reduce the greenhouse gas emissions responsible for global warming, …
- The report calculates that the six countries studied – India, Bangladesh, Nepal, Sri Lanka, Bhutan and the Maldives – would on average lose 1.8% of their GDP by 2050 and 8.8% by the end of the century, under "business as usual" scenario for global carbon emissions

Keep rates low until the hidden jobless return to work – Pg. 7

- This year's annual conference of central bankers in Jackson Hole is focused on the right question: How to determine the extent of labour market slack in the US and other advanced economies
- Some blame demographics, with two large cohorts (ageing baby boomers and women of child-bearing age) both disproportionately likely to leave the workforce
- Others take a different view, arguing that wages are being held down in areas of the country where statisticians count more people as unemployed or no longer looking for work
- For most of the past three decades central bankers have assumed that allowing inflation to overshoot would lead to explosive upward spirals in prices. By contrast, overshooting on unemployment was assumed to have little lasting effect. The risks were seen as asymmetric. No chances were to be taken with inflation for the sake of employment
- It has become clear, however, that those assumptions should be reversed under conditions of persistent low inflation and slow growth
- …there is growing evidence that long-term unemployment, or even underemployment, does lasting damage to the ability of younger people to find work that pays well throughout their working lives
- The second issue is whether keeping interest rates low will do some other form of harm, which outweighs the potential benefits of large numbers of people returning to work
- There are clear indications that wage growth is being kept down by the overall state of the labour market, and raising rates would further depress demand. Allowing excess unemployment to persist is likely to do more lasting damage than allowing inflation to rise above the target – and any such overshoot will be temporary

Eurozone banks on debt sale holiday – Pg. 18

- Market uncertainty and rising geopolitical tensions saw the supply of Eurozone bank bonds all but dry up last month as volumes fell to their lowest on record

- Issuance of senior unsecured bonds, one of the biggest components of bank funding, fell to $683m last month, a 58% year-on-year decline and the lowest July total since the euro was created,…
- Low issuance coincided with geopolitical troubles in Ukraine
- Separately, one of Portugal's largest lenders, Banco Espirito Santo ,was forced to restructure after losses left its junior bondholders facing steep writedowns
- Longer-term senior unsecured bond volumes could be damped by four-year loans offered by the ECB under tis targeted longer-term refinancing operation, which begins next month
- Banks in the Eurozone periphery showed the sharpest falls in issuance, …

Answer: Around 330,000

19 August 2014

Question: What is the maximum speed limit in all of Iceland on All paved roads?

China property slump gathers pace – Pg. 1

- China's property slump worsened in July as prices feel for the third straight month and developers scaled back investments, prompting economists to predict further financial defaults and slowing economic growth in the second half of this year
- Home prices fell in 64 of the 70 cities ….
- As prices fell, developers pulled back from new investments. Property investments rose 13.7% in the first seven months of the year, down from 14.1 % in the first half. In terms of floor space sold in July, China suffered a 16.3% fall, down from a 0.2% drop in June

Thailand reduces top-end growth forecast – Pg. 4

- Thailand's army-led government has cut its upper economic growth forecast for the year as tourism and other flagship sectors remain depressed
- Southeast Asia's second-largest economy, which avoided falling into recession in the second quarter, is struggling to shrug off weak export growth, plunging investment and political uncertainty flowing from May's military group
- GDP rose 0.4% year-on-year in the three months to June, reversing a first-quarter slide, on higher government spending and improved consumer confidence
- The government is now forecasting GDP growth of 1.5% or more for he year. But it pulled its top-of-range estimate down from 2.5% to 2% because of the "prolonged political disturbances", the slow recovery of exports and a fall in car production and sales after a tax break for first-time buyers ended
- The average hotel occupancy rate was just 47.5% in the second quarter, its lowest level in almost four years and down from 60.3% for the same period last year

Russia tensions push palladium to $900 – Pg. 18

- Palladium touched $900 a troy ounce for the first time since 2001 yesterday, taking this year's price gain to 25%

- The metal, which is used in catalytic converters in petrol-powered cars, has benefited from real and potential supply disruptions in the two main producing countries
- In South Africa a five-month miners' strike crippled output, pushing the market further into deficit. Work resumed in June, but output of palladium there has yet to recover fully
- Meanwhile, the tensions between Russia, the world's biggest source of palladium, and Ukraine, have further boosted prices, even though there have not yet been any US or EU sanctions that affect the metal
- Palladium's surge in 2014 has made it the star performer among the precious metals

Answer: 90 km/hr. Iceland is serious about their speed as the national highway around the island is two lanes, i.e. one each way, and traveled by sheep. At 150 km/hr one is taken to an Icelandic jail. When pulled over you will be removed from your car and put in their very small Baby-SUV. The police write the ticket up and you pay on the spot with credit or cash. The Iceland police do not carry guns like in the U.S. Again, Bill H. could we please teach something useful in the law class like Icelandic law for foreigners?! Let's make certain our students (and faculty) are not featured on Nat Geo's "Locked up Abroad!"

18 August 2014

Question: What is the price of a message at the Blue Lagoon (continuing our global PPP on messages) and the price of a room at the "Clinic"?

Fed blow to global banks over 'living wills' – Pg. 1

- Global banks can no longer assume access to the Federal Reserve's discount lending window as an element of their living wills, …
- US regulators set out the specific guidance in confidential letters on August 5 detailing why they recently rejected the living wills of the world's largest banks. Hundreds of banks took advantage of the discount lending window on many occasions during the 2008 crisis
- But the Fed and the Federal Deposit Insurance Corporation, which are under pressure to avoid government bailouts in any future crisis, want the banks to come up with emergency plans that do not involve government aid, even when it comes to the discount window, which is available only to banks that are in trouble rather than failing.

Europe pessimistic on income equality but Americans still cling to the dream – Pg. 1

- Only the US has a more unequal income distribution than its citizens imagined, with many more poor people
- In Europe, people on middle incomes are far more numerous than those at the bottom or the top of the pay ladder. So a European income-distribution chart resembles a barrel, with a bulge in the middle
- More than 30% of Americans have incomes of 60% or less of the median. But most people think that only 24% of their fellow citizens are at this level
- (Prof Note: My greatest concerns for Americans are the cost of higher-education, the cost of a house relative to income, and the lack of understanding of personal finances and corresponding inability to hold off consumption depending upon personal financial levels.)

A force to be reckoned with – Pg. 7

- ….$30tn global mutual fund industry
- Morningstar ranks mutual funds according to two different methodologies, both of them controversial. Its most influential, a one to five-star rating system. It is calculated by ranking a fund's risk-adjusted performance against a basket of similar funds over three, five and 10 years, taking fees into account. It is a backward-looking measure and critics say it encourages investors to chase past performance instead of thinking about how a fund might perform in the future
- History is strewn with examples where star fund managers have fallen to earth when their luck or skill deserted them, but Morningstar ranking adjusted only slowly downwards, with Legg Mason's Bill Miller perhaps being the most prominent example. His 15 consecutive years of beating the market ended abruptly in 2005 and he underperformed for five of the next six years before relinquishing control of his main fund (Prof Note: …and remained employed by Legg Mason! What a crock! Look at Bill's performance over the entire 20 years…beginning to end…a first year econ major understanding rudimentary portfolio design could have out performed!)

Central bankers set to scrutinese labour market – Pg. 20

- The committee may have got an early view at the last week's disappointing figures on wage growth and given that the BoE halved its wage growth forecast and predicted slower growth in house prices in the August inflation report, …
- The consensus for the US is that inflation has fallen slightly to 1.9%, slightly below the Fed's target. This is thought to be due to a drop in petrol and food prices

Answer: 90 Euros for the message which is in water on a floating mat. It was interesting and worth experiencing once but would not go out of my way to find this type of message. Also, the message takes place in a pool of others which is also "odd". The "Clinic" is the hotel attached to the Blue Lagoon What is nice is that we are referenced as 'patients' and have priority access to the Blue Lagoon. Note: the Blue Lagoon is really a large public bathing area. I recommend staying at the clinic (300 euro/night) which has its own private Blue Lagoon and is much more tranquil and right outside of Reykjavic.

16 August 2014

Question: Where in the world is Roger? Hint: I joined the Night's Watch and John Snow and I are going North of the Wall! I have secured a sword made of Valyrian steel and named it "The Educator!"

The wages of fear are policies that risk hurting the poor – Pg. 7

- Average wages are now one-tenth lower in Britain than they were in 2008, after adjusting for inflation. In the second quarter of this year they fell slightly, even in cash terms – the first time that had happened since 2009
- But the largest proportional wage declines have fallen on the unskilled and the uneducated, who earn the least

- Giving more power to labour unions has similar effects. Those protected by union contracts may gain from higher wages. But less fortunate workers will pay with their jobs. These victims forgo more than money; they also lose the chance to accumulate skills and experience that would raise their future earning power. And society loses, too, when people are no longer in useful work (Prof Note: My cleaning company in Columbia fired me as a customer as I kept encouraging all the young girls to go back to school.)
- In the US and the UK, roughly 59% of the population aged 15 or above is employed. IN France only about half have jobs and in Italy and Spain just 44% are employed

Chinese banks shore up to guard against bad loans – Pg. 12

- China's second- and third-largest banks sold Rmb50bn in subordinated bonds yesterday, the latest in a wave of capital issuance by Chinese lenders under pressure to fortify their balance sheets against an expected rise in bad loans
- China, whose banks had $21tn in assets at the end of June, did not participate in the first two Basel bank capital adequacy regimes but is aggressively implementing Basel III as part of a broader effort to prepare for rising bad debts as the economy slows
- Chinese lenders have long issued subordinated debt but the new Basel-compliant structures are riskier because they contain "bail-in" provisions that impose writedowns on investors if national regulators judge that a bank would otherwise be non-viable
- The Basel committee's "bail-in" requirement imposing losses on investors is intended to avert the need for taxpayer bailouts like those used during the 2008 financial crisis. Base bonds count as tier-two capital under the rules
- But unlike in the US and Europe, where new laws explicitly define non-viability, China and other Asian governments have so far left things vague

Answer: Iceland

15 August 2014

Question: What are several Business Risk Determinants?

Eurozone recovery shudders to a half – Pg. 1

- The eurozone's economic recovery has shuddered to a halt, bolstering calls for a ECB to take aggressive action to boost growth and halt a slide towards deflation
- GDP was flat between April and June, compared with growth of 0.2% in the first quarter, …
- Dismal performances from Germany, France and Italy – the core of the single-currency region – were responsible for the stagnation, while parts of the periphery beat expectations
- German 10-year Bund yields dipped below 1% for the first time on speculation the ECB would follow the lead of the US Federal Reserve and the BoE by introducing large-sclae bond purchases to boost the region's economy
- Germany joins just a handful of countries whose 10-year bonds have fallen below 1%, including Japan, which has struggled to exit more than a decade of deflation

Berkshire soars past $200,000 – Pg. 11

- Shares in Berkshire Hathaway soared past $200,000 for the first time yesterday, as investors look beyond the star power of its founder Warren Buffett to the earnings power of the businesses he has assembled
- The investment guru's refusal to split his conglomerate's main stock, despite shareholder requests stretching back more than three decades, means Berkshire has the highest-priced shares traded in New York by a factor of 150
- "were we to split the stock and take other actions focusing on stock price rather than business value, we would attract an entering class of buyers inferior to the exiting class of sellers, " he wrote in the 1983 letter to shareholders, which he has cited on occasion since
- A hard-to-trade stock encourages investors to take a long-term view and locks out those more likely to trade on emotion…

Repo fails spark fears of risk to US Treasuries – Pg. 18

- US Treasury bonds are supposed to be some of the easiest assets to buy and sell, yet all is not well in one of the world's biggest and most liquid markets
- The smooth functioning of the $12tn US Treasury market depends on the health of its underlying machinery, in particular the repurchase, or "repo" market. This is where government securities are regularly lent out and borrowed between various investors and dealers. Such short-term transactions ease trading across the Treasury market, helping investors looking to sell bonds in anticipation of yields rising
- Lately, the process of borrowing certain Treasury securities has been marked by a pronounced jump in "fails". A fail occurs when a borrowed Treasury is not returned on time and thus triggers settlement issues across the market as repo transactions usually consist of a chain of investors and banks that have borrowed and lent the same bond
- The big worry is how repo fails are rising when overall activity has been subdued, raising the spectre that settlement problems could accelerate once interest rates start moving sharply higher. In turn, a larger rise in repo fails could impair capital for many repo performers, such as banks sparking greater market turmoil
- These include how the Fed does not own securities that mature before 2016 in its vast portfolio of Treasury paper. IN the past the Fed would lend out Treasury issues to help alleviate repo fails. In addition, the central bank has not purchased Treasuries sold at recent auctions, and some of these issues have experienced settlement problems, while the US Treasury has been focused on selling longer-term debt as opposed to the shorter-term bonds often used in repo

Answer: (1) Demand Variability, (2) Sales Price Variability, (3) Input Cost Variability, (4) Ability to adjust output prices for cost inputs, (5) Ability to develop new products timely, (6) Foreign Risk Exposure, (7) Fixed versus Variable Cost Structure.

14 August 2014

Question: Name several considerations when adjusting a corporation's capital structure.

Abenomics rattled by Japan's dip in growth – Pg. 1

- Japan has suffered its worst economic contraction since the earthquake and tsunami more than three years ago, providing evidence that consumer and business confidence in the country remain fragile…
- The economy shrunk by an annualized 6.8% in the second quarter after an increase in the national sales tax triggered a sharp fall in consumer spending
- The GDP decline mirrored a similar-sized jump in the first quarter, and optimists might still make the case that it was a statistical anomaly – a consequence of the tax rise disrupting spending patterns among households and businesses

Smaller Chinese cities opt for quality of life over GDP as measure of success – Pg. 1

- More than 70 Chinese smaller cities and counties have dropped GDP as a performance metric for government officials, in an effort to shift the focus to environmental protection and reducing poverty

Private equity fights for share of China hospitals – Pg. 2

- Private equity firms engaged in an unusual bidding battle this year: slugging it out over an upmarket chain of private hospitals in China
- …investment is set to pour into the sector, continuing a trend begun when Beijing lifted restrictions on foreign investment in private hospitals in 2012
- As demand for medical care has risen in line with prosperity, demand for investment opportunities has spilled over into other appendages of a wealthier lifestyle: dentists, rehabilitation clinics and cosmetic surgery centres
- Spending on healthcare is about 5% of GDP, compared with about 9% in Japan and nearly 18% in the US...

Squeeze on pay hits chance of early rise in UK interest rates – Pg. 3

- Wages in the UK have fallen in cash terms for the first time since 2009, reducing the chances that BoE will raise interest rates this year
- The BoE halved its forecast for wage growth in 2014 yesterday, clouding the outlook for a nation with the fastest growing economy in the Group of Eight leading industrialized countries

London's house price rally widens its reach – Pg. 20

- Transaction volumes have dropped by a quarter year on year in London's priciest postcodes - …
- The pound has been appreciating against many currencies in recent months, meaning London property does not look quite as cheap as it used to from the perspective of Singaporeans, New Yorkers or Parisians
- London house prices have risen 20% year on year,…

Answer: (1) Business Risk, (2) Tax Position, (3) Financial Flexibility, (4) Managerial Conservatism

13 August 2014

Question: What is another reason I love Nevis?

Record US wealth gap fuelled by disparities in housing recovery – Pg. 1

- The income gap between the US's richest and poorest metropolitan regions has reached its widest on record, shaping an uneven housing recovery that threatens to hold back the broader revival of the world's largest economy
- A patchy labour market recovery has meant significant variations in job and income growth between regions across the US, which in turn has intensified the divergences across the country's housing markets
- The number of Americans in work has passed pre-recession peaks. But there has been little lower and middle-wage growth

Problems build up for China property – Pg. 2

- As China's real estate slump began to hit sales at the Champs Elysees development in the picturesque lakeside city of Hangzhou, the company building it responded with a price cut
- China's property boom appears to be grinding to a halt. Prices have dropped in many parts of the country, sales have dried up and construction has fallen sharply as developers have retrenched
- A change in attitude among homebuyers – away from speculation towards a system based on fundamental demand for accommodation – is leading to a shift in the way the country's housing market operates
- China's last property downturn in 2011 was met with concerted action from central government, including interest rate cuts
- This time, however, Beijing has held firm, leaving local governments – and property developers – to formulate their own responses. Those efforts are now in full swing, including price cuts, easier access to capital and the end of restrictions on buying several houses

Portugal deflation adds to dents in Eurozone recovery – Pg. 2

- Further chinks in the eurozone's recovery emerged yesterday, as official figures showed Portugal sank into a deeper deflation last month and a poll of German economic sentiment fell by the most in more than two years
- GDP data released tomorrow are expected to show the Germany economy failed to grow at all between April and June, after expanding by 0.8% in the first three months of 2014

Battle scars – Pg. 7

- …US after the housing bust that wiped out $7tn of homeowner equity in the wake of the financial crisis
- California, Nevada, Arizona, and Florida were among the hardest-hit states when the housing market crashed. Home values plummeted by as much as 50%
- Recent US housing data have shown renewed weakness. Although sales of previously-owned homes across the country have picked up in the second quarter of this year, the improvement follows a slump at the start of 2014. Demand for new homes, which has decreased sharply over the past six months, fell to its lowest level in almost a year in June, …

- The lack of vigour in the new home sector – a key driver of construction spending and jobs – threatens economic growth. Historically the sector has accounted for 5% of the world's largest economy. That figure has dropped to closer to 3% in recent years and is a concern for the Fed

Answer: When asking about property I was concerned about a road that ran through it. I was told, "when you own the land, just move the road. No problem!" I am trying to move a road now in Maryland, I can assure you the process is significantly different!

12 August 2014

Question: What is the population of Nevis?

The FICC and the dead – Pg. 5

- Citi is not alone in asking if the good times will ever return to the division that bankers refer to as "FICC", for "fixed income, currencies and commodities". These bond-trading units were once among the most powerful businesses at Wall Street banks – home to the star bond, commodities and derivatives traders who made big money making big bets
- Banks are on track this year to record their lowest revenues from FICC since 2005, …
- The Fed's extraordinary crisis-fighting policies have suppressed market volatility, the lifeblood of trading
- Some banks are not waiting for that to happen. UBS, the Swiss bank, decided in 2012 to wind down its fixed income business

Treasury wine Estates – Pg. 10

- One the first day of business school they teach maximizing profit by pricing under the demand curve. Companies should try and meet the demand for their product at every price level
- Wine and companies are very different, however. Overpaying for wine has prestige; overpaying for a diversified winemaker does not

McDonald's – Pg. 10

- Forget China. McDonald's big worry is the world's largest economy, not the second largest.
- McDonald's domestic struggles are a bigger deal. Pressure is coming from old rivals such as the resurgent Burger King and new burger chains such as Five Guys. There are also more upscale entrants, such as Chipotle (Prof Note: What is it with Chipotle….is this not a Taco Bell on steroids!)
- McDonald's shares, at 16 times forward earnings, trade at a discount to many peers – feisty Burger King trades at 27 times, for example

Answer: About 14,000. Just yesterday someone new to me came up and said, "Are you wearing your grandfather's shirt?" I had to check but, yes in fact, it was my grandfather's shirt. A collared short-sleeve button down with the print of every Playboy Magazine cover. I must say, I was (and always am)

quite dapper! ☺ I am still trying to figure out the Nevis economy. From what I can tell the best paid workers are skilled woman, i.e. woman with an education and trade. Very similar to Mongolia.

11 August 2014

Question: What is in a Nevisian Smile (it is a drink served on Nevis)?

Buyout groups' influence grows as fees to US banks break records – Pg. 1

- Private equity companies have paid a record 32% of US investment banking fees this year, in a sign of the growing power big buyout groups wield in their relations with Wall Street
- The recovery from a trough in the crisis year of 2008, when private equity accounted for just 12% of fees, comes despite the fact that buyout companies have largely sat on the sidelines of a wave of multibillion dollar mergers and acquisitions. Buyout transactions have accounted for only 19% of all such deals globally since the beginning of 2012, …
- As US equity markets have risen to record levels, they have listed many of their holdings and then sold down their stakes. Banks earn fees for such follow-on deals – one reason why buyout clients are coveted

Russian tensions hit fragile Eurozone growth – Pg. 3

- A regional slowdown and the threat of escalating tensions with Russia have hit confidence in Germany, adding to worries about the stalling recovery in the Eurozone
- The Ukraine crisis triggered a sharp fall in factory orders in June, as well as a decline in business confidence

China kicks off second round of privatizations – Pg. 4

- China is pushing a fresh round of state-owned enterprise privatization, but local governments' efforts to spin cash out of the debt-addled state champions will prove a harder sell than the pioneering privatizations of nearly two decades agao
- The loose monetary policy of China's 2008 economic stimulus, along with political directives for SOEs (state owned enterprises) to support the economy with investment, hit their balance sheets and dented returns on assets
- Today, local government debt is driving a new push for privatization
- Since the financial crisis, the productivity gap between state-owned and private groups has widened, with average return on assets for SOEs at about 4.6%, compared with 9.1% for private businesses, …
- Debt, thin profitability, inefficiency and overcapacity – the very factors prompting the search for investment – are likely to deter buyers. Local governments may also discourage buyers if they try to extract commitments to maintain employment at unproductive factories
- It is also unclear whether local governments will be prepared to relinquish control or whether, as in the last round of SOE reform, they will stick to selling minority stakes

The 40 years America lost to second-term presidents – Pg. 7

- Disillusionment with Washington has rarely run higher

- …Obama's administration is condemned as ineffectual with respect to both domestic and foreign policy
- George W Bush's second term began with a futile effort to reform social security, and was defined by hurricane Katrina and the financial crisis
- Bill Clinton's second term will be remembered for scandal and his impeachment
- Ronald Reagan's second term was marked by the Iran-Contra scandal and a sense of a president who had become remote from much of the work of this administration
- Dwight Eisenhower's second term involved scandal that forced the resignation of his chief of staff and, more importantly, a growing sense that the country was suffering from a stifling complacency
- Harry Truman's second term was marked by the Korean war, scandal, gridlock and extraordinarily low public approval
- Franklin Roosevelt's second term was the least successful part of his presidency, involving the failure of his effort to pack the Supreme Court and a significant economic relapse in 1938
- (Prof Note: Recommend reading article in entirety)

Flurry of Islamic debt issues planned – Pg. 11

- Countries including Pakistan, Tunisia and South Africa are drawing up plans to issue government bonds that comply with Islamic law as they seek to take advantage of strong investor demand for emerging market sovereign debt
- Global sukuk issuance reached $66bn in the first half of 2014, an increase of 8% on the same period last year, …

Answer: Baileys, Pina Colada Mix, Tia Maria, and Coconut Rum (I prefer Malibu and will replace Tia Maria with Kahlua). Serve over ice and blend, proportion to taste.

9 August 2014

Question: What is the difference between a Whole and Natural number?

Between heart and head – Pg. 5

- "It's Scotland's Oil" has always been the SNP's most potent slogan. Paul Collier, the Oxford economist, says that "everwhere, national resource discoveries provoke nationalism: Scots nationalism isn't shrouded with the mists of time, it's just a greedy resource grab" (Prof Note: I have a Board meeting in Salem over Halloween…I have already told Megan W. that I am coming as Sir William Wallace….just because I have nice legs and they need to be shown off! ☺)
- The matter of a post-independence currency is yet more vexed. The SNP has floated three main alternatives: a Scottish currency; the euro; and the UK pound. The latter is its present position.

Malaysian wealth fund to take ailing national carrier private – Pg. 8

- Malaysia Airlines ran up losses during the past three years, and is reeling from the shooting down of flight MH17 last month and the mysterious disappearance of flight MH370 in March
- Malaysia is seeking to rescue a national carrier that is not only one of the oldest in Asia, but has added significance as an emblem of the southeast Asian country's rapid industrialization in the 1980s

Bull run shows signs of exhaustion – Pg. 12

- Global investors' long-running love affair with risk assets, such as equities and junk bonds, may be turning into a nasty break-up
- …the sell-off became broad-based this week as benchmark stock indices and corporate bonds across the globe fell sharply, and investors fled to US Treasuries as Wall Street's "fear gauge" – the CBOE Vix index – jumped to its highest in almost four months
- While the selling was triggered primarily by concerns over how mounting geopolitical tensions in Ukraine and the Middle East may affect the global economy, the turnaround has cast a shadow over the outlook for popular asset classes
- Stocks also fell in Asia, where a 3% plunge in Tokyo yesterday capped its worst session since February.

Banks' living wills – Pg. 16

- The FDIC is right to point out that despite new de-risking rules, so-called systemically important banks remain highly leveraged with ratios of nearly 22 to 1 on averge, against 12 to 1 among the rest of the industry. Sure, they are better placed than they were before the financial crisis, when Wall Street banks were leveraged as much as 50 to 1. But they are far from safe – the continuing stream of conduct investigations demonstrates just one form of risk. Regulators' emphasis on streamlining the banks' often complex structures would also be in the interest of investors.

Answer: Whole Numbers: Positive integers including zero (0); Natural Numbers are Positive Integers and do NOT include zero (0). (Prof Note: I admit I had to look it up as I remember the difference but forget which is which sometimes. I always doubt myself when I remember whOle has the zero (0))

8 August 2014

Question: What pieces of information are required to open an account at Bank of Nevis for a U.S. Citizen?

Banks' loan crisis bill set to rise by billions – Pg. 1

- Big banks will have to offer billions of dollars more in relief to the communities hardest hit by the financial crisis, as US authorities demand new terms for settling claims of mortgage sales abuses
- Including the BofA deal, banks will have paid $59bn in fines and consumer relief since the crisis to settle mortgage cases…

Norway fund to declare vote intentions – Pg. 1

- One of the world's biggest investors will start to publicly declaring how it intends to vote at companies' annual meetings in a move that will ratchet up pressure on boards in Europe and raise the spectre of a sharp rise in shareholder reellions
- The initiative from Norway's $870bn oil fund, the world's largest sovereign wealth vehicle, marks a big departure for shareholder activism in Europe, where big investors rarely say how they plan to vote
- The oil fund, which on average owns 2.5% of every listed European company and has stakes in more than 8,000 buinesses, said it aimed to reveal its voting intentions for all companies eventually

Australia jobless rate hits 12-year peak – Pg. 4

- Australia's unemployment rate has climbed to its highest level in 12 years, underlining the challenges faced by an economy in transition after a mining investment boom ended
- …jumped to 6.4% in July, from 6% in June, reflecting an increase in the number of people looking for work and a small drop in the number of people employed
- Australia's economy is cooling following a decade-long mining investment boom, which caused wages to surge and the dollar to strengthen against most major currencies
- Australia's jobless rate has now moved higher than that of the US for the first time since 2007

European junk bond issuance outstrips US for the first time – Pg. 20

- Issuance of European high-yield bonds marginally exceeded US high-yield for the first time in the year to June, as companies continued to harness strong investor demand to refinance their debts at lower costs
- Issuance from emerging market European nations fell 63% in the first half due to the sanctions-led collapse in issuance from Russian companies. Citing increasing fears over risk pricing, European investors relegated European high yield to second most favoured fixed-income asset class - …
- Use of proceeds of new issuance went mainly on refinancing but a rising share was earmarked for mergers and acquisitions – up 19% year-on-year to 30% in the first half - …

Answer: (1) Letter of Introduction (generally by a local attorney), (2) Bank reference letter from a U.S. bank, (3) Employer reference letter, (4) Passport, local address, yadda, yadda.

7 August 2014

Question: What is the cheapest room at the Four Seasons Hotel currently (Hint: It was $795 USD + 22% Nevis Tax in January)?

Unresolved debts – Pg. 5

- The semantic disagreement over "default" is just one of the confusions thrown up by what has been dubbed "the sovereign debt trial of the century". Another is why Argentine bond prices have held up at about 80 cents to the dollar

- The funds' success in suing for full repayment on bonds issued under US law could make it easier for holdout creditors to disrupt future sovereign debt workouts and encourage countries to issue debt in other jurisdictions
- Following its 2001 default, Argentina has two types of external bonds. The first is the result of two restructuring in 2005 and 2010 that paid 30 cents on the dollar and was accepted by 93% of creditors. They are referred to as "exchange bonds", and Argentina has continued to service them.
- The second group are bonds Argentina has not serviced, owned by holdout creditors such as the New York hedge funds, …. Two years ago these investors won a groundbreaking legal ruling that the boilerplate "pari passu", or "equal footing", clause in their bond contracts required they be paid in full – just as exchange bondholders were also being paid in full as stipulated in their own restructured bond contracts
- Last month Argentina deposited $539m with its trustee, Bank of New York Mellon, to pay exchange bondholders. But because Buenos Aires did not pay the holdouts as well, BNY mellon was legally barred from passing on the funds. As the exchange creditors' bond contracts require that they get the money, this left the country in default
- …emerging market issuers have not turned to collective action clauses, which allow investors majorities to override minority holdout positions

Banks warn of 'excessive' risk-taking – Pg. 18

- An influential group of Wall Street banks has warned the US Treasury that low volatility in many markets is creating a feedback loop that exacerbates "excessive risk-taking" by investors
- The "value-at-risk" models used by most large Wall Street banks and investors typically incorporate volatility data to try to calculate how much a trading portfolio might be expected to lose in a given day with a given probability
- With volatility having drifted lower and lower, these models are spitting out very small chances of sustaining large losses, allowing Wall Street banks to assume more risk without violating internal standards for managing risk
- There is also concern that a small shift in asset prices could spark a broader selloff as large investors have to quickly recalibrate portfolios

Answer: $340 without tax, i.e. Add over 100.0% market for in-season pricing. Occupancy currently is 40% whereas it was close to 100% in January. Timing matters!

6 August 2014

Question: What is a Fibonacci Sequence?

Russia considers airspace ban in retaliation for EU sanctions – Pg. 1

- His pledge came amid renewed geopolitical tensions over Ukraine, with Moscow demanding "an international humanitarian mission" for the east of the country where Ukrainian forces are seeking to crush a pro-Russian rebellion

- Any restriction would reverse an agreement between Moscow and European airlines dating back to the 1970s. It has allowed airlines to save up to $30,000 in fuel and fees on every route and shave up to 4,000km off each journey, ….
- It has also benefited Russian state-owned airline Aeroflot, which has received up to $300m in fees a year from the European airlines, in exchange for them flying the trans-Siberian route across Russia airspace

Indonesian growth at lowest level in five years – Pg. 3

- Economic growth in Indonesia has fallen to the lowest level for almost five years, ….
- GDP grew an annualized 5.1% in the second quarter, …
- Asia's largest economy was hit by a ban on exporting unprocessed minerals and by interest rate rises designed to rein in the current account deficit
- Indonesia's annual GDP growth peaked at 6.5% in 2011, when it was considered one of the hottest emerging markets. Now investors are more wary of Indonesia because of growing protectionism and its financial fragility
- The World Bank is forecasting a current account deficit of 2.9% of GDP this year, just as investors warn that monetary tightening in the US could drive a further sell-off of emerging markets reliant on foreign funding

India keeps interest rates high in anti-inflation battle – Pg. 3

- India's central bank yesterday warned that high inflation remains a threat to the country's long-term prospects, while keeping interest rates unchanged and forecasting a mild recovery in economic growth
- Indian inflation has recently begun to decline from levels above 10%, hitting 7.3% in June, prompting business leaders to call for quick interest rate cuts to boost the economy. GDP growth has halved to less than 5% annually in the past two years

Africa debt sales build platform for companies – Pg. 20

- …potentially record-breaking year for Africa sovereign issuance…
- The gradual evolution of capital markets in Africa has coincided with historically low interest rates in the developed world – leading many to question whether investors are enticed by the strengths of African countries and corporates, or the lack of attractive yields elsewhere
- Internationally marketed corporate and financial bond issuance from African countries other than South Africa has risen – albeit gradually – over recent years
- Nigeria – thought to be attractive to international investors thanks to its low level of public debt and high growth – has also seen a rush of non-sovereign activity, with a number of banks issuing debt. In April, it became the largest economy in Africa after revising its GDP statistics

Answer: Numerical sequence beginning with one (1) and one (1) which adds the two previous numbers together, e.g. 1 1 2 3 5 8 13….

5 August 2014

Question: What are the three last currencies used in Germany?

Japan's regulators turn blind eye to Nikkei's peerless forecasts – Pg. 1

- The quarterly results season in Japan, which reached its peak last week, has been notable for the re-emergence of a notorious feature of the world's second-biggest equity market: companies results trailed days in advance on the pages of the Nikkei newspaper
- In some countries this might have authorities muttering about disclosure violations, or a lack of equal access to price-sensitive information. But in Japan, regulators seem to have turned a blind eye to the "Nikkei previews", allowing stories to appear and then, within a few hours, letting companies issue rote statements saying the stories are not based on anything they have announced

Mumbai property market remains preserve of the wealthy – Pg. 2

- Tales of woe about being unable to afford to buy a property are common in India's financial capital. For all its glitter and allure, the city of 13m offers few realistic homebuying opportunities for middle-class professionals or blue-collar workers who keep the metropolis and its industries humming
- The world's fourth most densely populated city, Mumbai suffers from an acute space crunch exacerbated by government policies, including restrictions on the size of buildings and the designation of nearly 41% of the city's total urban land as "no development zones"
- Wealthy individuals from across India have always snapped up Mumbai flats as places to park their surplus cash, including "black money" on which taxes have not been paid

Private equity owners put landlord Gables up for sale – Pg. 16

- Gables Residential, the landlord of almost 40,000 homes, has been put up for sale by its private equity owners in a deal that would mark one of the largest sales of residential property since the financial crisis
- The Florida-based company, which also owns a small portfolio of retail property, has hired bankers and is expecting to receive initial bids in the next few weeks…
- The exact value of Gables could not be ascertained, but …expected it to fetch between $2bn and $3bn and attract interest from private equity, sovereign wealth and institutional investors (Prof Note: …and how much experience do private equity, sovereign wealth and institutional investors have managing a portfolio like this? Why is Gables selling? Perhaps they know the difficulty in managing this portfolio?!)

Better education no cure-all for bad decisions – Pg. 22

- The financial industry has long maintained that financial education is the missing factor in making us all better customers for their wares (Prof Note: I maintain simpler products that are more understood by the masses are what is needed!)
- Few would disagree that an appreciation of interest rates, compound interest, annual percentage rates and inflation should be taught as standard to all school children. It would not go amiss if they learned about the stock market either (Prof Note: Arrgggggg…what is the fascination with equities. Bonds Baby, Bonds! It is a larger market by far and yet more opaque. Come on Pauline, how about Bonds and Real Estate too!)

- There is also no agreement on the extent to which a better understanding of investment risk would lead to better decision-making (Prof Note: Let us Pulleezzzz start with the equation for risk! How is it even quantified?! Let us start here Pauline!)
- ….most people forget what they have learnt within 20 months (Prof Note: Hence why 1/3 of my final examinations in upper level courses covers the material from the prerequisite classes!)
- (Prof Note: Education is not a panacea. There are 'degrees' of education and quality differences in education. Learn from the best! Also, when learning finance, learn from someone with a degree in finance, e.g. MS Finance! You would not let me drill your teeth you would require a DDS. Why then take financial advice/education from someone without a degree in finance?!)

Cross-border M&A deals reach post-crisis high – Pg. 24

- Cross-border mergers and acquisitions look set to continue their recovery after deals completed in the first half of this year reached their highest level since the financial crisis
- A total of 2,537 such deals worth $753bn took place in the first six months of the year,…
- Europe remained the most prominent target market for cross-border deals in the first half, having increased its share of inbound deals by value to 42% from 38% in 2013
- After a big fall last year to 27%, North America's share of global inbound deals increased in the first half to 34%

Answer: Euro, Deutsche Mark, Reichmark

4 August 2014

Question: Capitalization Rate is to Gross Sales price as XXX is to corporate value?

France gains European support for G20 challenge to US on bank fines – Pg. 1

- France has gathered support to challenge US regulators imposing heavy penalties on foreign banks at a G20 meeting of world leaders later this year after the record $8.9bn fine levied on BNP Paribas last month
- Among European banks also facing US action for sanctions busting are Deutsche Bank and Commerzbank, although neither is expected to be hit as hard as BNP.

Argentina comes full circle as crisis clouds Kirchner's sunset – Pg. 3

- At the depths of Argentina's 2001 economic crisis, the country's congress roared with approval as President Adolfo Rodriguez Saa declared his government would stop paying its external debt
- The magnitude of this default does not compare with 2001, when a bankrupt government defaulted on almost $100bn after years of economic crisis. This time, Argentina is defaulting on less than $30bn, for legal rather than financial reasons
- …Argentina's economy slipped back into recession this year, and economists say a default could deepen the contraction by 1 to 2% of GDP, as well as aggravate one of the highest inflation rates in the world and possibly trigger a second devaluation this year

Ghana asks IMF for help as cedi falls – Pg. 4

- Ghana, the country that epitomized the "Africa rising" narrative of strong economic growth and improved governance, is to seek help form the IMF
- The reversal of fortunes underlines the challenges the continent still faces
- …currency plunged roughly 40% this year against the US dollar, making the cedi the worst-performing currency in the world in 2014. Ghana is the second sub-Saharan African country to turn to the IMF for help this year, after Zambia said in June that it would seek talks with the Washington-based body
- The IMF warned African countries this year that economic mismanagement risked "spoiling" the virtuous circle of rising growth and better governance that became known enthusiastically as "Africa rising"

China in private listings swing – Pg. 13

- Investment banks are for the first time making more money helping private Chinese companies list on the public markets, than from the country's vast number of state-owned enterprises
- Just a third a banks' fees from equity-raising this year have come from state-owned companies, …
- This compares to more than half for the whole of 2013, and an average of two-thirds during the boom years of Chinese listings from 2005 to 2010
- The swing is a sign of the state-owned sector interest in broadening its funding options beyond raising equity

Answer: EBITDA (Earnings Before Interest Taxes Depreciation Amortization)

2 August 2014

Question: How many basis points in a percentage?

Berths boom as super-rich rekindle their love affair with high-sea luxury – Pg. 1

- The world's super-rich are returning to the high seas, with the number of luxury yacht sales hitting their highest level since the financial crisis after a spike in demand from American and Russian tycoons
- Superyachts – pleasure boats more than 24m in length – have been slower than other sectors of the luxury goods market to bounce back from the financial meltdown in 2008
- The longest vessel to hit the sea so far in 2014 is Italian shipbuilder Fincantieri's 140m Victory, the ninth biggest in the all-time list of megayachts
- …a typical superyacht can command a price in excess of $150m and boast several gymnasiums and swimming pools, as well as a hydraulic swim platform or "beach club" where children can pretend they are at the beach
- …360 yachts are being build this year, although that is still well below the 2008 peak when the order book reached 587 yachts

- A re-emergence of wealthy US-based buyers, traditionally the biggest market for sales, has helped boost the industry

US hiring slows but market stays firm – Pg. 2

- US employment showed solid growth in July, but did not reflect the rapid improvement that could have put pressure on the Federal Reserve to raise interest rates sooner than expected
- The US added 209,000 jobs last month – below expectations of 233,000 – indicating a slowdown in the pace of hiring since June but steady growth in the labour market overall
- The unemployment rate rose to 6.2%, when it was expected to hold steady at 6.1%, reflecting the slight rise in the labour force participation rate of 62.9% in July
- Almost all of the jobs growth came from private services sector, with business services adding 47,000 positions
- …the US government reported that the economy enjoyed annualized growth of 4% in the second quarter of 2014,…

Stocks slide as Fed rate rise debate continues – Pg. 11

- Mixed signals on the US economy left global stocks on the back foot at the end of a week dominated by mounting speculation that the Federal Reserve might raise interest rates sooner than expected
- By midday in New York, the S&P 500 was down 0.5% at 1,921, a day after tumbling 2% - the biggest one-day decline since April
- US government bonds had a volatile week as participants moved to factor in the heavy schedule of data releases. The policy-sensitive two-year Treasury yield touched a three-year high of 0.59% on Thursday, but slid back to 0.48% yesterday – down 6bps on the day and 1bp on the week

Answer: 100

1 August 2014

Question: What is the main difference between western and Islamic finance?

Fears drive cash holdings in Asia – Pg. 2

- Large Russian companies are moving some of their cash holdings to Asian banks as the latest US and EU sanctions have raised fears that Russia could be completely shut out of US dollar funding markets
- From today, a number of major Russian state banks and development banks are barred from selling new bonds or equity with a maturity longer than 90 days to EU nationals and companies, under sanctions that expand partial restrictions from US capital markets to European ones

Eurozone inflation falls to lowest since 2009 – Pg. 2

- Eurozone inflation has fallen to a four-and-a-half year low, moving the 18-country bloc to step closer to outright deflation

- Consumer price inflation in the euro area fell to 0.4% in the year to this month, down from 0.5% in June…
- The weakness in inflation across the bloc has stemmed from lower energy and food prices, which tend to be more volatile than those of other items. The core measure, which excludes these goods, stayed at 0.8%, indicating the latest dip in price pressures was not the result of weaker demand
- Inflation could fall again next month, however, placing more pressure on the central bank to embark on extensive asset purchases, also known as quantitative easing

BNP Paribas dented by US fine – Pg. 13

- BNP Paribas reported a record 4.32bn (euro) loss in the second quarter after it received a criminal charge and a big US fine for violating US sanction controls in Sudan and other countries (Prof Note: Who went to jail? Criminal charge…what a joke! Is BNP Paribas in jail, serving time?! No. Again, who went to jail?!)

Stocks end month on negative note as economy fears surface – Pg. 19

- Global stock markets closed out the month on a distinctly negative note as uncertainty about the US economy and the potential path of Federal Reserve policy made for a nervous session
- At midday in New York the S&P 500 was down 1.6%, putting it on track for the worst day since April
- A warning about business conditions in Russia from Adidas, the German sportswear maker, served to rekindle concerns about the potential impact of the latest sanctions on Moscow
- US government bonds were mixed after falling sharply yesterday. The 10-year Treasury yield was flat at 2.55%, while the two-year was 2bps lower at 0.54%

Answer: The west charges interest while Islamic finance bars interest earning yield through profit mechanisms.

31 July 2014

Question: When is a geometric mean preferred over an arithmetic mean?

US economy roars back with 4% growth in second quarter – Pg. 1

- The US economy roared ahead in the second quarter with annualized growth of 4%, confirming the weakness early this year was an aberration and the recovery is back on track
- Growth easily beat expectations of 3.1%, with the strength that the world's largest economy is picking up speed and robust jobs data in recent months were not a fluke
- The GDP data suggest the economy has enough momentum to keep bringing down unemployment…
- The biggest downward revision was for 2012. That year's growth was revised down from 2.8% to 2.3%, but for 2013 growth was revised up from 1.9% to 2.2%

Japan's industrial output weakens – Pg. 4

- Fears of a serious knock to Japan's economy caused by April's increase in consumption tax intensified as industrial production slid by the most since the March 2011 earthquake and tsunami
- The latest forecast…is fir output to shrink by about 7% on an annualized basis between April and June – roughly matching the contraction after the March 2011 earthquake and tsunami

Bank balance – Pg. 5

- As the ECB prepares to take over banking supervision duties in November, the banks' balance sheets are being stress tested. If the stress tests reveal a threat to the lenders, German taxpayers will be on the hook again
- Landesbanks were established in the 19th century as regional central banks for Germany's vast network of local savings banks, …they were traditionally closely tied to Mittelstand, the regional small- and medium-sized businesses that for the backbone of the German economy
- But this changed after 2001. The European Commission's decision to cancel what it deemed to be unfair state guarantees for the Landesbanks ended a period of high credit ratings and easy profits for the state-owned lenders. Most piled into high-yield assets to keep profits inflated (Prof Note: Sound a little S&Lish?!)
- Since then, balance sheets have shrunk by nearly 40% and global lending has been curtailed, often at the insistence of the commission. Today, the sector employs 37,000 people and accounts for 20% of all German corporate lending

Moody's faces new conflict of interest claim – Pg. 20

- Moody's appears to show favouritism towards its top shareholders – including Warren Buffett's Berkshire Hathaway – when rating the bonds of companies, a new academic study has found
- The study's conclusion – which Moody's disputes – could revive concerns over potential conflicts of interest at credit rating agencies, which are paid to evaluate the riskiness of trillions of dollars worth of bonds
- It finds that Moody's had a "tangible bias" in favouring companies in which Berkshire or Davis Selected Advisors – its two biggest shareholders – owned at least 0.25% stake
- On average, Moody's ratings of these bonds are almost half a notch higher than ratings on the same bonds given by S&P

Answer: Geometric mean is best for time series and only uses beginning/ending data points, ignoring others, i.e. does not look at deviations.

30 July 2014

Question: If earning an annual yield of 7.2%, how long will it take to double your investment?

Banks hit by dark pools probe – Pg. 11

- UBS, Credit Suise and Deutsche Bank have been drawn into a deepening probe of banks' anonymous "dark pool" trading venues, with all three receiving subpoenas from authorities demanding details of their operations

- Credit Suisse, the operator of the world's largest dark pool trading facility, has received a subpoena from Eric Schneiderman, the New York attorney general,….
- Dark pools which allow investors to trade large blocks of shares anonymously, without moving the market price against them – have come under fire this year from regulators and lawmakers, who allege that they allow high-frequency traders to gain unfair advantages and trade ahead of other clients
- SEC officials believe that high-frequency trading firms largely follow the rules, …

Insurance price falls pose threat to underwriters – Pg. 14

- Competitive pressures in large parts of the global insurance industry have become so intense that some underwriters risk failing if prices fall further, the head of the sector's largest broker in Europe has warned
- Steep declines in premium levels are not longer merely the downward part of a "normal cycle", …
- Competition levels are especially intense in natural disaster reinsurance, for which the levels of capital that back the cover have risen almost two-thirds since the financial crisis to $555bn, …
- Low interest rates have driven yield-hungry capital market investors to "catastrophe bonds" and a relative absence of natural disasters has also pushed prices down
- Historically, the industry would expect to generate returns of between 12 and 15%. But the rate at which policies were now being priced implied some insurers were targeting long-term returns on capital of as low as 4%,…

German bond yields hit record low – Pg. 18

- Germany's borrowing costs have fallen to their lowet level on record as Europe's weak economic recovery persuades the region's central bank to keep interest rates vanishingly low
- The yield on Germany's 10-year Bunds dropped 2.6bps to 1.12% yesterday morning. Aside from distortions during the years of hyperinflation in the 1920s, this is Germany's lowest borrowing rate since the early 1800s
- Across Europe, low interest rates have pushed government bond yields down to historic levels
- ….the main driver has been the European Central Bank's efforts to counter deflation by cutting a key interest rate below zero and leaving the door open to a government bond purchases programme should inflation remain low

Answer: 10 years….Rule of 72

29 July 2014

Question: Do you have a solution for potential employers of recent graduate school graduates?

BoE chief says Lloyds repo rate rigging was 'highly reprehensible' – Pg. 11

- Lloyds Banking Group has been accused of "highly reprehensible" behavior by the Bank of England, after being found to have rigged interest rates to cut the fees it owed to a taxpayer-funded rescue scheme during the financial crisis
- Lloyds is the seventh institution to settle as part of the global probe of manipulation of Libor and other interbank lending rates. But it is the first to pay penalties for manipulating "repo" rates, used to set fees for the BoE's Special Liquidity Scheme, which offered banks access to cheaper funding (Prof Note: Again…where are the lifetime bans? Where are the criminal charges?! Fines are simply a cost of doing business!)

US real estate websites combine – Pg. 13

- Zillow has agreed to buy Trulia for $3.5bn in an all-stock deal that combines the two largest US real estate listings websites as they try and transform the traditional ways of buying and selling houses
- The combined company will operate the two websites and brands separately but sell advertising to real estate agents across both sites
- Zillow agreed to pay a 25% premium to Trulia's market captitalization on Friday, …
- The deal comes as tech companies extend their tentacles into traditional industries and try to transform them, from Uber and Lyft shaking up the taxi business to LinkedIn changing the way recruiters find candidates
- Zillow had 83m unique users in June, while Trulia had 54m. About half of Trulia's vistors use Zillow and about a third of Zillow's userbase also view listings on Trulia

Offer puts Argentine 'holdout' deal on table – Pg. 20

- A group of Argentina's creditors that accepted restricted debt after a 2001 default have offered to waive a clause in their bond contracts that could help the government to reach a deal with "holdout" creditors and avoid a fresh default tomorrow

Answer: Yes, more technical interviews for candidates. Do NOT discount a B+/A- student as they may have integrity and do not assume an "A" student is truly an "A" student. Trust but verify. Provide candidates technical interviews to ensure the material was learned in graduate school.

28 July 2014

Question: Does cheating harm the honest student?

Insurers rethink 'war cover' in the wake of downed Malaysian airline – Pg. 1

- Airline insurers are reviewing cover for aircraft involved in hostile acts such as the downing of Malaysia Airlines Flight MH17 as the industry faces its most expensive year since the 9/11 attacks in 2001
- With annual losses set to pass $2bn….underwriters are demanding more than three-fold increases in premiums in recent days for "war" policies
- Fear of soaring claims for airline war policies comes in the wake of recent fighting at Tripoli airport in Libya, which has damaged almost two dozen planes, as well as the MH17 disaster,

which killed 298. Payouts on war insurance policies are expected to reach several hundred million dollars this year

Federal Reserve set to hold its course with $10bn taper – Pg. 2

- The US Federal Reserve is set to stay its course with another $10bn taper of its quantitative easing programme this week, but will probably tweak its language on the economy to reflect the recent bout of strong payrolls growth
- …with payrolls up by 288,000 in June and the unemployment rate down to 6.1%, the Fed may adjust its monetary policy plans if the labour market continues to strengthen
- The consensus forecast is for annualized growth of 3.1%, showing the economy back on track, but the range of estimates is wide
- The Fed is also set to continue debate on its technical strategy for raising rates, with consensus building around an approach that makes only modest use of "reverse repos". Heavy use of these instruments would give the Fed tighter control over its target federal funds rate but could distort the financial system

NY Fed turns focus on bank ethics – Pg. 13

- The Federal Reserve Bank of New York is stepping up pressure on the biggest banks to improve their ethics and culture, after investigations into the alleged rigging of benchmark rates led officials to conclude bankers had not learnt lessons from the financial crisis
- NY Fed officials were surprised that some of that reported behavior occurred after the 2008 crisis, leading them to believe bankers had not curbed their poor conduct (Prof Note: I am sick of this…life time bans and criminal charges! Nothing changes behavior more than a 6' X 8' cell!)
- Banks have already been overhauling their risk management and have hired thousands of additional compliance staff (Prof Note: Lets hire more kindergarten teachers…that is what is needed to teach ethics!)

Answer: Yes, as University's require grading on a more and more strict curve, cheating does not just benefit the cheater (if s/he does not get caught) but harms the honest students.

26 July 2014

Question: Has cheating gotten worse recently?

Brazil unveils $20bn credit boost – Pg. 3

- Brazil is freeing up almost $20bn in its banking system as Latin America's largest economy struggles to escape the grip of stagflation ahead of presidential elections in October
- Under the new rules, banks will be allowed to use up to half of their reserve requirements on term deposits to boost credit operations or to purchase loan portfolios from eligible financial institutions
- After impressing investors with growth of 7.5% in 2010, - the highest rate in more than two decades – Brazil has since struggled to outpace even developed countries, with forecast growth this year of only 0.97%

Japan inflation falls again – Pg. 3

- Japan's inflation rate fell for a second successive month in June, casting fresh doubt over reaching the central bank's 2% target and the premier's Abeonomics strategy to revive growth in the economy
- …so far the big gains in CPI have come as a result of the weaker yen, which dropped more than a fifth against a basket of currencies in the six months, after November 2012, ….

Retail investors dump high-yield bond funds – Pg. 14

- The flight of retail investors out of "junk" bond funds is accelerating amid fears that the asset class's bull run may have come to an end
- High-yield outflows across the globe have been large following the recent warning from Fed chairwoman Janet yellen that valuations for high-yield bonds "appear stretched"

Answer: Yes, the cheating was so horrendous in my latest set of examinations that I literally had several male students talking while looking at me. I was completely floored by the brazen behavior!

25 July 2014

Question: What have I learned from taking a student before a disciplinary committee at University?

IMF lowers global forecast but expects growth rebound – Pg. 2

- The IMF has sliced its 2014 global growth forecast from 3.7% to 3.4% after a dismal first quarter in the US and weakness in big emerging markets
- The downgrade shows how 2014 threatens to become another disappointing year for global growth, as the slowdown in economies such as Brazil comes on top of a shock 2.9% annualized fall in US output in the first quarter
- The IMF continues to forecast global growth of 4% in 2015
- The IMF cut its US forecast to growth of just 1.8% this year from 2.2% in April. That is well below the US Federal Reserve, which still forecasts growth of 2.2%
- The IMF kept its Eurozone growth forecast flat at 1.1% and upgraded its Japan forecast from 1.3% to 1.6%
- The IMF downgraded its growth forecasts for most big emerging markets, taking its Russia forecast down to 0.2% from 1.3% because of the crisis in Ukraine. It cut its China forecast from 7.6% to 7.4% and cut its Brazil forecast sharply from 1.9% to 1.3%

Ryan calls for US to repair its social safety net – Pg. 4

- Mr Ryan said the US needed to repair its social safety net as he proposed consolidating up to 11 anti-poverty programmes into a single stream of funding that states would distribute

US banks trade home loans for corporate – Pg. 20

- …JPMorgan may stop originating home loans that are insured by the FHA, after paying more than $600m in fines to the US government agency over $200m of faulty mortgages created during the housing bubble

- The diverging trend between residential mortgage and corporate credit markets comes as a growing number of investors, analysts and regulators have been sounding the alarm over potential overheating in commercial debt and loans
- Bonds backed by home loans no longer dominate the overall debt market in the US. The amount of corporate bonds outstanding has reached $9.9tn, easily surpassing $8.1tn of residential mortgage-backed securities, including those guaranteed by the US government's housing financiers
- Wall Street used to churned out collateralized debt obligations comprised of mortgage bonds; it is now on track to create a record amount of collateralized loan obligations (CLOs) that bundle together leveraged loans

Fears grow over sharp fall in US company-debt liquidity – Pg. 20

- The ease with which investors can trade corporate debt has declined sharply in the five years since the financial crisis, …
- Since late 2008 there has been a 70% fall in RBS's proprietary measure of liquidity, which takes into account trade volumes, the difference between "bid" and "ask" prices and the amount of debt held on the balance sheets of dealer-banks
- Liquidity is difficult to define and measure, but is often thought of as the ability to buy or sell a security in a relatively short amount of time without drastically affecting the price of the underlying asset

DR Horton leads sector lower after US new home sales slide – Pg. 21

- US homebuilders fell yesterday as two of the sector's largest companies reported second-quarter forecasts and a new report showed a slide in new home sales

Answer: There has been a dramatic power shift in my 20 years of lecturing from the Professor to the Student that pays full tuition!

24 July 2014

Question: Have I ever taken a student before a disciplinary hearing?

German central banker in EU plea to Britain – Pg. 4

- The head of Germany's central bank has invoked the ghost of Winston Churchill to urge Britain to stay in the EU, before a possible referendum on membership planned for 2017
- The UK will vote on whether to keep its EU membership, ….
- Half of Britain's trade is with the EU and studies cited by Mr Weidmann suggest that membership has boosted Britain's goods exports outside the bloc by about 50%

Under siege – Pg. 7

- There is another face to Luxembourg. Its agility and financial expertise has built the world's second-largest fund administration industry. It has a reputation for stability and professionalism, demonstrated by the resilience of its huge banking sector in the financial crisis

- …rumbling discontent over Luxembourg's tax practices is now threatening its prosperity
- Luxembourg is also under suspicion of offering "sweetheart" deals to big companies, in breasch of EU rules on state aid
- The commission is also suing Luxembourg for "serious distortions of competition" over the 3% rate of value added tax it charges Amazon and other ebook retailers. Its low VAT rates have made the Grand Duchy an ecommerce hub but it stands to loose 800m (euro) of revenues – 1.5% of its GDP – next year under a long-awaited shake-up of European tax rules
- The OECD aims to stamp out "treaty shopping" – routing income through "brass-plate" companies in countries with attractive tax treaties – which will affect many of the Grand Duchy's finance and holding companies that own more than $2tn of assets
- Consumption taxes are already set to rise as Luxembourg grapples with the loss of "significant" revenues from these changes, …
- For companies, as well as individuals, Luxembourg's emphasis on discretion added to its appeal. Foreign tax inspectors trying to understand their multinationals' tax planning struggled to make sense of the sparse details in the companies' Luxembourg accounts and/or get hold of legal documents entrusted to lawyers
- Luxembourg is not overtly a low-tax country for businesses; more than two-thirds of OECD countries have rates lower than its 29.2%. But there are numerous deductions and exemptions that lower the rate by creating profits – known as "white" income – that escape tax altogether

SEC approves money funds reform – Pg. 20

- The US has approved new rules on money market funds in a bid to prevent future runs on the investments, amid opposition from business groups and commission members
- Money fund managers are worried customers, who will see their balance fluctuate under the floating rate, will pull their money out of those affected funds and move them into unaffected money market funds, separate accounts or higher-yielding fixed income funds
- Funds targeted at retail investors will be exempt from the gloating share price, but the rule catches all institutional funds except those investing only in Federal government securities

Answer: Yes, earlier this year I took a student to a disciplinary hearing WITH an administrator as a witness and the University's position was that they were unclear the student understood what he did was wrong. Is cheating not cheating regardless of your global location?

23 July 2014

Question: What is my largest frustration with University administrations?

US warned of up to 25 groups eyeing foreign switch to cut tax – Pg. 1

- Up to 25 US companies are considering relocating overseas to cut their tax bills this year, …

Dodd-Frank rules blamed for curbing growth – Pg. 4

- Four years after the Dodd-Frank financial reform bill was signed, US banks are more stable and better capitalized. But this has come at the cost of a sluggish economy caused by

reduced access to, or more expensive, mortgages, business loans and other forms of credit….

- Low-income consumers and medium to small business that do not have alternatives to bank loans have been particularly hurt, …
- The Dodd-Frank bill, signed into law in July 2010, was Congress's attempt to make banks safer after the 2008 financial crisis. One problem, banks say, is that they cannot be asked to increase their capital and reduce leverage on one hand while being pushed to lend to consumers and businesses on the other

Big test for Treasuries as end of QE looms – Pg. 18

- Official institutions with deep, almost limitless, pockets are the largest holders of US government bonds. And, with one of the biggest tests the Treasuries market has faced coming, their next move will be crucial
- Years of bond purchases by the US Federal Reserve via "quantitative easing" and the hefty accumulation of Treasury securities by other central banks and currency reserve managers means these buyers account for nearly 60% of the outstanding $10.544tn market
- Such a presence illustrates how a significant portion of the world's largest sovereign debt market resides with investors that are somewhat insensitive towards changes in underlying prices, thereby acting as a cap on long-term US interest rates. Prices move inversely to yields
- Demand from foreign buyers, with China for example having shifted more of its Treasury portfolio into longer-dated maturities this year, is playing an important role in maintaining low long-term yields
- How long this foreign demand continues is a looking question. Sentiment may be tested once the Fed ends QE as planned in October and net issuance of Treasury debt starts rising after a contraction earlier this year
- The maturing of Treasury securities sold in 2008 and 2009 when the economy generated vast budget deficits means the US will soon need to issue more paper to finance its portfolio

Answer: The administrations talk a big game about anti-cheating and my direct experience has been they do not support the faculty!

22 July 2014

Question: What is the #1 issue facing companies in U.S. graduate school classrooms, in general, in my opinion?

Barclays 'dark pool' trades dry up after high-frequency suit in US – Pg. 1

- Clients are fleeing Barlclays' "dark pool" in the wake of a US lawsuit alleging that the UK bank mislead them about high-frequency activity in its private trading venue
- Barclays has fallen from second to 12th place in terms of volumes traded in US dark pools after news of the lawsuit emerged

- Dark pools, which allow investors to trade large blocks of shares anonymously with prices posted publicly after deals are done, have come under fire from regulators and lawmakers this year
- Regulators have become concerned about the opacity of the market and pledged to increase oversight, (Prof Note: Sounds a little Over-the-Counter"ish" to me. Opacity in the financial markets?! Impossible!!!)

China debt to GDP tops 250% - Pg. 4

- China's total debt load has climbed to more than two and a half times the size of its economy, underscoring the difficult challenge facing Beijing as it seeks to spur growth without sowing the seeds of a financial crisis
- The total debt-to-gross domestic product ratio in the world's second-largest economy reached 251% at the end of June, up from just 147% at the end of 2008, …
- By comparison, the Us had a total debt-to-GDP ratio of about 260% by the end of last year, while the UK's ratio was at 277%. Japan topped the world table at 415%...
- China's growth slipped from 14.2% in 2007 to 7.5% in the second half of this year

Long on optimism – Pg. 7

- Anti-Chinese riots in May in Vietnam destroyed that country's reputation for political stability. A military coup in Thailand has frayed investor nerves, and while there is no sign of companies pulling back yet, many executives say this bout of upheaval is the most worrying in years. This month in neighbouring Cambodia, a magnet for foreign garment manufacturers, police and protestors clashed over a disputed election last year
- The scale of US investment in Asean speaks volumes: the country commits a third of its investments in Asia to the bloc – more than US investment in China, India, South Korea, Hong Kong, Taiwan and New Zealand combined
- Perhaps the most significant indicator of confidence in Asean is Japanese interest

Top US banks' loan losses tumble as lending standards tighten – Pg. 13

- Big US banks reported the lowest loan losses in eight years in the second quarter, reflecting tighter lending standards since the financial crisis
- Lower than expected loan losses and the sale of non-performing assets have enabled the big banks to release reserves, helping to flatter earnings

EU covered bond sales at lowest in decade – Pg. 20

- European covered bond activity has dropped to its lowest level for more than a decade as banks pare back their balance sheets
- Covered bonds, backed by assets such as bundles of mortgages, are seen as a relatively safe form of lending because creditors have "dual" recourse – to the issuing bank and the underlying collateral pool

BB&T's forecast miss takes a toll on other regional banks – Pg. 21

- Regional US banks were under pressure after BB&T missed Wall Street forecasts and said it would set aside reserves ahead of a Department of Housing and Urban Development audit

(Prof Note: It was just yesterday that BB&T increased my credit line, no charge. BB&T has been VERY good to me and while I attribute this less to the bank and most to the people that work at the bank, the bank gets credit. Go BB&T!!!)

Answer: Cheating!

21 July 2014

Question: What are Staiger's three rules of risk?

Bank of England chief leads push to break 'too big to fail' impasse – Pg. 1

- The issue is of major consequence to globally systemic lenders such as Citigroup, Barclays and BNP Paribas, as some will have to issue billions of dollars of fresh bonds earmarked to carry losses
- …the complexity of the topic and differences between national legal regimes and corporate structures are raising questions over how detailed any framework will be
- Japan is one of the countries that has problems with the bail-in plans amid concerns that they are not easily compatible with the structure of its banking system. Its banks are heavily deposit-funded, and officials are uncomfortable about the idea of banks issuing bonds that can be restructured in a crisis

Bond default showdown turns into a game of chicken – Pg. 2

- Despite a looming July 30 deadline for Argentina to make interest payments on restructured bonds, which it has been prevented from doing by a New York judge unless it also pays its "holdout" creditors in full, Argentine bond prices have rallied sharply in anticipation of a deal that would avoid the country's second default in 13 years
- A default would also undo much of the government's progress since last year in mending relations with international creditors, especially agreements to compensate Spain's Reposol after the expropriation of its Argentine assets in 2012, and to repay a longstanding $10bn debt with the Paris Club of creditor nations

Slim pickings – Pg. 7

- Widespread signs of rising wages would certainly feed expectations that the Federal Reserve will have to make an early move in 2015 to raise interest rates. Rates have been stuck at ultra-low levels for more than five years, and arguably the biggest test for Janet Yellen, who took charge of the US central bank this year, is to correctly time the first step to tighten monetary policy. Wages are tightly linked to inflation – often moving in tandem with it or lagging slightly behind – making it a key indicator on the Fed's dashboard
- From a structural point of view, one of the biggest concerns is that the US economy has become more skewed towards low-wage jobs such as retail and hospitality, compared with high-wage work such as advanced manufacturing, in recent years
- …employers are generally slow or reluctant to adjust wages in response to changing economic conditions. During the depths of the downturn, many businesses hesitated to cut

salaries, leading to “pent-up wage cuts” that are now keeping a lid on wage gains even as unemployment drops

Answer: (1) Identify; (2) Quantify; (3) Mitigate

19 July 2014

Question: What is an ‘Indemnification’?

Academic fraud casts pall over peer reviews – Pg. 9

- The case has renewed questions about the system of peer review that underpins the multibillion-pound industry of academic publishing
- Critics have long argued that the world’s scholarly journals – which charge annual subscriptions of thousands of pounds – fail to pick up on frauds and basic errors (Prof Note: How about that these journals fail to write in simple English. I refer to this as Academic. While I am “fluent” in academic, I fully recognize these journals (at least in business and real estate) are not written for practitioners. They are written for other academics. Great, those in the ivory towers slap themselves on the back reveling in our intellect while doing nothing to better business and thus, pay our own salaries!)
- The paradox is that the very growth of journals may explain part of the strain on peer review
- To protect the credibility of peer review, publishers have developed software to pick up on plagiarism

Dollar and yen in favour as investors hunt for havens – Pg. 12

- Risk aversion played a big part on the foreign exchange stage this week as investors sought havens from geopolitical tensions and Eurozone periphery banking woes
- But the largest gains for the US currency came on Tuesday and Wednesday – the two days where Janet yellen, Federal Reserve chairwoman, spelt out the central bank’s thinking on monetary policy to the two houses of Congress
- Ms Yellen reiterated that increases in the Fed funds rate could occur “sooner than currently envisioned” if labour market conditions “continue to improve more quickly than anticipated”

Answer: An agreement to pay damages if losses are discovered after closing or provisions of the agreement are breached, e.g. Reps, Warrants, and Covenants

18 July 2014

Question: What is a Term Sheet?

M&A fees lift Morgan Stanley – Pg. 11

- Morgan Stanley has capped a better-than-expected set of earnings from Wall Street banks by unveiling a 46% jump in second-quarter profit – due to fees from advising companies on deals, and a strategic shift away from bond trading

Bank debt sales in US soar to record – Pg. 18

- Sales of investment grade bonds by financial institutions have jumped this year as global banks turned to the US capital market, seizing on low borrowing costs and investors' appetite for high-quality corporate debt
- For investors, bank debt is appealing as increased regulations have contributed to improving balance sheets and overall supply is still much below the levels seen in the build-up to the credit boom in the US. Bank bond sales fell sharply in 2010 and 2011 after reaching a high of $458bn in 2007,…
- The prospect of higher benchmark interest rates in the US may also help boost demand for the bonds. While higher interest rates may hurt total returns on fixed income securities, they also contribute to banks' margins as they may charge more for their lending activities…
- Bank results have already started to improve, …
- Average yields on bank bonds sold in dollars stand at 2.62%, ….

Answer: Generally a very brief summary of terms memorializing a "handshake agreement". Often as simple as a list of bulletpoints, signed or initialed by the parties. It may encompass: Price, form of Payment, Structure, and Timing and Social Issues.

17 July 2014

Question: What are the three main tactics for a hostile takeover?

Economists cautious over slowdown in US medical costs – Pg. 2

- Hopes that the US is finally tackling its most difficult long-term fiscal challenge – the growth in healthcare spending – are about to receive their biggest test since the financial crisis sent the economy into a tailspin
- Tackling health costs, which take a far larger share of the economy compared with other advanced countries, represents the holy grail of US fiscal challenges. It is essential if the country is to keep funding its large defence budget and other programmes
- The slowdown in the rate of growth of health spending, especially on the aged under the Medicare programme, in the past three to five years has boosted optimism that the problem may be under control
- In 2010, the CBO expected that by 2020 the US would be spending a combined $1.47tn on Medicare and Medicaid, the two largest government medical insurance schemes for the elderly and poor
- By this year, it had slashed that forecast by more than 13% to $1.3tn
- The uninsured rate peaked at 18% in the third quarter of 2013…
- The uninsured rate fell most among blacks, Hispanics, lower-income Americans, the people the law was largely designed to help
- The US has one of the most expensive and inefficient healthcare delivery systems in the world. It is slowly moving from a "fee for service" payment system towards one where hospitals will receive a set amount to treat patients for an ailment – or a fee that is not

open-ended, as it has been traditionally (Prof Note: Hmmmmm…sounds a lot like socialism if not, dare I say it? I dare….communism!)

China GDP data show progress on rebalancing – Pg. 3

- China's economy grew by 7.5% in the second quarter, …
- China has sought to stimulate growth through a series of measures, including infrastructure spending and lifting bank lending
- …the lion's share of growth came from shoppers rather than government, suggesting Beijing is making progress in its efforts to rebalance the economy towards domestic consumption and away from fixed investment

Taking a stand – Pg. 7

- The Brics' development bank is a potential rival to the World Bank, and the currency swaps will work in parallel to the IMF, the two Washington-based institutions that embody the US-led economic order created at Bretton Woods in 1944
- The Brics now make up a quarter of the global economy, with China posed to overtake the US as the world's leading economy, based on domestic purchasing power, this year. Together these countries are seeking to use their clout to create institutions that reflect their new status
- The rise of the Brics marks the first true shift of power in the global economy since Bretton Woods. Japan, a US ally of manageable scale and few geopolitical aspirations, was easy to slot in, but now the system needs to accommodate a new set of powers that do not necessarily accept its basic assumptions
- The most immediate complaint is the US Congress to ratify reforms to IMF voting power. Those changes would have given big emerging markets a say at the fund more in keeping with their weight in the global economy

Fink calls for swifter Fed exit – Pg. 16

- Mr Fink, chief executive of BlackRock, the world's largest asset manager with $4.6tn of assets under management across the equity and fixed income markets, said that plans to maintain the Federal Reserve's balance sheet at its current size would do little to tackle what BlackRock believes is structural unemployment
- (Prof Note: Skills are needed to fix structural unemployment. We cannot continue to make students 'smarter' without providing them skills that employers covet.)

Yellen hints of hawkishness trigger dollar rally – Pg. 22

- Janet Yellen gave little sign this week that US policy makers were moving closer to raising interest rates – yet the merest hint of hawkishness in her testimony to Congress prompted a rally in the dollar
- Most leading currencies fell against the greenback after the Federal Reserve chairwoman said on Tuesday that if "notable improvements" in the jobs market continued, interest rates would be likely to rise sooner and more rapidly than currently envisaged

Answer: (1) Bear Hug; (2) Tender Offer; (3) Proxy Fight

16 July 2014

Question: What are the two issues regarding 'Business Judgment Rule'?

Big banks' core units defy fears of a freefall – Pg. 1

- Goldman Sachs and JPMorgan Chase surprised Wall Street yesterday with healthier than expected revenues form a core trading business many investors feared was in rapid decline
- Bond trading was once a powerhouse of banking profits but has disappointed in recent quarters, prompting JPMorgan and Citigroup to warn this year that second-quarter revenues from their trading business could fall by as much as 20% or 25%

Russia urges Brics to defy US – Pg. 2

- Russia has urged the Brics group of emerging markets to counter US moves to "harass" other countries, as Moscow seeks to build a stronger alliances in its stand-off with the west over Ukraine
- Since Russia's annexation of Crimea from Ukraine in March, the US and the EU have slapped travel bans and asset freezes on Russian officials and tycoons

China credit growth at three-month high – Pg. 4

- Chinese bank loans and other forms of credit grew at their fastest pace for three months in June, in a sign that authorities have loosened the credit taps in a bid to stabilize a slowing economy, while potentially backsliding on efforts to curb excessive debt
- Broad M2 money supply increased by 14.2% in June, ahead of the consensus forecast of 13.5%
- Shadow-bank credit had slowed sharply this year before June, in a sign that a series of measures over the past year aimed at curbing riskier lending were having an impact
- Bankers have expressed concern that much of the riskiest credit – including loans to local governments, property developers and coal miners – had migrated to the shadow banking system in recent years, making credit risk difficult to assess

BofA lifts junior staff numbers in wake of summer intern's death – Pg. 13

- Bank of America is increasing the number of junior staff it takes on this year, in an attempt to improve the work/life balance for young bankers after the death of a summer intern in London last year (Prof Note: Oh pulleezzz…I use to sleep at the office when I was younger. You do not get a work life balance when young…if you sleep, you are inefficient!)
- Erhardt, a German undergraduate, was found dead in the shower of his accommodation during a two-month internship at BofA. His death was prompted by an epileptic fit but work overload could have triggered the seizure, ...(Prof Note: The death is tragic, absolutely! This is individual….a two month internship…boot camp is three months! I am sympathetic to the death but completely unsympathetic to working interns less. More, More, MORE….if they sleep, they wasted time! Work/life balance is earned…it is not another entitlement!)

Sterling jumps as UK inflation forces rethink on BoE rate rise – Pg. 20

- Sterling was driven higher yesterday as UK inflation closed in on the Bank of England's target rate, forcing investors into a further rethink on the timing of the Bank's next rate move
- Consumer prices rose by more than expected in June, with headline inflation up from 1.5% to an annual 1.9%, beating forecasts of 1.6%

Answer: (1) Duty of Loyalty and (2) Duty of Care

15 July 2014

Question: What are several first round documents in an M&A transaction?

Japan and South Korea push companies to counter China's economic power in Russia – Pg. 1

- Japan and South Korea are pushing their companies to team up in Russia to stem China's growing economic power there, in an unexpected consequence of Moscow's standoff with the west
- The embassies of Japan and Korea have in recent weeks hosted companies from both countries with investments in Russia for discussions and plan further meetings this year, …
- Since the US and the EU slapped sanctions on Russian government officials and businessmen, President Vladimir Putin has repeatedly singled out China as an important economic partner

Europe's property IPOs at eight-year high – Pg. 17

- Since the start of 2014 Europe's real estate market has seen the biggest flurry of flotation activity in eight years, …
- Property looks attractive compared with many other assets as the global scramble for yield is driven by ultra-low interest rates. Property yields average 6%, while 30-year Treasuries are at about 3.4%
- European property is particularly popular for international investors because it helps to offset their other exposures, …
- IPOs are also a way for companies to access finance as banks continue to scale back on their property lending, …
- Not all IPOs are created equal, however. Externally managed cash shells have been popular, but some recent launches are now trading at levels below their IPO prices
- One key factor cited by people with knowledge of the market as being vital for future flotations' success is internal management, to align management's interests with those of investors. Having an existing portfolio of properties is another important feature – investors are wearying of cash box structures, …

Bulls look for earnings to pep up valuations – Pg. 22

- Equity investors challenged over record high equity prices and lofty valuations have a trump card: US companies are highly profitable and the trend has momentum
- The latest quarterly check-up for US companies comes as the S&P 500 is just short of scaling the 2,000-point barrier and valuations are at their highest level in more than a decade. The

importance of profit growth picking up over the course of 2014 is a crucial factor, with the S&P 500's bull run well into its sixth year
- Among the main S&P sectors, consumer discretionary trades at a 12-month forward P/E of 18 times, with consumer staples at 17.8 times. Both have lagged behind the broad S&P this year (Prof Note: What goes up MUST come down!)
- Financials trade at 13.3 times the lowest forward P/E of the major S&P groups, and the sector is looking at earnings dropping 3.2% for the second quarter
- A key aspect of the earnings season will be the focus of management on controlling costs, currency swings and improving operating efficiency as revenue growth is seen lagging behind the expansion in profits for the second quarter and over the next year

Answer: (1) Term Sheet; (2) Exclusivity Agreement; (3) Engagement letters; (4) Confidentiality Agreement; (5) Standstill Agreement; (6) Letter of Intent (LoI) (to name a few)

14 July 2014

Question: How does one value "non-recourse" financing, i.e. the 'non-recourse' part of the financing?

Lower rates lure Germans into home ownership – Pg. 2
- A property boom in the German capital pushed up the value of the average apartment by 27.5% from 2010 to 2013
- Prices in towns and cities across the country have soared by a fifth over the past four years
- Germany remains a nation of renters. The owner occupancy rate is just 53%, according to Eurostat, compared with 78% in Spain and a euro area average of 67%
- Barriers to home ownership, such as transaction costs of about a tenth of a property's value, are high. Strong tenants' rights and a vibrant rental property market also help in swaying Germans from becoming homeowners

Pope in '2%' paedophile claim – Pg. 4
- Pope Francis has been quoted as saying that "2%" of the Catholic Church's clergy are paedophiles involved in abuse cases
- The issue of abuses by clergy in the Catholic Church is one of the most challenging tests for the pontiff…
- …3,420 credible accusations of sexual abuses by priests have been referred to the Vatican in the past 10 years

A fee too far – Pg. 5
- The US Securities and Exchange Commission is taking a hard look at industry's [Private equity] fees
- One issue the regulatory agency raised was conflicts of interest when companies use their owners' broker dealer units and in-house consultancies
- On top of their standard management fees, buyout groups long kept for themselves the additional fees nominally to cover salaries and other business costs

- Many argue that the 20% share of gains that buyout managers receive when selling assets should have been adequate to ensure a focus on delivering strong returns without the need to seek other revenues

Cov-lite loan risks are rising, says S&P – Pg. 14

- Ultra-low interest rates and a tidal wave of liquidity unleashed by central banks are masking dangers in the market for corporate loans as investors willingly give up protections to lend to riskier companies, …
- The warning from one of the world's biggest credit rating agencies is set to revive the already-heated debate over the riskiness of loans, known as "cov-lite", that offer higher returns but come with fewer protections for investors or lenders
- Proponents of cov-lite loans usually point out that default rates for them during the financial crisis were actually lower than those for traditional loans
- The agency highlighted 2017-19, when hundreds of billions of loans will be due to be refinanced, as a potential stress point

Answer: Using option pricing theory as non-recourse is simply a put option on the lender.

12 July 2014

Question: What is a "point" when applying for a new mortgage?

$3.5bn pulled out of Fidelity funds – Pg. 1

- The largest active fund managers, Fidelity and Capital Group, are losing market share to index trackers and niche rivals as changing investor demands reshape the $30tn mutual fund industry
- US bond funds with more flexibility to make bets across the fixed income market attracted money, …

Mortgage lending slows Wells Fargo – Pg. 10

- Wells Fargo broke a streak of record profits over nearly four years to report net income of $5.7bn in the second quarter, as mortgage lending slowed at the bank that is seen as a bellwether for the US housing market
- Total loans rose a tepid 1.2% on an annualized basis, but the bank highlighted a rise in what it describes as core lending of 8% on an annualized basis, as commercial loans grew 11% and on consumer loans grew 5% on the same measure

Mortgage insurers take hit over loan default proposals – Pg. 13

- Mortgage insurers fell sharply yesterday after the Federal Housing Finance Agency proposed new rules to tighten standards on companies insuring loans sold to Fannie Mae and Freddie Mac
- The proposal from the housing regulator would require the companies to have a "sufficient level of liquid assets from which to pay claims" on failed mortgages in adverse market conditions

- The proposal would require insurers to increase capital tied to a borrower's policy to cover potential future losses, as the borrower misses payments, …

Thomson Reuters and CME win bid to set silver price – Pg. 14

- The current daily fix, which has been an integral part of London's $1.6tn-a-year silver market for decades, and controlled by a handful of banks, has lost its lustre in recent years due to concerns about transparency and vulnerability to manipulation
- It is shutting down because DB failed to find a buyer for its seat, leaving only two other members
- While the new benchmark will maintain the existing auction-style process to match buy and sell orders for silver bars, electronic trading will replace the closed teleconference run by three banks
- Transparency should be improved and, in time, direct market participation broadened
- To address concerns about the current lack of transparency, daily trading volumes will be published

Answer: An additional fee paid upfront to the lender; basically a reduction in borrowing amount.

11 July 2014

Question: A $600,000 mortgage using a constant payment mortgage (CPM) product at 4.125% for 30-years held to maturity will pay how much in total interest on a nominal basis?

US weighs makeover for Fed funds rate – Pg. 1

- The US Federal Reserve is exploring an overhaul of the federal funds rate – a benchmark that underlies almost every financial transaction in the world – as it prepares for an eventual rise in interest rates
- The Fed Funds rate is the main measure of overnight US interest rates and is based on the actual rates reported by brokers for overnight loans between US banks
- Concerns have grown about the reliability of the Fed funds rate since the central banks began buying trillions of dollars of assets during three rounds of quantitative easing. US banks now have huge amounts of cash and have stopped borrowing or lending Fed funds, making the market highly illiquid
- In particular, the Fed is looking at redefining the Fed funds rate to include Eurodollar transactions – dollar loans between banks outside the US markets – as well as traditional onshore loans between US banks
- The central bank will have to be careful because there are $174tn of US dollar interest rate swaps tied to Fed funds that it does not want to invalidate

India vows to raise its growth to above 7% - Pg. 2

- The government expects these measures to help raise growth from last year's level of 4.6%
- …set a fiscal deficit target of 3.6% of GDP for the next financial year, which starts in April, and 3% the subsequent year

US rift over banking penalties – Pg. 15

- Banks being investigated by the US for sanctions violations are grappling with new uncertainty after the BNP Paribas case showed that the country's enforcement officials are taking different views on how to determine penalties
- This is creating new risks for banks that are still in talks with authorities over possible sanctions settlements, including Commerzbank, Deutsche Bank, Credit Agricole and Societe Generale

Corporate bond sales at five-year high – pg. 22

- Companies worldwide have turned to international debt markets in the first half of 2014 to meet their funding needs, seizing on low borrowing costs and strong investor demand to push sales of corporate bonds to the highest level in five years
- Investors have flocked to the securities leaving aside concerns about credit quality and the sensitivity of bond prices to changes in interest rates as the US Federal Reserve tapers its asset purchases
- Corporate default rates remained low for the first six months, at 1.8%
- Long-dated bonds, namely those maturing in 10 years or more, have posted returns of 11%

Answer: $446,844.

10 July 2014

Question: A $600,000 mortgage using a constant payment mortgage (CPM) product at 4.125% for 30-years will pay what amount in principal in the first year?

Lew challenged over dangers of Volcker rule – Pg. 1

- The head of the House Financial Services Committee has called on US Treasury Secretary Jack Lew to investigate whether sweeping financial reform has impaired the $10tn market for US corporate debt and risks amplifying an interest rate shock for large companies
- Large banks have retreated from the country's corporate bond market, ….
- This pronounced market shift has sparked concerns among investors, bankers and some policy makers that interest rates could rise sharply given the reduced presence of banks acting as middlemen, raising borrowing costs for companies

Favourite emerges in silver fix battle – Pg. 11

- A joint proposal by Thomson Reuters, the data and news service, and exchange operator CME Group has emerged as the front-runner to provide a new global silver price benchmark when the 117-year old London silver fix is disbanded in August
- The current fix is an auction-style process run by three banks that confer daily via teleconference. It allows miners, financial institutions and jewelers to trade silver bars and value their stocks and contracts, but is due to be abandoned on August 14

Answer: $10,338.82

9 July 2014

Question: A $600,000 mortgage using a constant payment mortgage (CPM) product at 4.125% for 30-years has what payment for Principal and Interest monthly?

Stocks rally forces short sells on to back foot – Pg. 1

- Hedge funds have sharply scaled back their bearish bets that the value of stocks is about to fall despite warnings of renewed market exuberance, with the proportion of shares earmarked for short selling at its lowest level since before the financial crisis (Prof Note: Let us all not forget about mean reversion!)
- The percentage of stocks borrowed by short sellers – who try to profit from a company's share price falling – has dropped to the lowest level in the US, UK and the rest of Europe since the years before the collapse of Lehman Brothers, …
- The amount of short interest in the S&P500 is hovering about 2% of total shares in the index, close to the lowest level since Markit began collecting data in 2006

Forecasts revised for US rate rise after jobs data – Pg. 2

- Strong US jobs numbers last week have led to a watershed moment in the recovery from the Great Recession: for the first time since it began, economists are pulling their expectations for a first interest rate rise forward, instead of pushing it back
- Financial markets, however, are continuing to price in rate rises that are later and slower than the Fed's own forecasts, creating the chance of sharp market moves if the economic data remain strong or the Fed responds to it more aggressively

US banks cautious over growing levels of lending – Pg. 11

- US lending to businesses is reaching record levels but banks are privately warning that the activity should not be seen as evidence of an economic recovery
- Total outstanding commercial and industrial (C&I) lending, which covers loans to sectors ranging from energy to healthcare and excludes consumer or real estate loans, rose to a record $1.7tn in May from post-crisis trough of $1.2tn nearly four years ago
- While low interest rates have made business lending less lucrative, the relationships it forges open doors for the banks to sell other services such as treasury management, hedging and leasing

Puerto Rico default fear casts cloud over munis – Pg. 18

- A move by Puerto Rico to allow some public companies to restructure their debt last month sparked a credit downgrade, and brought a rally in debt sold by the US commonwealth to a halt
- The bonds have enjoyed a stunning recovery in 2014 as fears of imminent default in Puerto Rico have eased and generous tax breaks have boosted to allure of the securies
- The rally in muni debt has catapulted the group to the top performing position among US fixed income asset classes, with total returns of 5.6% year-to-date

- Moody's cut its Puerto Rico credit rating deeper into "junk" territory and warned that the legislation provided "a clear path to default" for public companies. S&P's also signaled it may cut Puerto Rico's rating within 60 to 90 days
- The tax advantage is clear. An investor in a 35% tax bracket would have to find a taxable security, such as a corporate bond, that yields more than 8% to earn the same amount of income, …

Answer: $2,907.90

8 July 2014

Question: A $600,000 mortgage with a 5-year interest only ARM will have what principal amount remaining at the end of the 5 years?

ECB under pressure to rein in 'crazy' euro – Pg. 1

- Pressure is mounting on the ECB to take action against a persistently strong euro with a leading industrialist calling on Frankfurt to tackle the "crazy" strength of the currency (Prof Note: One of the reasons I do not holiday in Europe is the strength of their currency)
- Last month, the ECB unveiled a range of exceptional measures, including cutting a key interest rate below zero, to tackle the threat of deflation.
- Any explicit attempt to weaken the euro and is likely to be opposed in Germany

Ireland's rising house prices raise spectre of another bubble – Pg. 2

- If any country should have a nose for an incipient house price bubble, it is Ireland. Between 2008 and 2010 it experienced one of the world's most spectacular property price crashes. From the peak in 2007 to the trough in 2011-12, house values collapsed by 60 to 65% (Prof Note: And FHA continued to lend in the U.S. with only 3.5% required as equity downpayment…insanity!)
- …residential house prices in Dublin rose 22% in the year to May. The last time Irish house prices were rising so fast was between 2002 and 2005, the years immediately before the crash
- Ireland's property bubble in the 2000s was caused by a mix of speculative building, cheap development and mortgage finance, competitive lending by banks, and perverse incentives to keep the property market buoyant because tax revenues depended on it
- The most obvious toxic legacy is a shortage of supply

Pole cuts scandal-prone Vatican bank down to size – Pg. 3

- …expected to strip the 127-year-old institution of most of its powers to manage assets. The bank, where decades of corruption and mismanagement did much to tarnish the image of the Vatican, will return to its original purpose of sending funds to missionaries and Church groups around the world
- Be removing the asset management functions, Vatican officials hope to cutout the source of much of the scandal that has plagued the bank since the 1980s when Roberto Calvi, dubbed "God's banker", was found hanged under Blackfriars bridge in London

Swiss bank threat to freeze US accounts – Pg. 14

- Several Swiss banks have threatened to freeze US clients' accounts unless they prove they are, or take steps to become, tax compliant, as the country's lenders hurry to resolve a tax evasion dispute with the US
- The US has been clamping down hard on banks it believes helped US citizens dodge their financial responsibilities

Banks warned over mortgage capital levels – Pg. 16

- British banks have been warned that they may face new rules preventing them from using very low risk weights when they calculate the capital they need for their mortgage baoods, …
- Regulators are increasingly suspicious of the models banks are deploying in assessing risk-weighted assets

Answer: $600,000; interest only is zero amortizing loan.

7 July 2014

Question: As a continuation of PPP, what is the cost of a massage on Nevis?

Paris rails against the dollar's dominance – Pg. 1

- France's political and business establishment has hit out against the hegemony of the dollar in international transactions following a $9bn fine handed out by US authorities to BNP Paribas for helping countries such as Sudan avoid US sanctions
- French officials lobbied heavily on behalf of the country's largest bank and argued BNP broke no European rules, prompting a debate about whether it had been the victim of US judicial over-reach
- More than half of cross-border loans and deposits are transacted in dollars, and in the last global survey of the $5tn a day foreign exchange market, the dollar was on one side of 87% of all trades
- Despite recent efforts to diversify, many central banks say that they still see no real alternative to the safety and liquidity of the US Treasury market, and hold more than 60% of their reserves in dollars

Labour pains – Pg. 6

- While optimism about a European recovery has spread through financial markets this year, the outlook for the 18.5m unemployed people in the Eurozone has scarcely improved.
- Many economists fear that the financial crisis has left a permanent scar on Europe's labour market, raising the level of so-called structural unemployment – the level of joblessness the economy can tolerate without a rise in inflation. This would mean that the unemployment rate will stay high even after the region's economy returns to health
- The OECD estimates that the level of structural unemployment in the 15 eurozone countries that are also OECD members has risen from about 8.5% to 10%

- Yet it has been young people that have been hit the hardest
- …Portugal…where more than a third of under-25s are out of work, …(Prof Note: Do parents not guide children to be self-sustaining?!)
- The OECD has called for more investment in education as a way to improve employment prospects (Prof Note: The RIGHT type of education! If I had it all to do over, I would be a mortician! No cyclical nature to my employment!)

US banks braced for dismal earnings – Pg. 15

- …weakness in fixed-income trading and mortgage banking overshadowing an increase in lending to companies and consumers
- Trading revenue across the large US banks is expected to be down 20-25% year-on-year…
- By contrast, loan growth at large US commercial banks is up 1.5% in the quarter to June 18, reversing a first quarter fall, …
- The growth was driven by consumer lending, credit cards and loans to businesses

Answer: $40 (USD)/hour

5 July 2014

Question: What is the minimum wage on Nevis (West Indies)?

Russian bill raises web freedom fears – Pg. 1

- Concerns about the potential Balkanisation of the internet were heightened when Russia's parliament passed a bill requiring all technology companies to store the personal data of their Russian users in the country (Prof Note: …and how is this different than what the U.S. government does to all of us "covertly"?)
- The Brazilian government proposed similar restrictions last year but later dropped the idea
- The rule could move Russia closer to the situation in China or Iran, which control online information through pervasive filtering and blocking of foreign services and heavily censored domestic ones

Change in the air – Pg. 5

- Hong Kong is facing arguably its worst political crisis since the handover, as pro-democracy activists and the Communist party in Beijing come into conflict over how the former colony should be run
- Under the so-called Joint Declaration, which was later crystalized in the Basic Law – hong Kong's "mini-constitution" – Beijing promised to preserve freedom of the press and the independence of the judiciary on which the city's status as an international financial centre rests
- The proximate cause of tension revolves around what form of universal suffrage Hong Kong will be permitted in the 2017 election of its chief executive, the rough equivalent of a mayor
- Beijing's tussle with Hong Kong is not an isolated event. Throughout the region, a more assertive China has become embroiled in disputes with neighbouring countries over

territory in the East and South China seas. In Taiwan, a self-ruled island that Beijing considers a mere province, people are watching events in Hong Kong with apprehension

Answer: $3/hour (USD). Actually it is 8EC/hour. Note: Cat Ghaut employees make a U.S. wage!

3 July 2014

Question: When valuing a company using a comparable approach, what are some considerations to avoid?

No need to lift rates to curb risk, says Yellen – Pg. 1

- Janet Yellen has mounted a forceful defense of the US Federal Reserve's decision to keep monetary policy loose in the face of soaring asset prices, arguing that there was no need to increase interest rates to tackle financial instability because the central bank has other tools at its disposal
- In a clear signal of how the Fed intends to prevent a repeat of the 2008 crisis, its chairwoman suggested the central bank is more interested in having a resilient financial system that can cope when asset bubbles burst than it is in popping the through rate rises
- That means there is little change of a rise in interest rates to head off exuberant stock or bond markets, suggesting that investors will be allowed to inflate and collapse asset classes as long as the underlying financial system is strong enough to withstand shocks
- Ms Yellen called for new measures to address risk in short-term wholesale funding markets. She also made clear the Fed could act against financial excesses by varying the requirements of tis stress tests, which demand that banks show they have enough capital to deal with a range of possible shocks

Shanghai leads Brics bank race – Pg. 2

- Shanghai is leading a race to host the headquarters of a new "Brics" development bank that will challenge for the first time the US post-war dominance of multilateral lending institutions, …
- The bank, to be controlled by Brazil, Russia, India, China and South Africa, is expected to start with capital of $50bn and to be officially launched by the Brics heads of state at a summit in Brazil on July 15
- The new bank, which will be the first bricks-and-mortar institution to be set up by the Brics economies, will initially be too small to rival the World Bank or the IMF in terms of size and importance
- The establishment of the Brics bank comes as China leads the charge for a separate multilateral institution in Asia to rival the Asian Development bank, which Beijing fears is, along with the World Bank, overly influenced by the US and its allies
- Plans to raise the influence of emerging nations in the IMF have been stuck in the US Congress since they were agreed in 2010

In banking capital punishment works better than torture – Pg. 7

- Who can be held accountable when banks misbehave? No the people who run them. that seems to be the conclusion reached by prosecutors and regulators who, facing a tide of public anger over financial malfeasance, have resorted to putting in the dock not people but corporate defendants: the banks themselves
- This week, BNP Paribas admitted it had transferred billions of dollars on behalf of countries that were subject to US sanctions, pleading guilty to criminal charges and incurring a fine of $8.9bn
- In May, Credit Suisse admitted criminal wrongdoing relating to a decades-long tax-evasion scheme. It ended up paying $2.8bn

Wall St on track for fresh highs as US labour report lifts mood – Pg. 19

- A robust report on US labour market conditions and reassuring comments from Janet Yellen helped put Wall Street on course for fresh record highs and provided much-needed support for the dollar
- ADP Research, the private payrolls companies had hired 281,000 workers in june, far more than the markets expected and the biggest monthly increase since November 2012

Argentina row revives interest in default debt – Pg. 20

- Nineteen eighty-four was not a good year for North Korea. That was the year western banks declared Pyongyang in default on debt it had sold in the previous decade, sealing off a possible avenue of funding for the reclusive state
- But the defaulted loan did not disappear. It was repackaged a decade later by the French bank BNP into debt denominated in Swiss francs and Deutsche marks and has been traded ever since
- No payout on the loans is in sight, but prices on the securitized loan certificates have moved between 60 cents on the dollar to less than 10 cents over the years, ….
- Frontier debt is in vogue. Debut sovereign bonds issued by Rwanda and Kenya have attracted unexpected levels of interest from investors keen for yield. That has caused concern in some quarters
- One of the markets long considered ripe for a turnaround is Cuba, which defaulted on its debt in 1986. This year prices in the secondary market for the discounted debt rose from 6 to 9 cents on the dollar. Experts say unpaid interest could far exceed the sums demanded by investors in Argentine debt

Pimco fund suffers 14th month of withdrawals – Pg. 20

- Investors withdrew money from Bill Gross's Pimco Total Return fund, the world's largest fixed income mutual fund, for the 14th consecutive month in june, ….
- Investors began withdrawing money from Mr Gross's flagship fund last spring as the US Federal Reserve prepared the market to expect a tapering of its quantitative easing bond-buying programme

Answer: (1) Failure to conduct adequate search for Comparable companies, (2) Failure to make appropriate financial statement adjustments to client company ***and*** comparable companies, (3) Multiples that mismatch numerator and denominator, (3a) Mismatched time periods, (3b) Mismatched

definitions of variables, and (4) Simple reliance on average of comparable company multiples without comparative analysis.

2 July 2014

Question: What is intrinsic value?

Japan to end bank on defense aid for allies – Pg. 1

- Japan is to end a decades-old, self-imposed ban on offering military help to an ally under attack, in a move that has drawn swift condemnation from China
- Under a resolution formally adopted by the cabinet yesterday, Japan will "reinterpret", but not formally charge, its pacifist constitution
- Now, Japan will be allowed to exercise the right to "collective self-defense", as set out by Article 51 of the US charter, provided that the attack poses a threat to Japan's existence and there is no other way of protecting Japanese people
- The resolution comes against the backdrop of territorial conflicts across Asia, including a stand-off between Beijing and Tokyo over islands in the East China against Vietnam and the Phillipines

Puerto Rico rattles US muni market – Pg. 20

- A move by Puerto Rico to allow some public bodies to restructure their debts has rattled the $4tn US municipal debt market, with a leading rating agency warning it could lead to a wave of defaults
- …the island's governor, signed a bill at the weekend that allows some of its largest utilities, such as the Puerto Rico Power Authority, to negotiate with bondholders to reduce their mounting debt loads
- The bill was seen as a departure from the Caribbean island's commitment to bondholders
- Unlike some US municipalities, the constitution of Puerto Rico, a US territory, prevents the government and public corporations from seeking protection from creditors in bankruptcy courts
- Puerto Rico securities are widely held among pension and mutual funds, which have benefited from the bonds' exemptions form municipal, state and federal taxes
- Standard & Poor's said on Friday it may cut Puerto Rico's credit rating deeper into "junk" territory within 60 to 90 days. Moody's on Monday warned the new debt relief law provided "a clear path to default" for public corporations

Answer: does not relate to one particular investor – typically result of security analysis by a research analyst – could have parts of FMV and Investment value.

1 July 2014

Question: What is investment value?

Argentina hits out at court block on debt repayments – Pg. 4

- Argentina called a US court decision to block payments on its restructured debt a violation of international law and an infringement of its sovereign rights as it teetered on the brink of technical default for the second time in less than 15 years
- Payments on the South American nation's bonds were due yesterday, but a New York federal court has forbidden it to pay interest on its restructured debt without also paying so-called holdout creditors, who refused to take part in the restructurings
- The country can still avoid a formal default by settling with holdout investors during a 30-day grace period

Volcker rule constraints prompt Citic plan to relinquish pair of US branches – Pg. 16

- Citic, the large Chinese investment conglomerate, is considering giving up its bank branches in the US at the same time as it undergoes a large restructuring, …
- …Citic is also looking at revamping its US presence because it is among a group of Chinese entities, along with China Investment Crop, that US regulators consider bank holding companies
- Under the Volcker rule, companies that control retail banks in the US will be subject to stringent requirements on what they can do once the rule is brought in next summer
- Among other things, banks face restrictions on investing directly with their own money and engaging in proprietary trading
- To avoid those limits, Citic is considering closing its two branches in the US

DR Horton leads construction rally amid US housing optimism – Pg. 21

- DR Horton, one of the largest US homebuilding companies, was boosted by the third in a series of encouraging reports on the US housing markets

Answer: A value to a particular owner (synergies, etc. could factor in); as opposed to fair market value, which is based on consensus of many investors, not just one investor.

30 June 2014

Question: What is Fair Value?

Germany pledges to keep UK in Europe – Pg. 1

- A British exit from the EU is "unimaginable", according to Germany's powerful finance minister, and Berlin will do everything in its power to keep the UK in the union after the clash over Jean-Claude juncker's appointment as European Commission president
- Wolfgang Schauble told the Financial Times an EU without its island neighbor would be "absolutely not acceptable", ahead of Europe's largest economy taking over the presidency of the Group of Seven industrialized nations tomorrow

'Euphoric' capital markets are out of step with financial reality, warns BIS – Pg. 1

- The Bank for International Settlements has warned that "euphoric" financial markets have become detached from the reality of a lingering post-crisis malaise, as it called for governments to ditch policies that risk stoking unsustainable asset booms

- Leading central banks should not fall into the trap of raising rates “too slowly and too late”, …
- The BIS has long been a sceptic about the benefits of ultra-stimulative monetary and fiscal policies and its latest intervention reflects mounting concern that the rebound in capital markets and real estate is built on fragile foundations
- The BoE hopes its restrictions on riskier forms of mortgage lending will take any property bubble without damaging growth
- The Vix index of US share price volatility, known as the Wall Street fear gauge, has fallen to a seven-year low, …

BIS hints at calm before new financial storm – Pg. 2

- In its 2014 report, released yesterday, the BIS hints at similar dangers to the ones that emerged five years after the symposium when the collapse of US bank Lehman Brothers pushed the financial system to the brink of implosion
- It argues that policy makers have collectively failed to get to grips with financial cycles that play out over periods of 15-20 years, rather than the usual eight-year lifespan of the business cycle
- Corporations in a number of emerging markets, including in Asia and Latin America, have borrowed heavily through their foreign affiliates in the capital markets, with the debt denominated mainly in foreign currency (Prof Note: Can we say ‘Tesobonos crisis’?!)
- …warning indicators single out China among those countries suffering from the risk of a domestic banking crisis, based on the gap between credit and GDP and its debt service ratio

Argentina nears default as contest with holdouts enters endgame – Pg. 3

- Barring a last-minute deal with holdout creditors, Argentina enters technical default today for the second time in 15 years. A 30-day grace period means it can still avoid formal default and most investors believe that, eventually, it will settle in order to regain access to international markets
- The case has sparked debate about whether it is ‘morally fair’ for holdouts to be paid in full when 93% of bondholders took stiff write-downs following the $95bn default in 2001
- The case also raised questions about whether it will make future sovereign debt restructurings harder, as it may reduce the incentives for creditors to participate – especially for bonds issued under New York law – and also the attractiveness of the city as an international financial centre

Reinsurers start to scrap terrorism exclusions as competition heats up – Pg. 13

- Intensifying competition between global reinsurers is forcing them to provide cover for terrorism on terms they have sought to avoid since the September 11 attacks, …
- Reinsurers, which backstop conventional insurers, are agreeing to withdraw the terrorism exclusion clauses that they insisted on after the insurance industry lost about $40bn from the al-Queda hijackings of 2001
- Prices for important types of cover have dropped to the lowest levels since the early 2000s as yield-hungry investors flock to instruments such as catastrophe bonds, which incur losses when disasters strike and are alternative to traditional reinsurance

Answer: A legally-created standard of value that applies to certain specific transactions. In most states, "fair value" is the statutory standard of value applicable in cases of dissenting stockholders' appraisal rights.

28 June 2014

Question: What is Fair Market Value (FMV)?

Big accounting firms warn Hong Kong they oppose pro-democracy protests – Pg. 4

- The big four global accounting companies have taken out press advertisements in Hong Kong stating they are "opposed" to the Chinese territory's democracy movement and warning their clients may quit the city if activists carry out their threats to disrupt business with street protests
- In the advert, the big four firms warned protests would disrupt the stock exchange, banks and the headquarters of financial and professional services firms causing "inestimable losses in the economy"
- Hong Kong faces a potential slowdown over how it implements universal suffrage, a promise enshrined in the agreement on how the city would be governed after the 1997 handover
- Hong Kong's system allows just 1200 people drawn from the city's elite to vote for their preferred candidate from a list of names managed by Beijing

Charity bonds – Pg. 16

- The UK's first listed, tradable charity bond was launched on Friday – at a healthy yield of 4.4%. In today's stingy climate, where speculative debt is yielding 3.7%, Retail Charity Bonds' seven-year bond looks like a virtuous investor's dream
- The good news is that GLH is enjoying bumper rental yields of close to 13% on its property assets – a rate that would make any landlord come over all charitable. Even better, the rental income that funds the twice-yearly interest payments comes from a government subsidy

Answer: A standard that applies to virtually all federal and state tax matters such as estate taxes, gift taxes, inheritance taxes, income taxes, etc.

27 June 2014

Question: What is Value Chain Analysis?

BoE limits mortgages to protect recovery – Pg. 1

- The Bank of England has become the first leading central bank to try to prevent a new credit boom from derailing the economic recovery after it imposed limits on mortgage borrowing
- Two restrictions were introduced by the BoE. The first limits the proportion of mortgages a bank can issue with large loans relative to borrowers' incomes. Lending at multiples above

4.5 can account for no more than 15% of a bank's new lending for residential purchases. At present, no bank exceeds this limit
- In addition to the loan-to-income limits, the bank said lenders must ensure new borrowers could still afford their loans if interest rates rose 3% points in the first five years of the mortgage

Indonesia kicks off roadshow to sell euro-denominated debt – Pg. 22
- Indonesia has kicked off the sale of its first euro-denominated bond at a meeting with investors in Frankfurt, less than two weeks before the third-largest democracy votes for its next president
- Indonesia is the latest in a growing list of countries that have turned to euro debt markets, following issues this year from South Korea, Croatia, Brazil and Morocco
- Indonesia's dollar borrowing costs rose in recent weeks and have hit the highest level since February amid concerns about the country's vulnerability to an oil price shock. Although Indonesia produces and exports oil, it also imports large quantities of refined petrol, makint it a net importer of fuel

Answer: Sequence involved in creation, manufacturing, and distribution of products or services

26 June 2014

Question: What are the three sections of a U.S. Gaap cash flow statement?

China provinces tap debt markets – Pg. 6
- China's cash-strapped local government sector is tapping international debt markets for the first time as Beijing gives the go-ahead to new funding channels for a sector saddled with $2.9tn in debts
- The $192.5m dim sum bond offering from Beijing Subway comes just a month after the national government gave the green light to 10 of its least indebted provinces to issue bonds
- Regulators have also take steps to restrict local government borrowing through the shadow banking system, where weaker localities have turned to high-interest loans when cheaper funding sources are cut off
- Local governments are still forbidden from taking on debt directly and must instead borrow through arms-length financing companies known as local government financing vehicles (LGFVs) such as Beijing Infrastructure
- Such borrowing is widely assumed to carry an implicit government guarantee, despite the fact local governments are not legally responsible for LGFV debt

Fed warns banks of tougher stress tests – Pg. 13
- The Federal Reserve has warned banks in the US that tests of their ability to survive a financial crisis will be made tougher – with new risk assessments and regular checks to ensure they fix any weaknesses identified in the process

US allows Pioneer to export light oil – Pg. 20

- A Texas company has been given permission to export very light oil from the US with only minimal processing, showing a method that others could use to increase foreign sales of booming American Production
- Exports of unrefined crude oil and condensate produced from oilfields are generally banned under legislation dating back to the 1970s
- The US shale oil boom, which has raised production of crude and condensate by more than 60% from its low point of 5m barrels per day in 2008, has created strains in the industry that many companies say can be relieved only by lifting the export ban

Answer: Operations, Investments, Financing

25 June 2014

Question: What are Porter's Five Forces?

FDI into developing economies is forecast to stall – Pg. 3

- Foreign direct investment into developing economies is poised to hit a plateau as companies around the world raise their long-term bets on the recovery of rich economies in Europe and the US, US economists predicted yesterday
- …investments out of China are likely to overtake those into the country as soon as this year, they said, pointing to a growing move overseas by increasingly confident Chinese companies that will bring an end to more than two decades of net flows into the country
- 1 After a grim year in 2012 optimism was back in 2013
- 2 FDI to developing economies is about to plateau
- 3 FDI from China set to overtake money flowing in
- 4 Last year added to the evidence for 'reshoring'

Crashing the party – Pg. 7

- Central bankers are deeply divided over how heavily they can rely on them without also changing monetary policy – especially at a time when stocks, bonds and other assets around the world are being stoked by five years of cheap money
- The BoE has one of the most wide-ranging tool kits of any central bank. It has the power to boost banks' capital requirements against asset classes such as real estate, request tougher affordability tests on borrowers, and counsel the introduction of maximum ceilings on long-to-value or loan-to-income ratios, as well as mortgage terms

Dubai equities plunge as Iraq crisis deepens – Pg. 13

- Dubai's stock market has recorded its biggest monthly fall since 2008, as upheaval at one of the emirate's largest companies and security concerns over Iraq continue to drive share prices down
- With transactions slowing in Dubai's real estate sector, some investors have expressed concern about a correction in property valuations, which had recovered strongly over the past couple of years as Dubai became a haven from regional unrest

Gap widens between inflation outlook in US and Eurozone – Pg. 20

- The divergence between US and Eurozone market expectations of inflation has reached a new peak, with investors betting on sharply differing outlooks for consumer prices on both sides of the Atlantic
- US inflation expectations, also known as break-even rates, as measured by the difference between yields on 10-year nominal Treasury notes and Treasury inflation protected securities (Tips), are at about 2.26%
- In the US measures of inflation have been rising and economists expect further firming in prices this year

Answer: (1) Threat of New Entrants; (2) Determinants of Buyer Power; (3) Threat of Substitute Products; (4) Determinants of Suppler Power; (5) Rivalry among Existing Firms

24 June 2014

Question: What is Canada's GDP (approximately)?

Fears grow on highways funding – Pg. 6

- The US Congress in struggling to reach a deal on funding for highways and bridges, jeopardizing thousands of infrastructure projects and construction jobs over the next few months, as a tense political dispute unfolds
- The need to finance the Highway Trust Fund is urgent because it is running out of cash and many projects could slow or be halted by the end of the summer. The fund finances about 6,000 road construction projects around the US, as well as other vital transport works such as commuter rail and metro line upgrades
- On average, the fund accounts for 52% of the funding states receive for highway and bridge projects…
- Over the years the trust fund has been financed by the petrol tax, but it has not been raised for more than 20 years even as Americans have become more sparing in their consumption

BA seeks in-flight insomnia cure with film of seven-hour train trip – Pg. 13

- The show, which tracks every minute of the journey from Bergen to Oslo, attracted more than 1m viewers when it first aired in Norway five years ago, (Prof Note: This is awesome!)

Fears mount over growth in shadow banking – Pg. 14

- The shrinking banking sector is creating a "major opportunity" for asset managers to step into the lending breach, but concern is growing over their "shadow bank" operations and rising systemic importance
- The golden era for asset management comes as nearly $5tn in assets globally shifts out of investment banks after US regulation that restricts banks from trading and investing their money directly,…

- The US is considering designating some of the biggest groups, such as BlackRock and Fidelity, as "systemically important institutions", which means they would be more tightly supervised

Answer: $1.8tn USD

23 June 2014

Question: How are Canadian residential mortgages different from U.S. residential mortgages?

Central banks to cut debt holdings – Pg. 1

- Central banks plan to cut their exposure to longer-term debt to protect themselves from losses when the Federal Reserve ends its bond-buying this autumn, increasing the risk of instability in global markets
- As the UK and US embark down the path back to more normal interest rates, big changes in asset holdings by other central banks around the world heighten the risks of market disruption
- The Fed and other advanced economy central banks, such as BoE, have started to consider tightening monetary policy. The prospect of higher interest rates has raised fears that a 30-year bond market rally is drawing to a close and that prices will fall in the years ahead
- The Fed has bought almost $2tn of US government debt for the past six years as part of its quantitative easing programme, but is set to stop in the autumn after phasing out its bond-buying. When that happens, the price of US Treasuries, which moves in the opposite direction to yields, is likely to fall
- While the Fed is the biggest holder of its government debt, it is closely followed by other central banks, which invest a big slice of their $11.7tn reserves stockpile in the sovereign bonds of the world's largest economies
- At the end of last year, more than 62% of central banks' investments were held in dollar-denominated assets,…

Growth in world trade sluggish – Pg. 4

- World trade had an anaemic start to 2014, …
- The value in US dollar terms of trade grew even more slowly, up just 1.5% from the first quarter of 2013

Argentina turns to talks with creditors to avoid default – Pg. 4

- Argentina must settle by June 30, two weeks before the World Cup final, in order to avoid a technical default. That deadline is followed by a 30-day grace period
- Argentina is having its feet held to the fire following a US Supreme Court decision last week that denied an appeal for a reconsideration of a lower-court ruling requiring the country to pay the holdouts in full
- Some 93% of creditors have had bonds restructured, but the dispute with the other 7% has kept the country out of international capital markets, elevated national borrowing costs and made it harder to develop its massive shale gas reserves

- A second problem is the country is barred, under legal clause in its restructured bonds, from offering other investors better terms – as would be the case with a holdout payment. That clause, however, expires at the end of this year

Answer: A Canadian mortgage, on average, has a 5-year term though it may have a 25-year amortization, i.e. it rolls every five years. This places Canadian mortgages at significant risk of interest rate hikes.

21 June 2014

Question: Theta, one of the five greeks to measure risk in a portfolio, measures what exactly?

Argentina case shifts power to creditors – Pg. 4

- A US Supreme Court ruling on Monday gave the holdouts the upper hand in the decade-long battle. The court rebuffed Argentina's arguments that previous lower court rulings in favour of the holdouts misread the country's bond agreements and violated its sovereign immunity
- The decision left Argentina facing the prospect of having to pay holdouts in full before it could make any payments to other bondholders, due on June 30. Otherwise, Argentina would default for a second time in less than 15 years
- One fear is if Argentina's holdouts are paid in full it would reduce the incentive for investors to jump in early in restructurings
- The holdout creditors in the case of Argentina are mostly hedge funds…
- The day after the ruling, Ecuador, which defaulted on its foreign debt in 2008 and once called its creditors "monsters", sold $2bn worth of bonds in the US. There was no shortage of demand: the sale attracted over $5bn in orders

Wall Street doubts companies' growth potential – Pg. 14

- The ability of US companies to deliver faster revenue growth this year has met skepticism from Wall Street analysts, indicating that the economy faces a challenge to sustain a road recovery in the coming months
- The pullback in revenue, or top line, estimates shows how companies are relying on cost-cutting to propel their earnings higher and justify record stock prices
- Some investor worry the sluggish revenue backdrop is a signal that the economy, dominated by consumer spending, faces headwinds from high food and energy prices against the backdrop of modest wage rises as companies focus on controlling costs
- Revenue estimates have not risen over the course of three months since the second quarter of 2011, but companies have managed to boost earnings because of stringent cost-cutting and a reduction in outstanding shares via buybacks
- Companies are reluctant to spend their cash piles on expansion, which could spur more revenue growth

China property – Pg. 18

- Chinese houses, though, can act as safes for locals. China watchers worry that weakness in the local property market presages disaster
- Over 12 months, the MSCI China Real Estate Index has lost a tenth, underperforming the MSCI China index by over 20%
- Sector valuations reveal that the market already expects problems
- Mortgage rates near 12% could do it. But Chinese buyers use little leverage, with loan to value at 70% or lower
- Real estate investment represents a tenth of GDP, very high for an emerging economy

Answer: Sensitivity to Time

20 June 2014

Question: Rho, one of the five greeks to measure risk in a portfolio, measures what exactly?

'Repo' turns a corner as NY Fed takes key role – Pg. 13

- The Federal Reserve Bank of New York has emerged as the largest participant in an important segment of the short-term lending market that was at the epicenter of the financial crisis
- The Fed's decision to quadruple its trading with government money market funds in the repurchase or "repo market" is a sign that the central bank is now engaging more directly with the shadow banking system at the expense of large Wall Street banks
- Historically, the repo market was where big banks pawned out their securities such as Treasury bonds to lenders including money market funds, insurers and mutual funds, in exchange for short-term financing
- Armed with a balance sheet of $4.3tn of bonds purchased during quantitative easing, the Fed is using what it calls its reverse repo programme, or RRP, to trade with money funds at a time when tough new regulatory standards have made such borrowing less attractive for the banks
- Rather than lending to banks, money market funds have sharply boosted their dealings with the US central bank

US credit card lending on rise – Pg. 18

- Three of the largest US credit card issuers have reported higher levels of lending – prompting analysts to suggest the industry has finally reached a turning point, after the damaging effects of the financial crisis
- Consumption has been sluggish as households sought to repair their balance sheets
- At Amex, US card loans grew 6.1% year on year

Norwegian krone slides after 2015 rate rise all but ruled out – Pg. 22

- The Norwegian krone fell sharply yesterday after the central bank unexpectedly revised down its forecasts for economic growth and all but ruled out any increase in interest rates before the end of next year

Answer: Interest rate sensitivity

19 June 2014

Question: Do you have a Will and Powers of Attorney (Medical and Financial) completed?

Upbeat Fed trims asset purchases by $10bn – Pg. 1

- The US Federal Reserve reduced its asset purchases by another $10bn yesterday as it delivered an upbeat statement on the health of the world's largest economy that made no mention of signs of higher inflation
- …the Fed left its language on inflation unchanged despite a run of stronger numbers in recent months, suggesting it is confident there is still spare capacity in the economy and believes it can keep rates low well into 2015 without triggering big price rises
- As expected, the Fed slashed its 2014 growth forecast, reflecting the extra distance the economy has to climb after cold weather caused output to fall in the first quarter. It now expects growth of 2.2% this year, down from 2.9% it expected in March
- It kept its 2015 and 2016 forecasts the same, but moved its unemployment forecasts a little lower to 6.05% for the end of 2014 rather than the 6.2% it predicted in March

Redskins lose trademark protection – Pg. 3

- The US patent agency has cancelled trademark protections for the name of the Washington Redskins professional football team, ruling that the term is "disparaging of Native Americans"
- The ruling does not prevent the team from continuing to use the name, and it would keep its trademark rights during an expected appeal
- The Redskins were valued at $1.7bn last year…

Asia to pass North America in wealth race as millionaires multiply – Pg. 13

- Asia is on the brink of overtaking North America as the largest wealth management market in the world, as growth in the number of millionaires worldwide accelerated further last year
- The number of individuals with at least $1m in investable assets increased by 15%, to 13.7m, over the past year, …
- Their aggregate wealth also rose rapidly, by 14% year-on-year, to reach a record high of $52.6tn – boosted by a combination of higher economic growth and improving equity market performance in 2013
- Asia's wealth is expected to grow faster than other regions, positioning it to be the largest market measured by the number of millionaires this year and by wealth in 2015

Pressure mounts for reform of gold 'fix' – Pg. 22

- The 117-year-old London Silver Fix is nearly dead. It is younger but more illustrious sister going the same way?

- Established by a group of bullion brokers in 1919 at the request of the UK Treasury, the fix occurs twice daily, at 10:30am and 3pm. The four member banks – Barclays, HSBC, Societe Generale and Scotiabank – join a secure conference call in London
- The starting price is derived from the over-the-counter and futures market
- Each bank then says how many gold bars it wishes to buy or sell on behalf of its clients, and the price is moved up or down to reflect the net interest
- There is no explicit, independent oversight

Answer: ???

18 June 2014

Question: A $500,000 mortgage is structured as a 5/1 ARM with the initial rate of 4.00%. What is the monthly payment for the first five years?

China's sovereign wealth fund shifts focus to food – Pg. 2

- China's sovereign wealth fund is shifting its focus to invest in agriculture and global food supplies in a significant strategic move that reflects the priorities of the country's new leadership
- He also stressed his fund's commitment to "shore up food security in places that we invest in and contribute our share to local job creation and economic growth"
- CIC will pay particular attention to agricultural sectors that have been neglected by large institutional investors in the past, such as irrigation, land transformation and animal feed production
- Chinese companies, most of them state-owned, have made several large investments in recent years in farmland and food production, particularly in Asia, Africa and Latin America

Fed eyes growing evidence of inflation rise – Pg. 5

- The US Federal Reserve will have to consider growing evidence that inflation is on the rise after the consumer price index climbed more than 2% from a year ago in May
- It is the strongest indication yet that inflation in the US has bottomed out and is heading back towards the Fed's target. That could force the central bank to raise interest rates earlier than current market expectations of mid-2015
- The Fed does not target the CPI – its preferred measure of inflation is the personal consumption expenditure, which was up 1.6% on a year ago in April, compared with a Fed target of 2% - but the same underlying price pressures drive both indices

Signs of inflationary pressure spark sell-off in US Treasuries – Pg. 21

- Signs of inflationary pressures in the US ahead of policy decision from the Federal Reserve sparked a sell-off in Treasury bonds and helped lift the dollar, while caution prevailed in equity markets amid lingering worries about the situation in Iraq
- By midday in New York, the yield on the 10-year US government bond was up 4bps at 2.64%, reflecting news that headline consumer prices had risen 0.4% in May, more than the market had expected

Answer: $1,666.67 ($500,000 * 0.04/12)

17 June 2014

Question: Unlike CV and Sharpe ratio, the Treynor uses what metric to quantify risk?

Fed fears over bond fund run – Pg. 1

- Federal Reserve officials have discussed exit fees on bond funds to avert a run by investors, underlining regulators' concerns about the vulnerability of the $10tn market
- Officials fear that the bond funds are becoming "shadow banks", because investors can withdraw their money on demand, even though the assets held by the funds can be hard to sell in a crisis
- After the financial crisis, tougher rules and the abolition of in-house trading operations at major US banks have resulted in Wall Street's pulling back from helping big funds buy and sell corporate bonds. Bank inventories of bonds have fallen almost three-quarters from their pre-crisis peak…

Argentina default fear after US bond case – Pg. 1

- Argentina is facing the prospect of a fresh default after the US Supreme Court refused to overturn a ruling that ordered Buenos Aires to pay billions of dollars to some of its creditors
- The court yesterday declined to hear Argentina's argument that lower court rulings misread its bond agreements and violated its sovereign immunity
- Argentine stocks fell by more than 6% on the news and credit default swaps on sovereign debt soared by as much as 396bps
- Around 93% of bondholders participated in two rounds of restructurings following Argentina's default on almost $100bn of bonds in 2002

IMF warns US to keep rates low, in downbeat analysis of economy – Pg. 1

- The US will have to keep interest rates low for longer than markets expect, the IMF has warned in a downbeat assessment of the US economy
- The IMF, in its annual review of the world's largest economy, cut both its 2014 and long-run forecasts for US growth
- The IMF cut its 2014 growth forecast to just 2% from the 2.8% it had penciled in as recently as April, …
- The IMF also cut its forecast for long-run growth in the US to about 2%, a change that has profound implications for everything from monetary policy to living standards

Abe adjusts his 'third arrow' to lift growth – Pg. 4

- The newest components of the "third arrow" of the prime minister's three-pronged effort to invigorate Japan's economy – a complement to the fiscal and monetary stimulus he introduced last year – were agreed at a meeting of a government councel on business competitiveness yesterday
- The bull run stalled during the second half of 2013, …

China overtakes US in issued non-financial corporate debt – Pg. 20

- China has more outstanding non-financial corporate debt than any other country, …having overtaken the US last year
- Corporate debt issued by Asian borrowers is expected to exceed that of North America and Europe combined by 2016,…
- From now until the end of 2018 Chinese companies are expected to borrow $20tn, a third of corporates' debt requirements globally, a trend supported by the increased willingness of Chinese authorities to allow more government-related entities to issue debt securities
- China's non-financial corporate issuance accounts for about 30% of the global total

Answer: Beta

16 June 2014

Question: What are alternatives to an M&A?

IMF talks of third way in sovereign bailouts – Pg. 1

- The IMF is discussing changes to its rules that could require countries in difficulty to extend maturities on their sovereign debt as a condition of seeking its help
- At present the IMF's options are limited to a bailout or debt restructuring based upon whether the fund considers the country's debt to be sustainable
- The mooted idea offers a third way by allowing creditors to agree to a "reprofiling" of existing bonds. Maturities would be extended for the duration of the IMF programme with no change to the coupon or principal

Cost of insuring against bank defaults falls to pre-crisis levels – Pg. 1

- The cost of insuring against global bank defaults has plunged to its lowest level since the financial crisis in a sign that investors are willing to bet the industry has become safer
- Buyers of bank debt often purchase "credit default swaps", a type of derivative that helps insure their investments against a default. The price thy are paying for that protection is now the lowest since the collapse of Lehman Brothers in September 2008
- The price paid for bank CDS is viewed as a gauge of a financial institution's riskiness

Fed set to cut growth forecasts – Pg. 4

- As at other times since the start of the economic recovery, the US Federal Reserve is set to lower its growth and unemployment rate forecasts this week, while also reducing its asset purchases to $35bn a month
- In March, the FOMC forecast a 2014 growth rate of 2.9%, with unemployment ending the year at 6.2%. Three months on, neither looks plausible

Central banks pour money into equities – Pg. 13

- Central banks around the world, including China's, have shifted decisively into investing in equities as low interest rates have hit their revenues, ….

- Central banks are traditionally conservative and secretive managers of official reserves
- China's State Administration of Foreign Exchange has become "the world's largest public sector holder of equities, …

Answer: Joint Ventures, Strategic Alliances, Minority interests, Contractual Agreements and Status Quo

14 June 2014

Question: What is "Wei Ji"?

Japan's Abe sets target for corporate tax below 30% - Pg. 2

- Japan will cut its baseline corporate income tax rate next year and reduce it by 20-45% over "several years", …
- Japan's corporate income tax rate of more than 35% is the second highest of countries in the Organization for Economic Co-operation and development, although the unprofitable nature of many businesses, combined with a range of loopholes, exemptions and credits, means in practice a majority of companies pay no income tax at all
- The issue of corporate tax cuts is contentious now because Mr Abe's government is in the middle of a two-stage increase in national sales tax, placing more of the burden directly on consumers. The sales tax rose by 3% to 8% in April and, barring a marked weakening of the economy, is set to go up by another 2% in October 2015
- The sales-tax rise was sold as a crucial means of bringing down Japan's deficit and stabilizing a national debt that, at two and a half years' economic output in gross terms, is the largest in the world

Agency takes notch off South Africa's rating – Pg. 3

- S&P's downgraded South Africa one notch yesterday, dealing the country a blow as it struggles with weak growth, high unemployment and a stubbornly high fiscal deficit
- The move came as Fitch confirmed the country's rating at BBB but cut the outlook from "stable" to "negative", citing weak and deteriorating growth in Africa's most developed economy
- Fitch said its decision to revise the outlook to negative reflected risks including persistently weak GDP growth and a failure to improve growth potential, a failure to narrow the current account deficit, which stands at 5.1% of GDP, and "material slippage" against government fiscal projections
- The agency said it had revised downwards its forecasts for growth for this year from 2.8% to 1.7%, which would be below the tepid 1.9% achieved in 2013

Hurrah before the storm – Pg. 7

- The lessons of economic history appear ominous: the 2007 crisis, which started in the US subprime mortgage market and led to Lehman's collapse, was preceded by a slump in volatility. So too was the 1997 Asian financial crisis
- Low volatility has spread globally

- One sign that markets are out-of-kilter is the conflicting stories of equity and bond markets. Soaring stock prices point to stronger economic growth. But yields on US Treasuries, which more inversely to prices, have fallen this year, normally a signal of expectations of lower growth and inflation. At the same time, overall low levels of market volatility seem at odds with evident geopolitical risks – whether in the East China sea, over Ukraine or in the Middle East

Answer: Chinese expression for "crisis" (Prof Note: I truly hope this is correct or I will receive hundreds of emails.)

13 June 2014

Question: A Real Estate pro forma is a spreadsheet model to quantify what type of diagram?

China raises spending to spur growth – Pg. 4

- Chinese government spending surged in May as Beijing sought to reinvigorate growth as fears persisted over an economic slowdown and the bursting of a property bubble
- Expenditures by local and central governments in China jumped nearly 25% from the same month a year earlier, a sharp acceleration from the 9.6% growth registered in the first four months of the year, ….
- The rise in spending contrasts with slower expansion of fiscal revenues, which expanded 7.2% in May from a year earlier, compared with a 9.2% rise in April
- Fewer property sales and lower prices I many cities across China weigh on a growth model that has come to rely on credit-fuelled infrastructure investment in the past five years
- The world's second-largest economy expanded 7.4% in the first quarter from the same period a year earlier, down from 7.7% growth in the fourth quarter of last year

Offshore cash cuts tax by 25% - Pg. 11

- A group of leading US technology and pharmaceutical companies including Microsoft, Google and Johnson & Johnson cut their average tax rate by a quarter over the past eight years as they parked more cash offshore than all other US companies combined
- Nearly $500bn of offshore cash is held by just 14 US technology and pharmaceutical companies…
- Businesses view the offshore cash piles as evidence of the handicaps they face under a US system that imposes high taxes on worldwide profits when they are repatriated to the US. Companies are calling for a temporary tax holiday to encourage them to bring their profits home
- This year, there has been an acceleration of foreign acquisitions by US companies wanting to move their tax base abroad as they try to break free of the US tax rates. Some companies are borrowing heavily in the US to avoid the tax costs of repatriating offshore funds, ….

EU multi-loans deal is post-crisis first – Pg. 20

- The first European packaged loan deal since 2007 to be backed by more than one commercial mortgage is being offered to investors

- In involves three loans on 18 Italian industrial, office and retail properties
- There have been no new European CMBS issuance since the start of 2014, after volumes tripled year on year to 8.1bn (euro) in 2013 – all of which were single-loan offerings
- Globally, CMBS issuance is at its highest levels since before the financial crisis and nearly doubled year on year in 2013. But in Europe transaction volumes have been very low and many troubled loans have received extensions; as a result there is still a substantial overhand of troubled debt to unwind

Answer: A cash flow diagram.

12 June 2014

Question: What is the M&A legal definition of 'Due Diligence'?

IMF sounds housing alarm – Pg. 1

- The world must act to contain the risk of another devastating housing crash, the IMF warned yesterday as it published new data showing house prices are well above their historical average in many countries
- House prices "remain well above the historical averages for a majority of countries" in relation to incomes and rents,…
- In Canada, for example, house prices are 23% above their long-run average in relation to incomes and 87% above their long-run average compared with rents. The figures for the UK are 27% relative to incomes and 38% relative to rents
- House prices fell most heavily in peripheral European countries, down by 7% on a year ago in Greece, 6.6% in Italy and 5% in Spain
- In the US, house prices are rising fast but not overvalued, coming in at 13.4% below their long-run average relative to incomes, and 2.6% above their long-run average relative to rents, …
- The world's cheapest housing market is Japan, where housing is 41% below its long-run average relative to incomes and 38% relative to rents
- Germany and Estonia also appear cheap, with prices in both more than 10% below their long-run average compared with incomes and rents

Austria plans bail-in for investors in lender's debt – Pg. 16

- The Austrian government plans to bail in 890m (euro) of publicly guaranteed subordinated debt in Hypo Alpe Adria, in an attempt to ensure that investors as well as taxpayers shoulder the burden of winding down the Austrian lender
- The bail-in of the debt – which had been guaranteed by the Austrian province of Carinthia – prompted S&P's to say that it might downgrade the debt of seven Austrian banks, including two of the country's largest lenders, ..
- The proposed law must now be approved by Austria's parliament, and could also be challenged by investors

Surge in 50-year corporate bonds – Pg. 20

- Global sales of corporate bonds maturing in 50 years have jumped to record levels this year as investors flock to securities, lured by higher yields offered on the debt
- Issuance of the so-called ultra-long bonds has been rising in recent years, but has picked up in 2014 to reach a record $33.5bn as of yesterday,
- Total issuance of ultra-long corporate debt jumped to $56.5bn in 2013, a rise of 84% from 2012
- Longer-dated bonds are more sensitive to duration risks
- In spite of rising expectations of higher US bond yields, which may hurt long-dated corporate debt, there has been no shortage of buyers for 50-year dollar bonds sold in 2014…
- Long-term corporate debt has generated a total return of 9.2% so far in 2014, compared with a 3.1% return on corporate bonds maturing in 10 years or less…

Japanese property revival lures foreigners – Pg. 22

- Sovereign wealth funds are swarming over Japanese property
- SWFs are also expected to be among the front rank of bidders for Pacific Century Place, a 32-storey tower overlooking Tokyo station and housing the Four Seasons Hotel
- Since Lehman, the world's second-biggest commercial property market had been widely ignored by global specialists, with only a handful of foreign firms – among them Fortress, Blackstone and Lone Star – often pouncing on B-grade properties that had been repossessed by the banks
- Investors report that returns compare very favourably. Capitalisation rates – defined as net operating income divided by the sale price of a property – are about 3.5%...

Answer: The minimum amount of research one must do,, so as not to be "held liable for the failure to know and disclose risks, which a 'duly diligent' researcher should have been able to uncover."

11 June 2014

Question: Within M&A what are the six criteria to help understand the advantages and disadvantages of financing alternatives?

Emerging nations eye IMF leadership – Pg. 2

- Developing countries will push hard for an open selection process if Lagarde leaves the IMF before her five year term is up even though they would face an uphill battle to wrest the post from Europe's grip, ….
- …European determination, combined with US apathy towards reform and differing interests among the big developing countries, mean a European would be likely to win if Ms Lagarde leaves before her term ends in July 2016
- Another concern is the risk of losing Europe's – and France's – hold on the IMF position. The IMF leadership is highly prized in Paris, which is moved quickly to back Ms Lagarde's nomination when her French predecessor, DSK was felled by a sex scandal

- US failure to pass reform of IMF voting arrangements means European countries still hold around one-third of the votes at the fund. The Eurozone crisis means it has every reason to try to keep control

Answer: FRICTO (Flexibility, Risk, Income, Timing, Control, Other issues)

10 June 2014

Question: What is an 'Oligopoly'?

Volatility plummets after central bank interventions – Pg. 1

- Global markets are less volatile than at any time in almost a decade as central banks intervention sends share prices to record highs and interest rates to historic lows
- …some analysts see echoes of the period of calm before the last financial crisis
- The Vix index – Wall Street's "fear gauge" – which measures expected US stock volatility stayed near Friday's seven-year low

China cuts reserves rules in growth bid – Pg. 1

- China has taken a fresh step to boost flagging growth by cutting the level of cash reserves some lenders must hold at the central bank, in an attempt to boost lending to small businesses and the rural economy
- The property market is another focus of concern with prices declining month-on-month in May for the first time since 2012

Hong Kong exports its elderly to mainland – Pg. 6

- …Hong Kong government, under pressure to provide homes for almost 30,000 elderly people on the waiting list for subsidized residential care, is looking to neighbouring Guangdong provide to provide the space, and a partial solution, for its demographic problem
- The elderly population, defined as those aged over 65, is set to make up more than a third of the population by 2050. Hong Kong also has one of the highest elderly poverty rates in the developed world
- The average wait of 20-30 months for a place in a residential home means thousands of elderly die before they every get one

Manufacturers' claims of skills shortages fail to show up in wage data – Pg. 6

- For production workers in manufacturing, average hourly wages were up 1.5% on a eyar ago in May – barely in line with inflation – which does not point to a battle to hang on to talent
- The pool of welders, electricians, and other tradesmen is elderly and starting to drop out of the labour force (Prof Note: My undergraduate degree is Electrical Engineering. I was taught NOTHING about home wiring and there were NO courses on it. Of course, I can maximize the number of transistors on a silicon wafer! This is my #1 criticism of Real Estate programmes….they do not make you smarter to buy/sell your own home!)

Sony wins battle with Nintendo but smartphones pose the bigger threat – Pg. 13

- Sonly has topped Nintendo in annual sales of video game consoles for the first time in eight years – a bittersweet victory as both Japanese companies have failed to stop customers from abandoning specialized game equipment in favour of smartphones
- Sales of specialized game consoles peaked at the end of 2009 and no recent machine has had the impact of the original Wii, whose innovative motion controller and simple, family-oriented games attracted millions of fresh fans from outside the established ranks of hardcore gamers (Prof Note: I admit it…I own a Wii)

Global pile of private wealth climbs to a record $152tn – Pg. 16

- There are more millionaires in the world than ever before as buyoyant equity markets, stability in the industrialized economies of the US and Europe and supportive central bank monetary policy have driven global private wealth to a record $152tn
- The total number of millionaire households reached 16.3m in 2013, up strongly from 13.7m in 2012…
- Global private wealth grew 14.6% from $132.7tn in 2012 to $152tn in 2013
- The number of millionaire households in the world represents 1.1% of all households, up from 0.7% in 2007
- The US had the highest number of millionaire households (7.1m) as well as the highest number of new millionaires (1.1m).
- Private wealth in the US stood at $46tn in 2013, twice as much as China with $22tn. Japan was in third place with $15tn, the UK fourth with $8tn and Germany fifth with $7tn

Answer: A concentration of market power in a few competitors.

9 June 2014

Question: When and why was the Clayton Act put in place in the U.S.?

Rising exports boost China surplus – Pg. 4

- China's trade surplus soared in May as exports were lifted by a strengthening global economy, but imports fell unexpectedly
- In the first quarter of 2014 the economy expanded 7.4% from the same period last year, a slowdown from the 7.7% growth in the final quarter of last year. Growth was the slowest since the third quarter of 2012

The rich have advantages that money cannot buy – Pg. 7

- Over the past two generations, the gap in educational achievement between the children of the rich and the children of the poor has doubled. While the college enrolment rate for children from the lowest quarter of income distribution has increased from 6% to 8%, the rate for children from the highest quarter has risen from 40% to 73%
- …the average affluent child now receives 6,000 hours of extracurricular education, in the form of being read to, taken to a museum, coached in a sport, or any other kind of stimulus provided by an adult, more than the average poor child – and this gap has greatly increased

since the 1970s (Prof Note: I am reminded of a recent trip I took to Lake Baikal. On the trip from Irkutsk I engaged in a 6+ hour discussion with a young couple from Hong Kong University. Basically we talked of foreign economic relationships, Asian economics, and the future of the Euro. To this article's point, the young couple received 6 hours or University level discussion for the cost of a trip to Lake Baikal (not something inexpensive)).

Hostile bids reach 14-year high – Pg. 13

- Hostile taker offers are making up the greatest proportion of global deal activity in 14 years as resurgent confidence leads companies to resist friendly overtures and demand greater premiums
- So far this year, 25 unsolicited attempts with a combined value of $290bn have been made. That amounts to about 19% of the value of all M&A activity in 2014,….
- The pickup comes as companies become more optimistic about their futures and are increasingly looking at deals as a way to bolster their business instead of more conservative moves such as share buybacks or dividend payouts

Answer: 1914 as the Sherman Act had (was) proving ineffective. The Justice Department was concerned unfair business practices/cartels (Sound familiar?). This was done during the second merger wave of 1925 – 1929 when Oligopolies were prevalent.

7 June 2014

Question: When does the World Cup start?

US jobs market tops pre-crisis peak – Pg. 1

- The number of Americans in work has surpassed the pre-recession peak, recording four straight months of growth above 200,000 for the first time in 14 years, as the world's largest economy bounces back
- Jobs growth of 217,000 came….
- Employment finally surpassed its 138.4m peak of January 2008 – a symbolic moment in the US's recovery from the Great Recession – but with population growth of millions since then jobs remain far below the pre-recession trend
- It has taken more than six years to reach a new high in employment – twice as long as any other postwar recovery – in an economy scarred by excessive household debt and a tightening fiscal policy
- …no surge of workers back into the labour force. The participation rate held steady at 62.8% - its lowest since the late 1970s

IMF warns on UK house prices – Pg. 2

- The IMF said the fundamental problem in Britain's housing market was inadequate house building, hampered by onerous planning restrictions. Any policies to limit demand for housing, such as restrictions on mortgage lending, it said "can only be temporary palliatives to an underlying problem"

Fed keeps watchful eye on jobs growth – Pg. 2

- Payrolls have got quietly healthier
- Wages remained subdued
- Unemployment is falling faster than expected
- Long-term unemployment is falling
- Jobs growth should sustain consumption

S&P loses appeal over rating of toxic financial products – Pg. 8

- S&P's has lost its appeal against a landmark court ruling in Australia that found the credit rating agency misled investors by giving AAA ratings to toxic financial products that lost almost all their value
- The judgment was the first time a court found a credit-rating agency liable for losses incurred by investors on financial products, which it had erroneously awarded a gilt-edged credit rating. It also said that rating agencies have a duty of care to investors
- On Tuesday, a US Federal judge ruled that cases taken by 16 US states and Washington DC against S&P should be heard in state rather than federal courts

Answer: Thursday, 12 June 2014

6 June 2014

Question: When were Euro banknotes first introduced?

Draghi in historic rate cut to stave off Eurozone deflation – Pg. 1

- ..first major central bankers to cut a key interest rate below zero as he unveiled a series of radical measures to stave off a crippling bout of deflation, and signaled his willingness to take further action
- …announced a package of up to 400bn (euro) of cheap loans for Eurozone banks in an attempt to boost lending to the region's credit-starved small businesses
- The combination of the ECB action combined with a signal that the bank is prepared to consider QE prompted a rally in global equities, although the euro rebounded after touching a four-month low
- The ECB cut its main refinancing rate to 0.15%, from 0.25% and the deposit rate from zero to minus 0.1%, meaning banks who park their cash at the central bank will have to pay a fee
- None of the US Federal Reserve, Bank of Japan or the Bank of England has attempted this, although the ECB hopes the move will lift inflation by weakening the euro and spurring lending in the bloc's troubled periphery
- The ECB cut its Eurozone growth forecast from 2014 to 1% and revised down its forecasts for inflation to 0.7% in 2014, 1.1% in 2015 and 1.4% in 2016

G7 warns Putin over Ukraine – Pg. 2

- Barack Obama said he and fellow leaders of the world's seven industrial powers were prepared to impose tougher sanctions against the Kremlin unless it halts its "provocations" inside Ukraine and convinces pro-Russia rebels to lay down their arms

- Russia's foreign ministry reacted angrily to accusations that it was responsible for weapons shipments to rebels in eastern Ukraine (Prof Note: Damn Russians, we all know the U.S. would NEVER provide weapons to rebels!!! Yeah right!!!)

Obama appeals for 'United' Kingdom – Pg. 2

- His intervention in the charged Scottish referendum campaign was followed by a plea that Britain remain in the EU, should Mr Cameron deliver his pledge to hold a vote on membership in 2017
- The president's candid remarks on Scotland and Europe reflect deep concern in Washington over two referendums that could divide Britain and leave its clout in Europe diminished

IMF lowers China growth forecast – Pg. 3

- …reduced its growth forecast for the Chinese economy next year from 7.3% to 7% or lower, amid concerns about a slowdown in the property market and a build-up of credit
- Prices are falling in China's property sector but the longer-term prospects remain good
- The IMF sees a steady build-up of debt, particularly by local governments and in the shadow banking sector, as the biggest risk to the economy
- The IMF also advised Beijing to reduce local government debt by about 1% of GDP each year -….

Answer: 1 January 2002

5 June 2014

Question: How many countries are currently in the EU currency bloc?

G7 chastises banished Russians – Pg. 2

- The leaders of the Group of Seven big industrial powers met in Brussels last night in a highly symbolic gathering that formally excluded Russia from the club for the first time in 17 years
- …served to highlight suspicion of the Kremlin's motives…
- Barack Obama and Angela Merkel, sent warnings to Moscow before their meeting in Brussels (Prof Note: While I am no statesmen, I do not agree with this action!)

Lithuania clears euro hurdle – Pg. 2

- Lithuania cleared its most important hurdle yesterday to becoming the 19th member of the EU's common currency when the European Commission reported that Vilnius had fulfilled all requirements needed to join the euro and recommended its adoption in January
- ….last two countries to join – fellow Baltic states Estonia and Latvia…
- Estonia joined the euro in January 2011; and Latvia in January this year

Banks warn ECB on rate cuts – Pg. 2

- The well-entrenched savings culture in the eurozone's largest economy,with Germans typically putting away around a tenth of their income, has often proven troublesome to the ECB, prompting frequent criticism of the central bank's actions in the country's media
- Successive interest rate cuts by the ECB have already contributed to lowering the amount set aside by German savers

Payrolls data give clearer signals on jobs prospects- Pg. 5

- The consensus forecast for tomorrow's May figures is growth of 213,000 jobs, after April's unexpectedly strong showing of 288,000
- While most evidence suggests that underlying consumption and business activity is growing robustly, a couple of forces are holding the economy back, most notably trade and housing
- The housing sector, meanwhile, has remained stuck at low levels of sales and new construction despite the pent up demand from seven years of stagnation
- Tight mortgage lending standards are likely culprit, but, most of all, the lack of income growth for middle-class Americans is limiting for new homes
- The Fed's forecast for the unemployment rate at the end of 2014 is 6.2%...

Answer: 18 (Estonia was the last)

4 June 2014

Question: To add to confusion in Russia, what time do ALL the trains run on?

Deflation fears add to pressure on Draghi – Pg. 1

- Eurozone inflation fell unexpectedly to 0.5% last month, intensifying pressure on Draghi, president of the ECB, to act against the rising threat of deflation
- The inflation reading is well below the ECB's target of just under 2% and on a par with March, when it hit its lowest level since autumn 2009
- The likelihood of looser monetary policy, including a radical move to cut one of the central bank's key rates below zero, has significantly increased ahead of tomorrow's ECB vote
- Large-scale asset purchases, known as quantitative easing, are not expected this month
- The Fed is expected to end its asset purchases in the autumn, …

US to boost military in Europe – Pg. 2

- …request $1bn from Congress to finance additional troop rotations in central and eastern Europe despite the recent easing of tensions over Ukraine (Prof Note: After spending an afternoon in Gorky park, I realized that, minus the language, Gorky Park could be anywhere-beautiful-USA)

Brazil's fragile economy needs to net World Cup advantage – Pg. 4

- …world cup….will create 710,000 jobs…
- Brazil's economy has lost its animal spirits. GDP growth in the first quarter was 0.2% compared with the fourth quarter

- The investment rate is 17.7% of GDP, the lowest in four years, while the savings rate is 12.7%, the lowest in at least 15 years
- The government is suppressing the price of petrol and diesel and subsidizing electricity. It has also awarded ad hoc tax breaks to various industries to try to support growth

Russia in deal with China on rating agency – Pg. 6

- Russia and China have agreed to set up a joint rating agency as Moscow's stand-off with the wet over Ukraine has made it more eager to establish institutions that would reduce its dependence on the US and Europe
- The Brics group of large developing countries – Brazil, Russia, India, China and South Africa – has long discussed plans to set up its own rating agency, along with a Brics bank. Member countries say dominant agencies such as S&P, Moody's and Fitch focus on developed countries and fail to assess them fairly

Las Vegas shudders after latest cruel spin of Macau's wheel – Pg. 21

- US casino operators fell broadly as gambling figures from Macau, the world's gaming hub, fell short of Wall Street's expectations

Answer: All trains in Russia run on Moscow time. Therefore, regardless of which time zone you are within in Russia, when using rail travel, one must be aware of Moscow AND local time!

3 June 2014

Question: During the fingerprint process of trying to enter Russia on an invalid Visa, what was the most concerning part?

Top bankers' pay rises hit 10% as US extends its lead over Europe – Pg. 1

- The pay rises came in a year when banks paid record fines in the US for wrongdoing, ranging from mis-selling mortgages to violating sanctions
- However, the jump in pay also coincides with an average increase in net income of 46% over the year and strong share price performance,…

End of the boom – Pg. 7

- Thermal coal prices have halved over the past three years, forcing companies to close unprofitable mines, reducing staff and squeeze suppliers
- The local troubles are emblematic of wider challenges facing the Australian economy in the wake of the biggest boom in capital investment since the gold rush of the 1850s
- This investment boom helped Australia to escape the worst of the global financial crisis and boosted average incomes to a level 25% above those in the US. For a time the Australian dollar was more valuable than the US greenback

Treasury urged to dig in on tax rules – Pg. 16

- US multinationals face a threat of "unprecedented taxes on trade and investment" from efforts to close gaps between international rules,…

- The US Treasury is also at risk of losing tax revenues if it fails to stand firm against some of the proposals under discussion,…
- The roundtable suggested that US companies would be put at a disadvantage to their foreign competitors, if companies holding valuable trade names, trademarks, patents and other forms of intellectual property were targeted abroad

US apartments bundled into securitized debt rent for less – Pg. 20

- Apartments that have been bundled into bonds are renting for significantly less than similar but unsecuritized homes….
- Real estate and private equity investors have been buying "single-family" homes on the cheap, pouring an estimated $8bn into distressed housing over the past few years in order to rent out the apartments and securitize the proceeds
- In its first report on so-called "single-family rental bonds", Kroll estimated the homes in Blackstone's inaugural deal are renting for 94% of the market rate
- Investors demanded a yield worth 375ps over Libor to buy the riskiest portion….
- Large institutional investors currently manage 200,000 single-family rental homes in a total US market of about 14m such houses,…

Answer: When my fingers would not scan, the officer scanned his own fingers. Now Putin's records associate a different hand with my identity!

2 June 2014

Question: The Matruska nesting dolls that are a set of three cost how much in 1994 and now in 2014?

China transforms from 'workshop of the world' to biggest robot buyer – Pg. 1

- ….rising wage costs and growing competition from emerging economies have forced manufacturers to turn to technology
- The country bought one in five robots sold globally in 2013, overtaking tech-savvy Japan for the first time, in its attempt to drive productivity gains
- Robot sales to China have on average increased 36% every year from 2008 to 2013,…
- China's car industry, the world's largest, accounts for about 60% of robot demand in the country,…
- While China is the fastest-growing market for robots, Japan still has, by far, the highest number of industrial robots in operation, with more than 310,000 in 2012, compared with 96,000 in China and 168,000 in the US

Treasuries – Pg. 14

- …so far in 2014, yields have fallen 60bps
- Somewhere in the region of 2.5% yield has been the level for 10-year Treasuries since the crisis, to which it has now returned.
- If short-term interest rates ultimately stay closer to 2% than 4% in a long and slow US recovery, long-term debt will not need to trade much higher

Hilton eyes future in boutique hotels – Pg. 15

- Hilton Worldwide is launching a new brand aimed at upscale travelers as the recently relisted US hotel group seeks to catch up with rivals that have pushed ahead in the boutique sector
- Hilton is targeting upmarket boutique hotels in mature markets, the majority in the US and Europe, ….
- The expansion will be implemented exclusively using an asset-light business model, where franchises and management contracts are preferred to outright ownership
- Starwood's own W brand which launched in 1998, quickly became popular with young, affluent travelers looking for a boutique hotel experience (Prof Note: Give me the J.W. any day of the week over a W!)

Answer: $1 in 1994 paid in U.S. currency and 300 rubles ($8 approx) paid in rubles in 2014.

31 May 2014

Question: In the final installment of PPP using hourly messages as the basis, what is the cost/hour of a message in Moscow at the Marriott?

ECB push to avert threat of deflation – Pg. 1

- The ECB is next week poised to cut interest rates and boost lending to credit-starved smaller businesses in its battle to head off the threat of Japan-style deflation
- The ECB is expected to go where no central bank has gone before and lower one of its key interest rates below zero at its rate-setting meeting next Thursday
- A move into negative territory in effect imposes a levy on reserves held at the ECB – a change that policy makers hope will spur lending from banks in the region's core to those in the periphery, as well as weakening the euro
- At 0.7%, Eurozone inflation is worryingly low, and stands at less than half the ECB target of close to 2%

Fed on alert as inflation rises – Pg. 4

- Evidence is growing of a speed-up in US inflation that could have big implications for the timing of a rise in interest rates
- New data show the US Federal Reserve's preferred measure of inflation, the price index for personal consumption expenditures, rose in April by 1.6% on a year ago. Excluding volatile food and energy prices – the so-called core index – it was up 1.4% on a year ago
- The Fed forecasts core inflation of 1.5% this year, 1.85% in 2015 and 1.9% in 2016, as it thinks unemployment will keep downward pressure on wages
- The behavior of inflation is crucial: if wages and price rises start to accelerate, it will be evidence of lower spare capacity than the Fed thought, forcing it to consider earlier and faster rate rises
- Inflation slumped in the wake of the 2008-09 recession, picked up in 2011, but then started to fall again in 2012

BoE and ECB push for securitization renewal – Pg. 12

- Europe's two most powerful central banks are making a fresh push to revive the market for an asset class branded "toxic sludge" at the height of the financial crisis, in a move they hope will boost lending to businesses and households
- The reputation of securitization, which involves slicking loans and selling them as bond-like instruments, was tarnished by the crash, when the practice helped spread turmoil in part of the US mortgage market to the rest of the global financial system
- Yesterday, the BoE and ECB called for a range of measures to broaden the appeal of safer types of securitization by means of increased disclosure and standardization
- The BoE and the ECB called for credit registers to provide more detail on the loans included in transactions – a measure they believe will kick-start the creation of securities backed by loans to credit-starved smaller businesses

Answer: 3900 Rubles/Hour

30 May 2014

Question: What is the main food on the second-class car of the Trans-Siberian railroad?

Sex, drugs and GDP: Britain to get 10bn (sterling) boost to its accounts – Pg. 1

- Prostitutes and drug dealers are set to give Britain a 10bn (sterling) boost as the country revamps the way it measures its economy
- Britain said yesterday it would include prostitution and illegal drugs in its official national accounts for the first time (Prof Note: When asking the Marriott in St. Petersburg if I could get a message the concierge asked, with complete professionalism, "What type of message, sir?" I said a 'normal' message. She said, "yes, that will be 3,000 roubles for an hour." A message was only 2,000 roubles in Novosibirsk. In Ulaan Bataar a message was 65,000 Tughriks for the hour but the woman in UB hurt my lower back! You get what you pay for!!!)
- Prostitution's contribution to the UK economy includes 44m (stering) from "room rental, clothing, etc", while an extra 60m (sterling) is added by the "energy and raw materials" consumed by people growing marijuana at home

US economy shrinks after inventories disappoint – Pg. 2

- The US economy shrunk at a worse than expected annualized pace of 1% in the first quarter of 2014 but the fall says little about its current health
- Most economists expect growth to rally towards a pace closer to 3% for the rest of the year

IMF warns 'rising' Africa on debt risks – Pg. 2

- The IMF has warned African nations issuing billions of dollars in sovereign bonds that they could overload their economies with too much debt and derail the best economic period for the region in a generation
- Sub-Saharan African countries have benefited over the past five years from investors' hunger for yield due to ultra-loose monetary policies in the US, Japan and Europe. The

borrowing spree has lifted public debt, which the IMF said would hit a 10-year high of 35% of GDP
- The IMF forecasts that fiscal deficits in Sub-Saharan Africa will hit 3.3% of GDP in 2014, a large swing from a surplus of 2.5% in 2004

Argentina agrees pact with creditor nations – Pg. 3
- Argentina has reached a deal with the Paris Club of creditor nations to pay a longstanding $9.7bn debt in its latest move to win back confidence from international capital markets
- Argentina's main impediment to returning to the international capital markets remains its legal dispute with so-called "hold-out" creditors, who rejected debt restructurings in 2005 and 2010

Meteor-strike 'cat bonds' hit home – Pg. 18
- USAA, the US insurer, has sold $130m of bonds that allow investors to collect yields of 15% or more by betting on the chances of a meteor strike or volcanic eruption
- The catastrophe bonds are the first to cater to these two types of natural disaster. Investors nevertheless clamoured to buy the new debt
- In addition to providing coverage from a meteor strike and standalone risk of a volcanic eruption – two firsts for the insurance-linked industry – the USAA bonds cover so-called "unmodelled" risks of wild fires, severe thunderstorms and blizzards in US states where such disasters are not typically assessed

Answer: Ramen Noodles! Hot water is provided at the end of each car creating opportunities to eat a hot meal provided only hot water is required. Everyone ate Ramen and drank coffee!

29 May 2014

Question: What is the difference between a "Western" and an "Eastern" Dragon?

Global revenue recognition standard set for 2017 launch – Pg. 13
- Investors will find it easier to compare the performance of companies around the world following the culmination of a 12-year project to bring together US and international revenue reporting
- Eliminating the differences in reporting makes it easier for investors to compare companies in different countries and also removes the risk that some are exploiting the varied rules to flatter their bottom lines
- A company's revenue, known as its top line, is the amount of money that it receives during a specific period. Costs are taken off the revenue figure to determine a company's net income
- The amount of revenue recognized should not change, but when a company is allowed to recognize it will
- Under the current approach, US groups are overseen by the Generally Accepted Accounting Principles (GAAP) and face a more prescriptive regime

- In Europe, accounts are supervised by the International Financial Reporting Standards, which revolves around principles rather than rules
- The global standard will take effect in 2017 and is subject to endorsement by individual jurisdictions

Goldman defends its strategy – Pg. 15

- Gary Cohn, president of Goldman Sachs, blamed the world economy rather than regulation for sharp declines in trading volumes at his bank and across Wall Street, but said "we're not just waiting for things to get better"
- Headcount in fixed income trading, the misfiring engine of investment bank profits, has been reduced by 10% since 2010, he said, while risk-weighted assets in fixed income, currencies and commodities had dropped by $90n since June 2012

Wider housing sector lifted by Toll Brothers' 67% sales surge – Pg. 21

- Optimism from one of the largest US homebuilders helped lift the wider housing sector, despite chopping performance over the past five months that has been capped by slowing mortgage applications and subdued home sales

Answer: A "Western" Dragon spews fire and is evil whereas the "Eastern" Dragon does NOT spew fire and is lucky.

28 May 2014

Question: Should you ever consider taking the trans-siberian in second class?

Lagarde warning to banks over rules delay – Pg. 1

- …warned that 'a fierce industry pushback' by the financial sector is delaying much-needed reforms and risks destabilizing the global economy
- She also hit out at continued misconduct in financial services and said the industry had "not changed fundamentally in a number of dimensions", reeling off a list of scandals, including money laundering and the manipulation of libor
- Regulators around the globe have imposed about $5.8bn in penalties for attempts to manipulate benchmark rates. The sum is expected to climb as regulators conclude their investigations and as the number of private lawsuits rises

OECD raises fears on recovery – Pg. 6

- Exports from both the advanced and the leading emerging economies slowed sharply in the first three months of this year,…
- …exports by the G7 and Brics economies had fallen by a collective 2.6% in the first quarter of 2014 from the previous three months
- The WTO last month raised its forecast for trade growth this year to 4.7%, arguing that the strengthening recoveries in Europe and the US would help spur on global commerce
- But it also warned at the time that geopolitics in the form of the crisis in Ukraine and other events posed a risk to that forecast as did the slowdown in emerging economies

- In Russia, which is facing the prospect of tough trade sanctions owing to the crisis in Ukraine, exports and imports both fell by almost 3% from the previous quarter

BofA resubmits proposed capital plans to the Fed – Pg. 14

- …after an accounting error forced the bank to suspend and revise its plan for a $4bn share buyback and its first dividend increase since 2007
- The original submission was withdrawn after an accounting error over the treatment of certain structured notes led BofA to overstate its capital by $4bn (Prof Note: …and where is the list of terminations and lost bonuses?!)

Insurers see potential for lending to property sector – Pg. 14

- Some of Europe's biggest insurance companies are building stakes in the property market as banks' reluctance to lend, combined with the economic recovery, leaves a gap for alternative lenders

Libor trial trio opt for London – Pg. 16

- Three former Barclays traders appeared in a London court yesterday, becoming the first Americans to face criminal charges in the sprawling global probe into alleged widespread manipulation of the Libor interbank lending rate
- The SFO alleges the three fixed-income traders "conspired together with other persons to defraud Barclays Plc and its associated entities"
- Libor is the crucial interbank lending rate that helps determine the price of $350tn of products, from home loans to complex derivatives

SEC's lack of progress frustrates officials – Pg. 16

- The pace of passing financial reform rules has slowed to a crawl at the US SEC, frustrating some officials at the SEC and at other regulatory agencies who are upset by the lack of activity, …
- While the SEC has issued numerous enforcement actions this year, the agency has made little progress on more than 40 rules on its 2014 agenda. Most of those stem from the 2010 Dodd-Frank financial reform legislation passed after the 2008 financial crisis, and the Jobs Act, which makes it easier for smaller start-ups to go public
- In 2014, the SEC has issued more than 60 enforcement actions, compared to proposing four rules, two of which are related to swaps, …
- The other US markets regulator, the Commodity Futures Trading Commission, is nearly finished with its Dodd-Frank mandates, including swap rules

Key US gauge signals complacency – Pg. 20

- US equities are at record highs, but a key measure of investor sentiment for future performance indicates a reluctance to chase the market higher
- S&P500 call options, which give the buyer the right but not the obligation to own the index at a future date, are at their cheapest level since the current bull market began five years ago, ….

Answer: NO! You may share your carriage with old Russian woman that relegate you to the top bunk whereby your life becomes 24 cubic feet of hell. Worse, the dining car picks its own hours and relief can be 50 hours away, i.e. arrival in St. Petersburg/Moscow. Oh, and do not forget the bathrooms are closed at stations!

27 May 2014

Question: What is the fine for entering Russia with an incorrect Visa?

Farewell to the Amby, symbol of a vanished India – Pg. 11

- India's stuttering car market has claimed a venerable victim: the affectionately regarded but rarely purchased Hindustan Ambassador, whose parent company has suspended production of the vehicle, citing weak sales and heavy debts
- Based on Britain's Morris Oxford, the Ambassador became India's only domestically produced passenger car in 1957. It became a symbol of high social standing and the nation's wider hopes for economic self-reliance

Young people open to alternate banking – Pg. 12

- A Google or Walmart bank would be attractive to a large slice of young consumers,, …
- Google Wallet allows customers to pay for goods by mobile phone. Walmart has gone further, offering pre-paid debit card called Bluebird in a partnership with American Express, which offers direct deposit

Currency swings squeeze multinationals – Pg. 13

- A year of turbulence in emerging markets currencies has proved punishing for multinationals that bet heavily on growth in the developing world to compensate for the post-crisis malaise in their home markets (Prof Note: No sympathy! They should not be "betting" on currency movements, are they FX traders? Is this really to be a profit centre?)
- Moreover, shareholders often view currency risk – and the possibility of currency appreciation – as integral to investing in a company with emerging markets exposure (Prof Note: then the fluctuations and risks should be understood and accepted by investors)
- More companies are now asking how they can hedge the more volatile, high-yielding currencies….locking in an exchange rate through a forward contract – the most common way to hedge currency risk – is rarely economic with high-yielding EM currencies

Answer: 2,000 Roubles payable at any bank in Russia.

26 May 2014

Question: What does having incorrect dates on your Russian Visa mean when entering Russia?

Fed weighs options on how to raise interest rates – Pg. 2

- In the past, the Fed raised rates by reducing the supply of bank reserves. Banks have to hold a minimum level of reserves, so when the supply fell, they would pay more to borrow them – and then pass that rate on to their customers.
- The market interest rate for borrowing bank reserves overnight is known as the Fed funds rate.
- Today, the situation is different: after three rounds of quantitative easing, banks have reserves at the Fed almost $3tn greater than the regulatory requirement. Reserves are everywhere….
- The main tool the Fed will use to raise rates, therefore, is the interest it pays to banks on their excess reserves. So-called IOER is currently set at 25bps. If it puts IOER up to 50bp – in essence paying more for all the oxygen in the banking system – then banks will not lend to anybody else for less. That means the Bed already has the only tool it needs to control broad financial conditions
- ….a device lugubriously called the overnight fixed-rate reverse repurchase facility (ON RRP) – has emerged as a clear favourite

By the book – Pg. 5

- The UK government last year announced plans to become the first western country to issue an Islamic bond, or sukuk – a security structured to adhere to the Muslim prohibition on interest
- …the global Islamic finance industry is expected to hit $2tn this year….
- The biggest Islamic finance market are Malaysia, Iran and Saudi Arabia
- London is the leading western centre but Luxembourg, Hong Kong and South Africa are now competing with the UK to become the first non-Islamic country to issue a sovereign sukuk to make themselves stand out

Answer: A very long and uncomfortable wait in a very large back room with very little furniture! Fortunately the Russians were/are gracious and the issue was able to be corrected.

24 May 2014

Question: What was the Rouble/USD exchange rate when I studied in Moscow in 1994 versus today?

Flawed data on rich weaken Piketty's main argument – Pg. 3

- An investigation by the Financial Times, however, has revealed many unexplained data entries and errors in the figures underlying some of the book's key charts
- These are sufficiently serious to undermine Prof Piketty's claim that the share of wealth owned by the richest in society has been rising in recent years and "the reason why wealth today is not as unequally distributed as in the past is simply that not enough time has passed since 1945"
- After referring back to the original sources, the investigation found numerous mistakes in Prof Piketty's work: simple fat-finger errors of transcription; suboptimal averaging techniques; multiple unexplained adjustments to the numbers; data entries with no

sourcing; unexplained use of different time periods; and inconsistent uses of source data (Prof note: All reasons to receive a poor grade!)
- Once the data are cleaned and simplified the European results do not show any tendency towards rising wealth inequality after 1970

Gold fix put on the spot after Barclays fine – Pg. 9
- Yesterday, the UK's financial watchdog banned Mr Plunkett from working in a regulated financial activity after finding he had manipulated the fix in order to save the bank 2.3m (sterling)
- Unlike other commodities such as coffee and copper, gold does not trade on an exchange in London. Investors wishing to buy and sell gold rely on a 24-hour over-the-counter market serviced by investment banks….the fix, which dates to 1919, occurs at 10:30am and 3:30pm every weekday via teleconference with its members - ….
- The chairman suggests an initial price, based on gold prices in the futures and spot market. Each of the fixing banks confers by phone with its clients, typically miners, jewelers and banks, who then declare how many 400-ounce gold bars they wish to trade
- The price is then moved up or down depending on whether there is more buying or selling interest. When the difference between buying and selling is less than 50 bars, the price is fixed and declared to the market

Answer: 2000:1 versus 34:1 today

23 May 2014

Question: What was the Mongolian/USD exchange rate one year ago versus today?

Beijing admits to Africa strains – Pg. 2
- China has made a rare and candid admission of the difficulties in its economic relationship with Africa, with one of the country's top financial officials describing some Sino-African deals as "not so good, not so satisfactory"
- China-Africa trade has surged over the past decade, reading $200bn last year, up from $10bn in 2000 and $1bn in 1980

Turkey cuts repo interest rate despite rising inflation – Pg. 4
- Turkey's central bank has cut its benchmark interest rate by 50bps despite mounting inflation, in a move likely to rekindle the debate about the bank's independence
- Turkey's inflation has risen to a two-year high of 9.4% in April…

China property – Pg. 10
- Double the amount of land has been sold within China in the past three years than in 2007, 2008, and 2009 – when China's local governments financed one of the great fiscal stimuluses in history with the proceeds
- ….urban residential floor space under construction of 5.7bn square metres at the end of 2013, five times annual sales (Prof Note: Get use to thinking in sm and sf!)

Answer: 1300:1 versus 1820:1 (Now you can see why banks are offering 16.0% interest rates on deposits)

22 May 2014

Question: What is the currency of Ecuador?

Fed debates more forward guidance on plans to cut $4tn balance sheet – Pg. 1

- The Fed's deliberations come as the Bank of England appeared to move closer to a rate rise after some members of the interest-rate setting monetary policy committee indicated they stood ready to vote for an earlier-than-expected increase
- The BoE, which has kept interest rates at the historically low rate of 0.5% since 2009, would be the first major central bank to increase rates since the European Central Bank tightened its monetary policy in the summer of 2011
- Once the Fed stops reinvesting, its balance sheet will start to gradually shrink, reducing the amount of stimulus it adds to the economy.

China loosens reins on bond sales – Pg. 6

- China will allow local governments to sell bonds for the first time in two decades in a big step towards tackling a looming crisis in public finances and reining in the shadow banking sector that municipal authorities rely on for funding
- Since 1994, provincial and city governments in China have been forbidden from borrowing through a separate pilot scheme under which the central government issues bonds on their behalf and takes responsibility for repayment
- For years, local governments have circumvented this ban by setting up companies known as local government finance vehicles that issue bonds or take loans on behalf of the local authority
- Beijing is hoping that issuing bonds directly will allow local authorities to better manage their finances and bring their borrowing out of the shadows
- The new bonds will have maturities of five, seven or 10 years and the total amount that each local government can issue will be tightly controlled
- For several years until 1994, local governments were allowed to borrow from banks and issue bonds on their own but a huge debt build-up and several scandals prompted Beijing to issue the ban on local borrowing that year

Ivory Coast and Ecuador to sell debt – Pg. 22

- Two frontier countries with a chequered history of debt defaults are returning to sovereign bond markets just five years after they suspended payments to investors
- Ivory Coast, which defaulted in 2011, and Ecuador five years ago, plan to issue dollar-denominated bonds as early as July in a sign more countries are moving to take advantage of strong investor demand for emerging market debt

- Rwanda, which made its debut in April 2013 with a $400m 10-year bond, is one of several emerging market countries to tap markets in the past 18 months, joining Nigeria, Zambia, Tanzania and Pakistan

Answer: The United States dollar, i.e. Ecuador has no monetary policy or home currency.

21 May 2014

Question: Which country as the largest open-air Black Market from all my travels?

Berlin sees evidence of forex rigging – Pg. 1

- Germany's financial watchdog yesterday revealed it held concrete evidence that banks had tried to manipulate the 5.3tn (euro) a day foreign exchange markets even as Brussels charged three more over a rate-rigging cartel, in a sign that the industry has not yet put scandal behind it
- The European Commission charged the European banks, as well as US rival JPMorgan, with participating in a cartel to manipulate the Euribor interest rate benchmark, after the trio held out against a settlement last year

Top Fed official calls for rethink on end of easy monetary policy – Pg. 1

- William Dudley, president of the New York Fed, said the central bank should keep reinvesting in its mortgage portfolio until after it raises interest rates. The current exit strategy calls for stopping reinvestment before rates go up
- The call for the Fed to keep its mortgage portfolio larger for longer signals how the exit strategy is now the most active policy debate at the central bank as the US economy moves closer to full employment
- …raised concern that setting the reverse repo rate too high could encourage growth in the shadow banking system by giving non-banks an attractive place to park their cash

'Inadequate' response to US calls brought down full force of justice – Pg. 13

- A combination of "brazen" misconduct and a "shamefully inadequate internal inquiry" made Credit Suisse the first major bank in two decades to plead guilty to criminal wrongdoing
- The Swiss bank spent years helping US clients conceal offshore accounts….
- Yet it was largely the bank's "inadequate" response and resistance to provide client names to US authorities that tipped the scales…

Choppy trading wrongfoots hedge funds – Pg. 22

- …hedge funds that specialize in predicting the direction of the global economy have struggled as winning trades in interest rates and currency markets have gone into reverse
- …the average hedge fund suffering the worst start to the year since the financial crisis, making just 1.2%...

Answer: Ulaan Baatar, Mongolia. It was so big I could not find the complete edges. It literally was gigantic. Wait to see a Hollywood chase seen in this market, it would be GREAT!

20 May 2014

Question: How many Mongolian Tughrik's are equivalent to one U.S. Dollar?

Foreign finance set to hit new high in Africa – Pg. 4

- Africa will receive its highest ever flow of foreign investment this year as the continent's growth accelerates towards levels not seen since the 2008-09 crisis…
- Remittances and official aid, both under pressure from slow economic growth in Europe, are at present the largest sources of financial flows in the region

The wisdom of crowds – Pg. 7

- In less than a decade a handful of crowdfunding websites around the world have provided billions of dollars' worth of small loans to individuals and businesses by matching investor with needy borrowers and offering better rates than banks (Prof Note: less overhead! However, less sophistication in underwriting)
- Global regulators are also beginning to scrutinize P2P lending as they explore its potential
- Just like a bank, P2P loan sites check the credit history of borrowers, charging more to those who have a history of defaulting on loans. But unlike banks they use new technology to keep their overheads low, and rates are largely determined by the people who lend the money
- The use of technology also nets lower rates for borrowers and higher returns for lenders
- The automated due-diligence process that allows platforms to keep their costs low can also be manipulated by fraudsters
- Regulation of P2P is likely to evolve as institutional investors take a bigger role in the sector

Kerviel turns himself in to French authorities to serve jail sentence – Pg. 13

- Kerviel always admitted making the rogue trades, insisting he was a victim of a system that allowed his activities as long as they made money for his bank

UK house boom fuels subprime ABS – Pg. 20

- Surging UK house prices have encouraged banks to offload subprime mortgages into "sliced and diced" asset-backed securities, sending deal volumes to the highest level in four years
- The lower quality mortgages are being sold to investors as banks take advantage of rising property prices to spring-clean their balance sheets ahead of European regulators stress tests later this year
- ABS are bundles of assets, such as mortgages or auto loans, that are sold to fixed income investors. Nonconforming is industry jargon for mortgages given to customers who would struggle to get a mortgage from a high-street bank. It can also include buy-to-let mortgages

Answer: 1.00 USD = 1,808.32 MNT

19 May 2014

Question: How much did I just pay for three pairs of glasses with prescription lenses in Beijing (distance, reading and a pair of sunglasses)?

Bundled debt sales set to trump levels seen at height of credit crisis – Pg. 1

- Sales of bundled US corporate debt known as collateralized loan obligations are on course to surpass levels reached at the height of the credit bubble, as the search for yield leads investors to abandon caution
- Sales of CLOs, which pool leveraged loans made to low-rated companies, dried up in the years after the global financial crisis but have since come roaring back as investors seek out the higher returns on offer from buoyant credit markets
- The CLOs sold now, known as "CLO 2.0s" differ from their pre-crisis predecessors. Bankers pack the second generation of the products with additional financial support and have stricter rules about underlying collateral that are meant to make the securitizations safer

China changes tack on investment – Pg. 2

- China is poised to invest billions of dollars in Africa through a multilateral institution in Beijing's first departure from its "cheque book" policy of bilateral deals on the continent
- The new fund will open contracts to the most suitable bidder rather than just to Chinese companies

Kerviel calls for state intervention – Pg. 4

- Jerome Kerviel, the former Societe Generale trader, has refused to return to France to serve jail sentence for rogue trading until the government intervenes in the case and agrees to grant immunity to anyone who testifies on his behalf
- Kerviel, who in 2008 cost his employer 4.9bn (euro) with unauthorized positions, lost his final appeal in the French courts in March for the biggest rogue trading case in history

Defaults emerge in second-generation CMBS – Pg. 17

- CMBS are bundles of property loans secured on shopping malls, office buildings and apartment blocks, which are sold to investors seeking income. The market for them all but disappeared in 2009, as defaults became widespread, until it was revived four years ago through the creation of ostensibly safer structures
- …"CMBS 2.0" topped $106bn last year….
- …a default rate of only 0.06% - far below the1.67% reached at the height of the credit bubble in 2007….

Answer: 880 RMB! (Prof Note: About $145 USD)

17 May 2014

Question: When in China, how do you know you are carrying a little extra weight?

Change of course – Pg. 5

- …a growing movement of young economists calling for universities worldwide to reform the way they teach the dismal science
- In the 1980s it was common for students to sit modules in economic history and public economics. Behavioural economics has long been researched…
- But over the past three decades, undergraduate courses have been increasingly dominated by quantitative methods of the neoclassical school.

Currency 'cold war' starts to heat up – Pg. 12

- The last round of "currency wars" ended a year ago in an uneasy truce, when G20 finance ministers agreed not to target their exchange rates for competitive purposes
- With the Fed giving no hints as yet on when it might start to tighten monetary policy, a weak dollar has left other big currencies at uncomfortably high levels. Low volatility has stoked a revival of so-called "carry" trades in higher-yielding emerging market currencies
- In emerging markets, most currencies have yet to recover fully from last year's sell-off, and many are at relatively comfortable levels

Answer: When your rickscaw is passed by a grey haired woman walking. It is finally time for me to start that diet!!! (Prof Note: We were going up hill!)

16 May 2014

Question: A 100bp increase on 30-year mortgage product to 4.5% from 3.5% for a $500,000 mortgage costs a family how much over the lifetime of the loan? (this is an older question but no less important)

Investors flee stocks and head for havens – Pg. 1

- Investors retreated from stocks and snapped up top-tier government bonds yesterday after poor Eurozone data increased pressure on the ECB to take aggressive action to bolster the region
- The European bloc's economy expanded by just 0.2% in the first quarter, missing consensus forecasts of a 0.4% rise. Germany led the way with growth of 0.8% while France was stagnant, Italy contracted slightly and the Netherlands shrank by 1.4%
- Investors bought German, UK and US sovereigns, pushing their yields, which move inversely to price, to new lows for the year. The US 10-year Treasury yield dropped below 2.50% for the first time since October after disappointing industrial production

Housing woes expose weakness of US recovery – Pg. 3

- An unexpected slowdown in the US housing market has exposed the shaky fundamentals of recovery in the world's largest economy, as a lack of income growth for middle-class Americans leaves them struggling to buy a home (Prof Note: …and service their student debt)
- Given the depth of the housing slump in the 2008-09 recession, and thus a huge amount of pent-up demand for homes, the recent bout of weakness in the sector is a surprise. It shows how the uneven distribution of income growth, with wealthy Americans doing best in the recovery, may be holding the economy back

- Existing home sales were down by 7.5% on a year ago in March. New housing starts were down by 5.9% in the same month. House prices, however – up by 12.9% on a year ago…(Prof Note: But have housing prices inflected???!!! Remember July 2006!)
- Most important is the rise in the mortgage rates since the Fed began to talk about tapering last Spring – up from about 3.5% to 4.5% in early 2014, before moderating to about 4.2%
- …three more short-term factors to the list: a tailing off in distressed sales, which generated a lot of activity; a lack of inventory in the market; and bad weather at the start of 2014
- Although the US economy has added several million jobs in the past few years, there has been little income growth for the average American, and that may have reduced housing demand. New Household formation has been exceptionally low, with many adults in their 20s and 30s continuing to live with their parents
- The demand for homes is also highest in affluent cities, such as San Francisco, that also have the toughest restrictions on building,, leading to rising house prices, but no equivalent rise in activity to boost the overall economy …

Watchful China should do as Japan says not as it did – Pg. 7

- ….china is experiencing a spectacular explosion in credit and property prices that echoes that of the 1980s Japan just before the bubble burst. Like 1980s Japan, China is also trying to transform a bank-centred, state-controlled financial system into something more centred on free capital markets
- First, deceleration can hurt. Back in the 1980s, when japan's economy was booming, bank loans performed well. But when the economy decelerated in the 1990s, bad loans soared
- Deflation is deadly, particularly for banks. When prices fall, debt burdens rise. So, usually, do bad loans.
- Denial is damaging. Japanese banks were notorious for concealing bad loans (in 1992 they said bad loans were a mere Y8tn: by 2000 they had revised this to Y100tn)
- Dominos can fall. Until the mid-1990s, investors assumed that Japan's financial institutions were implicitly backed by the government and corporate partners via the so-called Keiretsu system of close-knit conglomerates. So when a couple of small institutions failed, investors no longer knew what to believe and lost faith in the entire system. China should heed this fact: its system also depends on ill-defined, implicit guarantees – for banks and shadow banks alike. A collapse of several trust banks, say, could also create contagious panic
- Deposit insurance matters.
- Decision-making matters, too. One problem that the bedeviled Japan's financial system was that the political economy created a power limbo. The capital markets were not strong enough to enforce meaningful oversight of banks but state bureaucrats were no longer able to impose rapid decisions either

US retail brokers face pay cuts – Pg. 11

- After cutting the pay of traders, bank executives in the US are manoeuvring to reduce their payroll for a 50-,000-strong army of brokers who sell stocks and bonds to retail customers
- At Goldman Sachs, for example, remuneration as a percentage of revenues fell to 37% last year, compared with 47% in 2005

China tourists shun Malaysia Airlines – Pg. 15

- Malaysia Airlines has revealed the business cost of the disappearance of flight MH370, reporting a 58% widening in net losses and warning of an "urgent" need to boost revenue to ensure its survival
- It is more than two months since the Boeing 777 airliner disappeared on a routine flight from Kuala Lumpur to Beijing, with no trace of the aircraft having been found

Chinese developer Country Garden revives US dollar bond – Pg. 18

- Initial guidance for pricing pointed to a coupon of 8.4%, …
- Worries have been growing about the health of the Chinese housing market this year as prices in many parts of the country have begun to fall following a multiyear boom. Some developers have been forced to cut prices for newly completed flats, offer extra incentives to buyers or even finance purchases directly

Answer: Over $100,000, i.e. more than $1,000/bp!

15 May 2014

Question: What is the current US/China FX rate?

London silver fix to end as Libor scandal tarnishes trust in the city – Pg. 1

- It was born in the late 19th century when a handful of London bullion dealers agreed to meet daily under a cloud of cigar smoke to set the price for the "devil's metal". But now, after 117 years of operation, the London silver fix – an integral part of the city's $1.6tn-a-year silver market – is on its deathbed
- The three banks that arrange silver's global benchmark yesterday said prices would be "fixed' for the final time at noon on August 14
- Deutsche Bank last month resigned its seats on the silver and gold fixes, after failing to fund buyers, leaving just HSBC and Bank of Nova Scotia on the silver fix
- Market participants said the fixing process, which allows miners, financial institutions and jewelers o trade silver and value their stocks and contracts, could not function property with fewer than three members
- The demise of the silver fix will raise questions about the future of other precious metals benchmarks – platinum, palladium and, especially, gold

'Nuclear option' puts Fed on hold – Pg. 2

- Radical changes to Senate rules have failed to speed up confirmations to vital economic jobs and could leave the Federal Reserve Board with only three governors

Mayor's $41bnhousing plan under scrutiny – Pg. 2

- Part of the problem is that New York's population has swelled almost 14% over the past two decades to 8.3m, making overcrowding a growing concern. Cheaper homes intended for one person are often being occupied by four…

- The median rent for a two-bedroomed apartment costs more than 60% of the local average wage
- Many residents say New York City – where the median household income stands at $50,711 – is turning into a playground for the wealthy

BoE signals no imminent rate rise – Pg. 4

- ….economy recorded the fastest jobs growth in 24 years
- The central bank did not change its forecast from February that the economy would grow 3.4% this year as it enjoys a quicker recovery than most other advanced economies (Prof Note: I was in London on Wednesday…all the coffee shops were full)
- The jobless rate fell to 6.8% yesterday and the number of people in work increased 722,000 from a year ago
- …regular wage growth was a meagre 1.3%, down from 1.4% a month ago
- …BoE predicted inflation would hover around the 2% target for all of the next three years on the assumption that interest rates had started to rise in the spring of 2015

Japan's big lenders caution on recovery – Pg. 16

- Japan's megabanks have sounded a note of caution amid the country's "Abenomics"-led recovery, saying they expect combined profits to drop this fiscal year because of limited demand for credit, narrowing lending margins and more subdued activity in stock and bond activity

Chinese developer delays bond sale – Pg. 22

- Chinese property developer Country Garden has postponed the launch of a US dollar bond, the latest sign of growing concern about the health of one of China's most important sectors
- The Chinese property sector has come under more and more scrutiny from investors and economists in recent days as data point to a sharp deterioration in the housing market

Answer: 1 USD = 6.2295 CNY

14 May 2014

Question: When in London and visiting the eye, how should you purchase the ticket?

Fannie case papers spark anger – Pg. 2

- The US government is being accused of refusing to hand over documents and emails relating to mortgage finance companies Fannie Mae and Freddie Mac in a hedge fund lawsuit over their profits, despite a judge's order
- The court case is important for shareholders ….since legislative efforts to wind down the companies will probably fail this year
- The mortgage finance companies needed a $188bn rescue during the 2008 financial crisis but have turned round in recent years. They have paid dividends to the government that exceed their bailout amount. Fannie and Freddie have been overseen by the US government since 2008

Property slowdown fuels China fears – Pg. 3

- China's economy is sputtering as evidence mounts that a nationwide property bubble is one the point of bursting
- Virtually every indicator for economic growth in China turned down in April as the all-important real estate market saw sales fall 7.8% in renminbi terms in the first four months from the same period a year earlier
- Investment in real estate is the single most important driver of the Chinese economy and a crucial factor in global commodity demand and pricing. But in the first four months newly started construction projects fell 22.1% compared with a year earlier, …
- The sustainability of the Chinese real estate market has become a concern for policy makers everywhere as they start to worry that a property crash in the world's second-largest economy could ripple round the globe
- …estimates that that the building, sale and outfitting of apartments accounted for 23% of Chinese GDP last year
- That is higher than in the US, Spain or Ireland at the peaks of their housing bubbles
- Trouble in Chinese property also has implications for the financial system, in particular the shadow banking sector, which has lent huge amounts to developers and relies on highly priced land for collateral

European banks' bad loans hit 1tn (euro) – Pg. 22

- A majority of Europe's banks have suffered a jump in bad loans, even as investors lined up to end them money…
- Impaired loan volumes rose 8.1% in 2013 compared with the year before to slightly more than 1tn (euro), …
- In spite of the rise in bad loans, the cost of funding for Europe's banks fell 38% last year…

Answer: Fast Track! For an extra 10 pounds you are catapulted to the front of the line. Gotta love capitalism!!!

13 May 2014

Question: For Fixed income securities, why is yield inversely related to price?

Addicted to debt – Pg. 5

- Can Asia overcome its addition to debt?
- But now, with exports still weak, quantitative easing in the west being unwound, and domestic economies laden with debt, the idea that the Asian boom has already peaked is rapidly going mainstream
- Since China joined the WTO in 2002, emerging Asia's share of global GDP has risen 11% to 21%, …
- Credit levels have risen sharply since 2008 in Hong Kong, Singapore, Thailand and Malaysia, while already high levels of household debt in South Korea and Taiwan have tracked even higher

- Asia's traditional engine of exports is failing to fire. Thanks partly to rising costs at home and changes in the way developed economies consume, exports to the US and the Eurozone have dropped from 14% of developing Asia's GDP in 2005 to just over half that level now, …
- The time when Asia grew at near double digits appears to have passed
- The onset of tapering by the Federal Reserve could be the high water mark for the Asian miracle. Borrowing costs across the world are already ticking higher even before interest rates rise – something that will test Asia's ability to pay back its debts

Ratings rift shelves mortgage bond – Pg. 18

- A US mortgage bond backed by defaulted home loans has been quietly shelved following a public spat between two of the biggest credit rating agencies over the value of houses underlying the deal
- Reperforming loans are ones that have resumed paying after failing behind. Some securitization industry participants had been hoping that more of the risky loans could be securitized to sell to investors hungry for higher returns
- Fitch accused S&P of dramatically overestimating the value of the homes attached to the loans by opting to ignore the valuations provided by brokers hired by Bayview
- Since the financial crisis, regulators have encouraged rating agencies to give "unsolicited" opinions on deals that they are not hired to evaluate, as part of an effort to avoid the ratings shopping that proliferated before 2008
- Agencies have also been keep to criticize each other as they seek to fight the perception that they failed to evaluate properly the risks embedded in mortgage bonds before the crisis

Demand for long-dated US debt baffles bears – Pg. 18

- Bond investors who bought short-dated Treasuries at the start of the year, while shunning the long bond, are trying to work out why the 30-year yield, which moves inversely to price, has dropped 50bps. That slide has provide holders with a total return of 11% since January, while short-dated debt has barely moved
- As it stands, the 30-year yield has edged up 10bp from this month's low of 3.35%. So is 2014's double-digit rally a last hurrah?
- At its current yield, the 30-year bond suggests the Fed will only raise its overnight borrowing rate to about 2.75% rather than the long-run level of 4% predicted by policy makers,…

Answer: The coupons, timing of payments and final payment are all fixed. The only variable for a fixed income security is the price, i.e. CF0. As all else if fixed, as the price (basis) is reduced the yield (IRR) increases.

12 May 2014

Question: What great email did I just receive from a friend and peer?

Geithner reveals Lehman splits – Pg. 2

- Tim Geithner says he would have supported a US Federal Reserve loan to help Barclays buy Lehman Brothers on the weekend in September 2008 that ended with the largest bankruptcy in US history
- Mr Geithner was known to be more willing to save Lehaman than Mr Paulson or the then Fed chairman, Ben Bernanke, but previous accounts of the crisis have emphasized that public money was off the table
- In the end, Mr Geithner's willingness to use public money was moot, because UK regulators opposed the Barclays deal and time ran out. Barclays was the last remaining bidder for Lehman after Bank of America decided to pursue Merrill Lynch instead
- Lehman was insolvent and, without a buyer, the Fed had no authority to lend, …
- But Mr Githner saves his harshest criticism for Congress during the effort for financial reform and in rows over the debt ceiling

Europe's bad debts hit 360bn (euro) – Pg. 15

- The debt written off by Europe's companies due to late payment or non-payment of bills has swelled to 360bn (euro) despite the pick-up in economic activity in the region
- Bad debts – bills or invoices that compnies have written off due to late or non-payment – grew from 3% of annual revenues in 2013, or 350bn (euro), to 3.1% this year…
- A 2011 EU directive sets limits on how long public and private sector companies can keep their suppliers waiting – 30 and 60 days, respectively

Answer: "I thought I would at least pay my house off by July 4th, but did it two months early and still have about $60,000 in the bank. It is a great feeling. Thanks for pushing me!!" Congratulations! Let's keep the money in the family and stop giving Wall Street all that interest!!!

10 May 2014

Question: What is Price Elasticity?

World Bank eyes big increase in global poverty line – Pg. 4

- The World Bank is considering the biggest increase in two decades of its global poverty line after calculations of the size of economies potentially halved overnight the number of people living on less than $1.25 a day
- The disappearance, statistically speaking, of half of the world's poor arises from new estimates of purchasing power parity – which corrects for exchange rate distortions to calculate the amount of goods and services that money buys in each country. The new PPP figures have already revealed that China is likely to overtake the US as the world's largest economy by the end of the year
- Initial calculations show that, under the latest PPP measures, the number of people living below the $1.25 a day line plunges from 1.2bn people in the developing world to fewer than 600m
- The bank's poverty line was introduced at $1.01 in 1990, based on 1985 PPP figures. When the bank increased it to $1.25 in 2008, classifying an additional 400m people in the developing world as extremely poor, …

- The new PPP numbers, based on 2011 data, include sharp upward revisions of per capita incomes in big emerging economies such as China and India, making them statistically less poor than previously thought
- In India alone the number of people living on less than $1.25 a day fell from 393m of the country's 1.2bn people to just over 100m, …

Genting prepares for $4bn Vegas gamble – Pg. 10

- Malaysia's Genting Group, one of Asia's biggest casino operators, is poised to challenge US dominance of the Las Vegas Strip with a $4bn plan to build a casino and resort in the Nevada city
- The move is the culmination of two years' work to break into the Nevada gaming scene and marks a coup for Genting, which has grown since its 1965 founding in southeast Asia by the Lim family to become one of Asia's most ambitious casino operators
- Genting will build its development on the site of the former Stardust casino, which was demolished in 2007
- Gaming revenues in Asia are projected to grow by almost a fifth in the next year,…compared with 5% annual growth in the US

Ireland's borrowing costs fall below the UK's – Pg. 14

- Ireland's long-term borrowing costs have fallen below those of the UK for the first time in six years in the latest sign of the turnaround in the Eurozone, which two years ago seemed on the verge of breaking up
- The crossover of yields on Irish 10-year bonds and UK gilts follows a decision last Sunday by Portugal to leave its three-year bailout next week without the safety net of an EU line of credit

Answer: Quantity demanded of a good in response to changes in that good.

9 May 2014

Question: What is a codicil?

Draghi signals imminent action to combat low Eurozone inflation – Pg. 1

- …signaled that the ECB will loosen monetary policy next month to fight persistently low Eurozone inflation, as the central bank left its benchmark interest rate at a record low for a sixth month
- The euro, which had risen close to $1.40 mark on the announcement that the ECB had left its interest rates uchanged, fell to $1.387….
- Eurozone equity and bonds also rallied.
- Pressure has been growing on the ECB to act, with inflation in the currency bloc languishing at 0.7% - less than half of the central bank's target of close to 2%. It is expected to remain below target until at least the end of 2016

Thailand crisis hits growth outlook – Pg. 5

- Thailand's political crisis is dragging the economy further behind growth rates elsewhere in southeast Asia, as the country's resilience is offset by an emerging sense of more turmoil to come – whether the government survives or not
- Yesterday, Thailand's main equity index dropped 1.7%, while the baht weakened by 0.3% against the dollar. However, 10-year government bond yields dropped 5bps
- Thailand is projected to grow 2.8% this year, compared with 5.4% for Indonesia, 5.6% for Vietnam and 6.5% for the Philippines, …

Blackstone fund of funds for Europe – Pg. 16

- Blackstone Alternative Asset Management, the world's largest allocator to hedge funds, plans to launch a regulated fund of hedge funds in Europe, in the latest sign that the line is blurring between hedge funds and mainstream asset management
- The market for regulated structures that invest in hedge funds is growing as investors look to gain access to alternative investments that purport to offer diversification and uncorrelated returns – but in a more liquid structure than offshore hedge funds

Salmon prices head for luxury territory – Pg. 20

- …sharp rise in prices thanks to growing global demand, industry executives are warning that the fish could soon lose its mass market status
- Sushi's growing popularity and the increasing awareness of salmon as a good source of omega 3 fatty acids are behind the boost to demand in both developed and emerging markets
- Demand for the fish in 2012-13, which grew about 6 to 7% a year, has been much stronger than historical trends…
- The sharp rise in prices has meant that the value of Norwegian salmon exports in 2013 rose 35% from a year before
- Prices in 2013 were also affected by an important cyclical factor – sea temperatures. Norway suffered colder than usual seawater last year, inhibiting fish growth
- If prices continue to rise, salmon will again become a rare delicacy

Answer: A document that amends or revises a prior Will

8 May 2014

Question: What is the type of document governing the trading of derivatives between two companies?

Housing slowdown threatens US economic growth, warns Yellen – Pg. 1

- The US housing market slowdown poses a fresh risk to growth in the world's largest economy, …
- "Readings on housing activity – a sector that has been recovering since 2011 – have remained disappointing this year and will bear watching"…

- New housing starts and existing home sales are both down on a year ago as higher interest rates, tight mortgage availability and slow income growth damp activity in a sector crucial to the broader recovery

Riksbank takes aim at household debt burden – Pg. 4

- Sweden's central bank sounded the alarm on the Nordic country's huge household debt burden amid anacrimonious debate on whether it should instead be focusing more on fighting deflation
- …the average indebted Swede owing 296% of their annual income while the average mortgage holder owed 370%
- Sweden's central bank started raising interest rates in 2010 to head off risks from the high levels of household indebtedness and what some see as a nascent housing bubble

Bank funding costs hit four-year lows – Pg. 18

- Funding costs for Europe's financial institutions have fallen to pre-eurozone crisis lows as investors deploy billions to chase smaller volumes of bonds being issued
- Banks and insurers have seen their borrowing costs cut by nearly a fifth over the past three months, meaning their cost of funds stands at the lowest since January 2010, …
- The steep falls come as European countries hit hardest by the sovereign debt crisis have also seen government borrowing costs drop to record lows

Dim sum bonds shrug off sharp fall in renminbi – Pg. 18

- The offshore renminbi bond market has long been a simple beast. When the Chinese currency rose, such credit would perform well. When the renminbi fell, the bonds – known better as "dim sum bonds" – would falter, and new issuance would evaporate

Strong interest in 10-year US Treasuries as bearish bets cut – Pg. 18

- Bond investors bought a significant share of new 10-year US Treasury debt yesterday, in a bullish sign for an asset class that has performed strongly so far this year
- The pronounced drop in long-term Treasury yields, which move inversely to price, since the start of January has caught out many investors who were positioned for rising interest rates during 2014
- A supportive factor for US long-term bonds is that their yields sit well above those of Germany and other countries. For pension plans and insurers seeking to lock in long-term liabilities with top-quality paper, US yields are attractive
- Another source of support for owning long-term bonds is that inflation remains very low, while the bond market also expects the Fed to move to tighten policy next year, an action that will keep price pressures contained

Answer: ISDA

7 May 2014

Question: The goal of a corporation is to maximize shareholder wealth. How does a corporation know that it has maximized shareholder wealth?

Transaction tax pledge causes outcry – Pg. 4

- Ten Eurozone countries yesterday vowed to introduce a limited financial transaction tax by 2016, prompting an outcry from other EU finance ministers over the vague terms of a political deal negotiated "largely in secret"
- In a declaration significantly scaling back the original proposals for an expansive so-called "Robin Hood" tax, the countries promised to implement a joint levy that would "first focus on the taxation of shares and some derivatives"

IMF optimistic on Arab spring states – Pg. 5

- The IMF is seeing the first signs of good news from Arab states undergoing political change after poor economic performance in the wake of uprisings that shook the region in 2011
- The IMF is forecasting that Egypt, Jordan, Morocco, Tunisia and Yemen – which it terms "transition states" – will see a slight increase in GDP growth to 2.9% in 2014 from 2.8% last year. It predicts GDP growth will rise to 4.3% next year on higher trade and investment
- Growth plummeted to 1.1% in 2011 from annual averages of almost 5% before the Arab spring
- Public investment is also rising thins to donor finance, such as aid from Gulf states that has enabled Egypt to launch public and social infrastructure projects

US loan funds face test as flows reverse – Pg. 20

- Ninety-five consecutive weeks of inflows to US funds that invest in leveraged loans made by banks came to an abrupt halt in the second week of April, when investors pulled $249m from the market
- If outflows intensify it could prove a first big test for a loan market that has experienced a sea change in recent years.
- Now the worry is these funds may not be able to handle billions of dollars in outflows without depressing loan prices and disrupting the wider market
- Wary of rising interest rates, retail investors have flocked to the floating-rate returns from leveraged loan funds. Unlike high-yield bonds, another asset class that has proved popular in recent years, these loans do not lose value when interest rates rise

Answer: The point of maximization of shareholder wealth is found at the point of minimization of corporate WACC (Weighted Average Cost of Capital).

6 May 2014

Question: The Case-Shiller index for residential pricing is published when?

Surging house prices test regulators' new weaponry – Pg. 2

- But as ultra-low borrowing costs fuel property price surges in countries such as Britain and Israel, policy makers are facing the question of whether regulatory weapons they have deployed to tackle credit and house price growth will work
- Last year house values rose at the fastest rate since the mid-1990s, with price growth of more than 8%, …
- To rein in the exuberance, central banks in countries such as Israel and Switzerland are preferring to toughen rules rather than raise interest rates
- The use of regulatory tools against housing bubbles is well established in Asian countries such as Hong Kong and South Korea

Industrial evolution – Pg. 5

- India's failure so far to emulate the rapid industrialization of China, or of other developing nations before it such as South Korea and Thailand, ….
- With a fast-growing population of nearly 1.3bn, the country needs to create 1m jobs each month merely to employ young citizens reaching working age – let alone to clear the backlog of unemployed and underemployed youths, or provide for those migrating en masse from farms to cities
- Yet despite its large domestic market, India's industrial weakness means it depends on China and other exporters for goods from industrial machinery and mobile phones to more basic products such as lights and toys
- The country is largely absent from the global supply chains for mass-produced items
- By the end of this decade it will be importing about $400bn a year of electronic items as the middle-class expands
- In the 1960s the Indian economy was 20% bigger than China's. Today China's economy is seven times bigger than India's

Answer: Last Tuesday of every month at 9:00am EST.

Cinco de Mayo 2014

Question: A two-period cash flow diagram, i.e. outflow at period zero, is described by what type of function? What formula is needed to quantify the IRR by hand?

IMF warns on Eurozone bond market – Pg. 4

- A top IMF official has warned that the rally in Eurozone bond markets risks ending in disappointment, with investors now lending to governments at rates that assume the region's return to full health will be glitch free
- The optimism has triggered a fall in the price of borrowing for the region's governments, including Greece, with Athens recently securing yields of less than 5%...

Students find their virtual reputations go ahead of them – Pg. 10

- "Almost everyone who wants to know about you, and this includes college admission tutors as well as potential employers, will look at your social activity"

- As prospective employers punch your name into Google search they will be able to discover a wealth of information; for example court judgments
- Some employers could be using software such as Google's Image Match to search for you on the internet using your digital photo
- Any search will also find individuals with the same name or who closely resemble you, something that could also hinder an application (Prof Note: When you place my name 'Roger Staiger' into google the fifth image that results is a naked blond woman on a playing card. While not ideal, it has been brought to my attention countless times. Hey, what can I say, 'I was young and needed money!' ☺)

Fears grow over China small bank lending – Pg. 15

- Smaller Chinese banks have ramped up their shadow lending activity, adding to the financial risks that threaten to trip up the world's second-biggest economy
- These shadow loans have been profitable so long as growth has been strong
- This exposure dwarfs that of China's leading banks. For Chinese banks listed in Hong Kong – the biggest and best-managed of its lenders – non-standard credit products accounted for 1.7% of their total assets at the end of last year,…
- Large banks are dominant in China, with the four biggest alone controlling nearly half of the sector's assets, so the unlisted city banks are not seen by regulators as posing a systemic threat

Answer: A Quadratic and the quadratic formula. A quadratic describes a parabola which can have as many as two solutions. Understanding IRR is critical for its use!!!

3 May 2014

Question: For a $550,000 loan (4.5% CPM for 30 years), how much interest as a percentage of total payment is paid in the first year?

US jobs report exceeds expectations – Pg. 1

- The economy added 288,000 jobs last month, the most since 2012 and much more than the 218,000 expected by economists
- …unemployment rate fell to 6.3%
- It has cut the pace of quantitative easing by almost half – from $85bn per month in December to $45bn per month – and is on track to end the programme entirely this year
- This week, data showed growth in the US economy had essentially stalled in the first quarter – expanding at an annualized rate of just 0.1%
- The most discouraging element came in the separate but ore volatile household survey, where the big dip in jobless rate was driven entirely by the more than 806,000 Americans who exited the labour force
- The labour force participation rate dropped from 63.2% in March to 62.8%, matching a 36-year low hit in December.
- Flat wage growth sounded another bleak note

Positive signs for Fed as data show steady progress on employment – Pg. 3

- The winter slowdown barely even happened
- Participation has not turned the corner
- But this year's unemployment fall is real
- There is still no sign of wage inflation
- Steady as she goes for the Fed

On top of the world – Pg. 5

- In 2011, China's GDP per head at market exchange rates was just 11% of US levels
- …China is still a poor country: the purchasing power of its GDP per head was 99th in the world. Since china also invests close to half its output, relative consumption per head was lower still
- China is, however, an enormous country, with a population of 1.34bn in 2011. Compared with this, even the US, with 312m, is almost a minnow. So in spite of being so much poorer, the purchasing power of aggregate Chinese GDP was 87% of US levels in 2011. The purchasing power of China's GDP has by now surely surpassed US levels
- China is a huge trading partner. Its exports of goods last year were 14% bigger than those of the US
- But its imports of goods were 31% smaller. It is the size of the market a country offers that determines its clout in global bargaining. China is not the world's largest importer yet
- Over many years, China has accumulated assets western central banks can create in a heartbeat by pressing a few keys….in our savings-glut world, the US could readily find other buyers
- US financial markets and financial companies are at the centre of the global financial system
- Another dimension of global economic influence is technology.
- The US is also in effect a huge island, with relatively weak and friendly neighbours to its north and south. China….is surrounded by powerful and jealous countries

Answer: 73.5%, i.e. Wall Street receives approximately 75 cents of every dollar that goes towards the mortgage in the first year.

2 May 2014

Question: What are the three basic types of Wills?

China fought against data showing economy to take top spot this year – Pg. 1

- China fought for a year to undermine new data showing that it poised to usurp the US as the world's biggest economy in 2014 based on purchasing power, …
- The main reason for China's lack of triumphalism is that leaders do not want exposure to the international pressure that comes with being the world's largest economy, …

NYSE hit with second penalty – Pg. 12

- NYSE Euronext was hit with its second regulatory fine in less than two years for failing to comply with rules related to co-location services, block trades and net capital requirements

- NYSE paid a $5m fine – the first ever against an exchange – in September 2012 for alleged compliance failures that favoured certain customers
- The regulatory action is part of an increased effort by the SEC to scrutinize exchanges' compliance with their own rules and their responsibility as market regulators
- One of the alleged violations related to co-location services, which allow customers to place servers inside exchanges to shorten the distance quotes must travel. Initially the NYSE offered it as part of a bundle of other technology services but in 2008 began breaking it out as a standalone product

Fears grow over bank loans blockage – Pg. 18

- The market for US bank loans is suffering from a blockage that risks creating turmoil as investors start retreating from what has been a boom area of financial markets in recent years
- The use of ETFs has become popular with hedge funds and retail investors, and flows in and out of these instruments are seen as indicators of sentiment

Gold falls after Fed action reduces metal's haven appeal – Pg. 18

- Gold fell more than 1% yesterday after the US Federal Reserve reaffirmed its confidence in the domestic economic outlook
- Although growth in the US slowed sharply in the first quarter, the Fed reduced asset purchases by a further $10bn to $45bn a month on Wednesday. This was seen as reducing the prospect of inflation, making gold – considered a hedge against rising prices – less attractive

Answer: Statutory (formal); Holographic; Noncupative (oral)

1 May 2014

Question: What is a SOC 1 report?

Winter weather rains on US first-quarter output growth – Pg. 1

- The US economy practically stalled in the first quarter after one of the coldest winters on record, raising doubts over whether output will meet the US Federal Reserve's expectations for 2014
- ..annualized growth came in at 0.1% - well below the 1.1% that economists were predicting
- The Fed was expected to taper its asset purchases by another $10bn to $45bn-a-month yesterday afternoon
- Consumption grew at a robust annualized pace of 3% in the first quarter…
- ….6.1% annualized fall in investment and a 7.6% fall in exports. Together they knocked 2% off total growth so the size of the economy was flat overall
- The main reason for stronger consumption was an unprecedented increase in medical spending – adding 1.1% to growth – as the expansion of health coverage under the Affordable Care Act began to take effect

IMF cuts Russia growth forecast – Pg. 2

- GDP is now expected to grow by just 0.2% this year, ….
- It was the fourth downgrade of its forecast, the previous being from 3% to 1.3% on April 8
- After slumping by 7.8% in 2009, GDP increased by 4.5% in 2010, by 4.3% in 2011 and 3.4% in 2012. Last year, the slowdown became more pronounced, with growth dropping to just 1.3% on almost flat investment

Brunei imposes strict Islamic criminal laws – Pg. 2

- Brunei has become the first nation in the eastern part of Asia – and one of only a handful in the world – to start imposing strict Islamic criminal laws, which could include the death penalty for adultery
- Under a new sharia-based penal code, the first phase of which comes into force today, residents face conviction by Islamic courts and fines or jail terms for offences such as pregnancy outside marriage and failure to perform Friday prayers
- The law will be rolled out in phases, with harsher punishments, such as whipping and amputation, coming into force for offences including theft and drinking alcohol
- Pakistan and the Maldives are the only other countries in Asia to have a penal code based on sharia law that is enforced through Islamic courts
- Brunei's biggest neighbours, Malaysia and Indonesia, are moderate Muslim nations

How China caught up with US economy – Pg. 3

- What is the International Comparison Programme? The ICP is a loose coalition of the world's leading statistical agencies, hosted by the World Bank in Washington
- What is purchasing power parity? PPP is a measure of what money can buy
- Should we trust the ICP figures? The ICP produces new estimates of PPPs periodically. Before the latest 2011 numbers, the previous rounds were for 2005, 1993 and thenfurther back to 1985, 1980, 1975, 1973 and 1970.
- How does the calculation work? Very simply, we have taken the ICP estimate that China's economy was 86.9% of the size of the US in 2011 and applied the IMF's latest growth rates to the figures for 2012, 2013, 2014 and 2015 from its most recent World Economic Outlook
- Is GDP the right measure? It is a measure of the productive output of each economy, but it is certainly not perfect. The ICP report produces many other measures and those that are more focused on consumption give the high-income countries a larger share of the global total. This reflects the larger share of household consumption in advanced ecomies than in poorer countries

A long-term trap – Pg. 7

- "I was not prepared to retire at 53." (Prof Note: this from a banker….Plan to fail or fail to plan!)
- While short-term unemployment has essentially returned to its pre-recession levels of about 4%, it is elevated long-term unemployment that has kept the overall US jobless rate well above the 5.5 to 6% level that many economists believe to be consistent with America's traditional economic potential

- ….3.7m Americans who have been without work for 27 weeks or longer. This represents 35.8% of the overall pool of the unemployed, still well above pre-recession levels of around 18% but below the peak of about 45% four years ago
- "The longer somebody is jobless, the lower the chances they are going to find another job"
- There are also worries that technological shifts and globalization have left many US workers unfit for the high-skilled jobs of the 21st century, making it even more difficult to make a comeback

Answer: SOC 1 stands for Service Organization Controls Report. In an age where many companies outsource their financial operations to 3rd party servicers, a SOC 1 report provides information on the 3rd party servicer's internal controls over financial reporting.

30 April 2014

Question (Yes/No): Are there thresholds for when items should be presented separately on the face of the Balance Sheet & Income Statement?

China to overtake US as top economic power this year – Pg. 1

- The US is on the brink of losing its status as the world's largest economy and is likely to slip behind China this year, sooner than widely expected,…
- The US has been the global leader since overtaking the UK in 1872. Most economists previously thought China would pull ahead in 2019
- The estimates of the real cost of living, known as purchasing power parity, or PPPs, are recognized as the bgest way to compare the size of economies rather than using volatile exchange rates, which rarely reflect the true cost of goods and services: on this measure the IMF put US GDP in 2012 at $16.2n, and China's at $8.2tn
- Using the new methodology – and reflecting the fat that China's economy has grown much more quickly – the research placed China's GDP at 87% of the US in 2011
- With the IMF expecting China's economy to have grown 24% between 2011 and 2014 while the US is expected to expand only 7.6%, China is likely to overtake the US this year
- India becomes the third-largest economy having previously been in 10th place. The size of its economy almost doubled from 19% of the US in 2005 to 37% in 2011
- The world's rich countries still account for 50% of global GDP while containing only 17% of the world's population

France to seek euro devaluation – Pg. 4

- France will push for action to lower the value of the euro after European Parliamentary elections next month…
- Paris has long agitated against German resistance for a looser monetary policy by the ECB, arguing that the eurozone's recovery – and that of France – is being held back by the relative strength of the euro, which has risen sharply against the dollar and the yen in the past year

Crackdown sends US loans to the shadows – Pg. 22

- Financial regulators are cracking the whip on some of the biggest US banks, clamping down on risky lending to highly indebted companies
- The move has had unintended consequence, pushing billions of dollars of lending into the more lightly regulated "shadow banking system"
- Regulators including the Federal Reserve and the Office of the Comptroller of the currency last year published leveraged lending guidance meant to discourage banks from undertaking the riskiest types of loan deals, as they seek to cool the market and avoid a repeat of the LBO bust
- The regulatory edict has scuttled the plans of some banks, who had thought they could still make riskier loans as long as the deals stayed below a certain proportion of their total lending. It has prompted fresh warnings that leveraged lending is moving to non-bank financial entities
- More than a quarter of the loans extended last year to middle-market US companies – the eating heart of corporate America – were issued by companies that fall outside the realm of traditional finance
- Almost two-thirds of new leveraged loans sold in the US contain fewer protections for lenders, known as "covenants", than traditional deals – more than the 29% proportion reached at the height of the LBO boom in 2007

Answer: Yes. Regulation S-X provides the guidance.

29 April 2014

Question: How many days does a fortune 200 company, i.e. large accelerated filer, have to file it's financial statements?

Threat to US building projects as cash runs out – Pg. 2

- The main US infrastructure funding mechanism is quickly approaching insolvency, …
- The Highway Trust Fund, which is due to provide $51bn in funding to states' transport projects in the year to September, could run out of money as early as August, …
- The fund – financed by the federal government's 18.4% per gallon petrol tax – is dwindling because the tax rate has gone unchanged since 1993, improved fuel efficiency is reducing the fund's income per mile driven and the average number of miles driven per person has declined
- The fund helps states to plug vast gaps between their income from local petrol taxes and other charges on drivers and their spending on transport. States' charges on drivers generally cover only half their spending on roads, ….

Abenomics impact waning, says IMF – Pg. 6

- Japan's "Abenomics" revival is losing momentum and could fail unless the government pushes through with promised but still ill-defined structural reforms, …
- Earlier this month it cut its growth forecast for Japan in 2014 from 1.7% to 1.4%, while stock market investors have sent the previously buoyant Nikkei average down more than 8% this year

- The report encouraged further measures beyond the next tax rise to close the country's deficit, which at about two and a half years' economic output is the largest in the world

National accounts shake-up causes confusion – Pg. 6

- International comparisons of national economies were called into question yesterday as huge differences emerged in the way countries are introducing new standards for national accounts
- Many countries are implementing the 2008 System of National Accounts this year, which will increase national income by recognizing research, development and weapons expenditures as part of GDP rather than a cost of business. The US introduced the accounting changes last year
- Another element of the changes seeks to recognize the savings of households as soon as they gain rights to future defined benefit pensions and not just when employers pay money into pension funds. To do this, countries have had to impose important new actuarial assumptions into their national accounts, creating the potential for the results to be very sensitive to the choices made by statisticians
- Pensions experts say two assumptions are crucial: first, the choice of interest rate used to value the rights to a future pension earned each year; second, an assumption over how long people will remain in defined benefit pensions for.

Investors bet on catastrophe bonds – Pg. 20

- Yield-starved investors are gambling that mother nature will be kind this year as they flock to a risky type of insurance-linked debt known as catastrophe bonds
- Sales of "cat bonds" hit a record level in the first four months of 2014 as insurance companies take advantage of investor appetite for higher yields as well as returns that are uncorrelated to other types of securities
- The bonds allow insurance companies to transfer some of the risk that they will have to pay out in the event of a natural disaster taking place

Singapore overtakes London for offshore renminbi trade – Pg. 20

- Singapore has vaulted ahead of London as the world's biggest offshore trading hub for the renminbi outside Hong Kong, …
- London has become the main city outside Asia for dealing in Chinese currency,…
- Singapore accounts for 6.8% of all offshore renminbi-denominated currency payments, compared with 5.9% for London….Hong Kong accounts for 72%
- More than 40% of global foreign exchange trading takes place in London, and the expectation is that the City will eventually play a similar role in renminbi trading as China gradually opens up its capital markets and liberalizes its currency

Answer: 40 calendar days for each quarter and 60 days at year-end

28 April 2014

Question: What is the difference between Foreign Currency Transaction and Foreign Currency Translation?

Loan survivor – Pg. 12

- All winning streaks come to an end. US funds that buy corporate loans had net inflows for 95 straight weeks, until they were hit with net redemptions last week and the week before
- Sagging benchmark rates have cooled demand – loans pay a floating rate
- A catalyst, either an uptick in expectations for rising rates or in the level of market rates, is needed before big money starts flowing again
- Loans were seen as a good hedge for the day of reckoning in the bond market, where most investments pay fixed rates

DoJ raises stakes in forex probe – Pg. 13

- US criminal prosecutors have flown to London to question individuals as part of their probe into the alleged rigging of foreign exchange rates in a sign that the stakes are getting higher for the traders involved in the sprawling probe
- …alleged manipulation of the $5.3tn forex market,, ….
- The FCA [UK's Financial Conduct Authority] has powers to compel people to answer questions with no right to silence, while the US constitution incudes protection against self-incrimination (Prof Note: Hence why it is, in my opinion, better to always keep your mouth shut! Do like the ratings agency do, hide behind the US constitution!)
- The difference in how interviews are conducted matters because the stakes are higher in the US, which has opened a criminal investigation into alleged rigging of key forex benchmarks, while in the UK the probe remains a regulatory one. Prison sentences for while-collar crime tend to be higher in the US than the UK

M&A spree has hallmarks of the real deal – Pg. 15

- The M&A boom of 2007 was, with hindsight, the final flourish of a financial system that had become chronically over exuberant. Corporate confidence, skilfully marshalled by dealmakers, pushed the value of global M&A to $1.4tn during the first four months of that year – far more than in any year before or since, until now
- ….global M&A is at about $1.2tn for the year to date, the highest level since 2007 and 42% up on a year ago
- The most telling change – and one that bankers argue makes this a very different market to 2007 – is the way in which deals are being financed
- One of the hallmarks of 2007 was the use of cash to fund deals, as companies borrowed billions to fulfill their M&A ambitions
- Deals where only cash was used accounted for 76% of the total market during the first four months. This year, all-cash deals account for 47% of the market, the lowest level since 2001. In contrast, deals purely paid for with stock have accounted for 19% of M&A this year compared with 8% in 2007
- The increased use of stock in deals reflects the stellar re-rating of equity value that most companies have enjoyed during the past year

- Throughout the past 20 years, one factor has been almost universally true when it comes to M&A: in boom periods and in less excited times, the share prices of companies making acquisitions decline on the news of the deal
- In the past two years that trend has started to change, albeit in a period of modest activity. In 2014, though, the share prices of acquiring companies have gained 4.4% ….
- Since 1995, so-called megadeals have accounted for an average of 22% of all deals (Prof Note: This summer I lecture M&A, i.e. you will be reading a lot about M&A here!)

Answer: Transaction is show on the Balance Sheet and Translation is show on the Income Statement.

26 April 2014

Question: What are alternate names for the Balance Sheet and the Income Statement?

Kiev accuses Moscow of wanting 'third world war' – Pg. 3
- Ukraine pursued its counterterrorism operation in the country's east for a second day yesterday, surrounding the separatist stronghold of Slavyansk, as the interim prime minister accused Russia of "wanting to start a third world war"
- Yesterday, Russian troops conducted war games within less than 1km of the Ukranian border, following warnings by Kremlin officials this week that they were ready to intervene to protect "Russian" interests in Ukraine

Junk bond demand hits fever pitch – Pg. 12
- Companies with low credit ratings learned a valuable lesson this week: investors will queue up to lend to them, and expect relatively little in return
- Supported by ultra-easy monetary policies by major central banks and investors' hunger for yield, global corporations have sold $156bn of junk bonds so far this year – nine times the amount sold in the same period of 2008, before the Federal Reserve embarked on its first round of quantitative easing

ECB loan repayments put pressure on rates – Pg. 12
- Bumper repayments by banks of cheap loans extended by the ECB are putting upward pressure on market interest rates, even as Eurozone policy makers try to head off the threat of deflation
- But the squeeze on liquidity in the Eurozone financial system is driving up short-term interest rates.

Answer: Statement of Financial Position (BS) and Statement of Operations (IS)

25 April 2014

Question: Does an investment advisor need to register with a state securities commission or the Federal SEC?

Barclays backs bigger bonuses despite revolt – Pg. 1

- Barclays has launched a staunch defence of its decision to pay higher bonuses in the face of a shareholder revolt, even as it warned that another poor quarter at its investment bank would hit group profits
- The revolt was led by Standard Life, the bank's sixth largest investor, which criticized the board for hurting the bank's reputation and a for failing to act in the interest of shareholders

Drastic measures – Pg. 5

- Emerging economies such as Mexico are the fastest-growing source of demand for many of the big food and drinks companies
- Another big step to curb sugar consumption was taken last month by the WHO, which sets global nutrition standards
- "Sugar has become the new tobacco"

American state-backed mortgages are a $5tn millstone – Pg. 7

- A decade ago about 40% of new US mortgages carried implicit government backing, since these loans were guaranteed by entities such as Fannie Mae and Freddie Mac
- Private banks have become so reluctant to make loans that more than 90% of new US mortgages now carry government guarantees (Prof Note: Too bad we screwed up the S&Ls!)
- …Fannie and Freddie – which between them own or guarantee about $5tn worth of mortgages – remain trapped in a quasi-nationalized state after being rescued by the Treasury in September 2008
- The Crapo-Johnson plan, for example, proposes to put housing finance on a more sustainable footing by using a hybrid approach that both preserves a government guarantee and introduces more market discipline. Thus it would transfer Fannie and Freddie's operations to smaller, competing institutions; tighten mortgage underwriting standards; improve regulatory oversight; and force private investors to swallow the first 10% of losses on mortgage bonds
- Moody's estimates that interest rates on 30-year mortgages would jump almost 2% from their current level of 4.5% if government subsidies were suddenly removed

The Madoff Victim Fund – Pg. 13

- (Prof Note: Just a legal notice but worth reading personally)

Answer: It depends on to whom they provide investment advice AND how many assets they have under management. Certain types of clients, like investment companies, can only be advised by a Federally Registered Investment advisor. If the advisor is sufficiently large, i.e. $100.0m, then they must register with the SEC.

24 April 2014

Question: What is the easiest way to quantify risk, i.e. standard deviation?

Fed on track for another $10bn taper – Pg. 3

- The US Federal Reserve is highly likely to slow its asset purchases by another $10bn next week as the economy shakes off its winter torpor
- The one area where the economy is undershooting forecasts is on inflation. The Fed's preferred measure continues to hover around 1%

Bankruptcy court rulings loom over GM again – Pg. 15

- One of his critical judgments will be whether General Motors' managers during tis 2009 bankruptcy covered up knowledge of the safety problems that led in February and March this year to recalls of 2.6m compact cars worldwide
- A ruling that the company deliberately hid the problems' seriousness could allow plaintiffs to sue the new, post-bankruptcy GM for their losses
- There is no dispute that in 2001, as they rushed to bring to market a series of low-cost compact cars, General Motors engineers recognized the vehicles' ignition switches were vulnerable to shifting from "run" to "accessory" while being driven, cutting off the engine
- Yet, as well as cutting out the engine, the ignition switch shift prevented vehicle airbags from deploying (Prof Note: Can you say, 'Ford Pinto'?)

Singapore exchange slips behind Asia rivals – Pg. 18

- Singapore's equity market is looking increasingly unloved. Last year the city-state's stock exchange suffered the indignity of being overtaken in terms of trading volume by its Thai counterpart, knocking Singapore into second place in southeast Asia for the first time. More recently it was also overhauled by Japan-next, a relatively small trading platform that competes with the Tokyo bourse
- This makes SGX, the Singpoare exchange, Asia's ninth-largest share market…
- Signapore's problems – a combination of low trading volume, or liquidity; relatively high transaction costs; and a dearth of bigticket initial public offerings – were highlighted yesterday when SGX reported a 22% fall in net profit for the third quarter
- The MAS and SGX have proposed a set of sweeping reforms that would make it harder to speculate in small-cap stocks. The hope is to restore confidence among ordinary investors – and thus boost liquidity
- These proposals include setting a minimum trading price for a stock of S$0.50, and requiring traders to put up collateral, or insurance, to trade, in an efforts to curb the kind of speculation that some suspect was a cause of the crash

Answer: (Maximum – Minimum)/6

23 April 2014

Question: Black-sholes option pricing model uses what type of distribution shape in its equation?

Judges block affirmative action – Pg. 2

- The US Supreme Court has upheld a controversial Michigan law that allows the state's government to ban the use of affirmative action, or racial preferences, in judging admissions to public universities

- The court's ruling will allow as many as eight states in the US to push ahead with plans to bank affirmative action, but it does not touch the remaining states that use policies embodying racial preferences

Custody bank fears over euro deposits – Pg. 12

- Bank of New York Mellon said it was considering charging clients for depositing euros if the ECB decides to cut key interest rates below zero
- In addition to low interest rates, BNY Mellon has been dealing with new rules including the so-called "supplementary leverage ratio:, which requires bi banks to hold capital against all of their assets. The rule is particularly onerous for custody banks since they hold portfolios of assets on behalf of their customers

Russian bank in post-Crimea bond – Pg. 20

- A Russian bank in the oilrich region of Tatarstan has become the country's first lender to issue a dollar-denominated bond since Moscow's official annexation of Crimea and the subsequent tension with western governments
- The issue, which was privately placed, was led by Bank of America, Merrill Lynch along with two Russian banks, Region Broker Company and Otkritie Capital, part of Nomos Bank
- …the stagnation of Russian debt issuance remains widespread…
- Investors fearful of Russian military intervention in Ukraine and the ramifications of escalating conflict have become increasingly wary of Russia's markets
- Total Russian bond issuance to date this year is down by 74% compared to the same period in 2013,…
- A report by Moody's Investors's Service has suggested Russia's banks are likely to end 2014 weaker than they started

High-grade US debt outshines juicier junk – Pg. 22

- US corporate bonds are finally having their moment in the sun, after years spent in the shadow of better performing and higher-yielding junk debt and equities
- A strong performance for long-dated high quality bonds so far this year runs counter to the market consensus that US yields, which move inversely to prices, were set to move steadily higher during 2014
- In a striking sign that investors do not expect yields to move sharply higher anytime soon, debt sold by corporations with high credit quality is outperforming paper issued by junk-rated peers

Answer: Lognormal

22 April 2014

Question: What was the shape of the U.S. yield curve in 2007?

Japan's rising trade deficit limits stimulus effect – Pg. 4

- Japan suffered its largest trade deficit last fiscal year, underlining a wrenching structural shift for an economy renowned as an export powerhouse
- The persistent deficit has widened even with an economic recovery that began more than a year ago, limiting the benefit of Shinzo Abe's "Abenomics" stimulus policies
- The gap in value between Japan's imports and exports grew two-thirds in the 12 months in April..
- Exacerbating the deficit, the yen value of imports grew 17.3% last fiscal year, faster than the value of exports, up 10.8%

Japan's moneylenders rise amid reports of easing in loan rules – Pg. 13

- Shares in Japan's moneylenders rose strongly yesterday after reports that the government was about to ease restrictions on their business, eight years on from a crackdown that triggered floods of claims for excess-interest payments and drove some of the largest providers into bankruptcy
- Consumer finance companies have been refunding borrowers since 2006, when japan's Supreme Court ruled that rates of interest over 20% a year were "excessive"
- Consumer finance companies grew rapidly in the 1990s after banks cut back on unsecured lending

Answer: Flat

21 April 2014

Question: If you pay $100 extra a month to a mortgage with the following characteristics: 30-years, CPM, $400,000, 4.5% how many years will this shave off the back end of the loan, i.e. how much sooner will it be paid off? (Answer should be calculated in less than 30 seconds AND I know you all have your HP-12c in its holster on your waist (as I have suggested))

Eurozone periphery nurses debt wounds – Pg. 1

- The Eurozone periphery countries will have to pay more than 130bn (euro) this year just to meet the interest payments of mounting debts, a servicing burden almost three times as high as the rest of the single currency area
- ..still excessive budge deficits mean that the interest bill for Portugal, Ireland, Italy, Greece and Spain is still climbing
- The high levels of debt service, even with lower interest rates'., will erode these countries' ability to invest and maintain social security nets

US inflation worry over unemployment – Pg. 4

- High long-term US employment may fail to hold down inflation, creating a challenge for Fed plans to keep interest rates low well into 2015,…
- Wage inflation could soon rise because short-term unemployment is almost back at normal levels, …

- Most estimates put the natural rate of unemployment – the lowest rate an economy can sustain before inflation rises – at 5.5 to 6% in the US. The current rate is 6.7%, so it is still a full percentage point to fall, suggesting the economy has plenty of spare capacity
- The short-term unemployment rate, at 4.3%, is more or less back to its long-run average

US banks warn on key profit margin – Pg. 17

- Big US banks including BofA and Citigroup are warning of declines in a key measure of profitability this quarter as low rates squeeze returns from loans and investments
- The measure, known as the net interest margin, or Nim, represents the difference between the interest a bank gets on its loans and securities investments and the rate it pays for deposits
- The yield on US 10-year Treasury bonds has fallen from 3% in January to 2.7%, even as the Federal Reserve has reduced bond purchases

Answer: Two years and 9 months, i.e. 33 more months of freedom in life!!!

19 April 2014

Question: What is a Stop Order when trading equities?

Japanese banks retreat from Moscow – Pg. 1

- Japanese banks have made a marked retreat from Russia, pulling back from deals and suspending credit lines, and underlining uncertainty over whether the west will impose more sanctions on Moscow's business elite over the crisis in Ukraine
- The move highlights the reluctance of global banks to agree loans or finance deals with Russian clients, and comes as Russian bond issues shrivel
- The US and EU are drawing up plans for a possible second raft of sanctions on Russia …

Bas start to year for US banks – Pg. 8

- US banks reported their worst start to a year in fixed-income trading since the financial crisis, raising questions about whether Wall Street's profit engine can roar back to life (Prof Note: With the Libor Scandal, Forex Scandal, and additional oversight it just makes me wonder if Wall Street can make money honestly?!)
- New regulations have curbed risk-taking. Basel III capital rules make trading riskier products less profitable, and the Volcker rule bans banks trading on their own account
- Fixed income, where banks trade derivatives, interest rates, bonds, commodities and currencies, is still hugely significant, representing more than 17% of the banks' revenues – …. (Prof Note: Fixed Income is an elective class in MBA programmes and only a single class in an MS Finance class (which I lecture!), i.e. not enough!!!)

Bumpy ride in store for gold with price forecast to fall 15% - Pg. 12

- …the average 2014 price would be $1,225/ounce
- Prices tumbled more than a quarter last year as the 12-year bull run in gold came to an end

Answer: It is a strategy that converts the equity to a buy/sell order when a price is passed.

17 April 2014

Question: What is wrong with ship captains, i.e. Korea Ferry?

Dovish Yellen points up drags on inflation – Pg. 2

- Janet Yellen has warned that even a recovering economy may not pull inflation back up towards the US Federal Reserve's 2% target….
- Inflation is running about 1% a year on the Fed's preferred measures
- Ms Yellen said she still thought there was a lot of spare capacity, or slack, in the labour market. She noted the unemployment rate, which at 6.7% is still around 1% above the Fed's view of full employment; the large share of workforce with part-time jobs who would prefer full-time work; and the high proportion of long-term unemployment

Legal costs erase BofA quarterly earnings – Pg. 13

- Bank of America lifted its legal reserves by $2.4bn in the first quarter, raising the imminent prospect of more mortgage-related settlements that stem from the lead-up to the financial crisis, as it reported its first quarterly loss in nearly three years
- The bank still faces a high-profile investigation into mortgage-backed securities by the same DoJ mortgage task force whose findings cost JPMorgan Chase $13bn
- (Prof Note: I have said it before and will keep saying it…these "fines" are simply expense items, i.e. a cost of doing business. Where are the lifetime bans from financial services for the executives responsible?)

Romania borrows at record 3.7% low – Pg. 20

- Romania one of Europe's fastest-growing economies, has shrugged off its physical proximity to turmoil in Ukraine…
- Since a 20bn (euro) rescue by the IMF and EU in 2009, Romania has implemented severe austerity measures
- Romania's efforts have been rewarded with lower borrowing costs in international bond markets. In 2008 it had to pay a yield of 6.75% a year to buyers of its 10-year euro-denominated bond

Answer: Did the Costa Concordia teach us nothing???!!! You go down with the ship…PERIOD!!! I still remember my lunch with my friend Elliott where we both agreed with 100.0% certainty that if we were ship's captains we would go down with the ship. NOT because we are heros but rather cowards, i.e. we would not want to live with the consequences of not being the last to leave the ship!

16 April 2014

Question: What is a Straddle Option Strategy?

Beijing steps up crackdown on credit – Pg. 1

- Chinese financial institutions slashed the supply of credit by $90bn in the first quarter, underlining the scale of Beijing's crackdown on its vast shadow finance system and fuelling fears of a "hard landing" for the world's second-largest economy
- The scale of the monetary unwinding could pose a bigger threat to emerging market liquidity than the US Federal Reserve's programme of reducing or "tapering" its asset purchases
- Economists saw the contraction as another bearish signal for China, which announces first-quarter GDP figures today amid concerns it is on course for its lowest growth reading since 1990, when the economy was hampered by sanctions in response to the Tiananmen Square massacre
- A "hard landing" is generally regarded as a growth rate below 7% this year

Africa loses $2bn a year on transfers – Pg. 2

- Africa's expatriates are paying a "remittance super-tax" of nearly $2bn a year due to the higher-than-average cost of sending money to the continent, …
- Remittances – the savings that migrant workers send home – are a key source of financial inflows into Africa, helping countries to cut their current account deficits and prop up their domestic currencies

Belgium packs a punch among foreign holders of US Treasuries – Pg. 11

- A small country of 11m that recently managed nearly two years without an elected government has assumed a muscular presence among nations that hold US Treasury bonds
- In recent months, Belgium has vaulted past countries known for their financial centres, including the UK and Switzerland, as well as major oil exporting nations to become one of the major holders of US government debt
- …presently ranks after China and Japan as the third-largest foreign holder of US Treasury debt

China reveals record forex reserves – Pg. 18

- China's foreign exchange reserves rose to just shy of $4tn in the first quarter of 2014, roughly the same as its entire equity market, confirming the hand of the central bank in the weakening of the renminbi
- Since the middle of February, the Chinese currency has dropped 2.7% against the dollar, to its lowest level in more than a year
- China is secretivfe about the composition of its reserves. Common estimates put the dollar portion at about two-thirds, with a quarter in euros, and the rest in yen, sterling and other currencies

Answer: It is a strategy created by combing two European options, one call and one put, with the same time to maturity and exercise price. The shape represents a "V" with the tip being the exercise price.

15 April 2014

Question: Tulips were used as currency for the first time when?

Forecast for world trade upgraded – Pg. 6

- The WTO has raised its forecast for growth in global trade this year to 4.7%, while warning that risks such as the slowdown in developing economies and increasing geopolitical tensions, including Ukraine, threaten to undermine its recovery
- …also cautioned that the 4.7% upturn it anticipated remained well below historical trends and, in particular, the pre-crisis average 6% growth seen through most of the 1990s and 2000s
- The WTO also said global trade grew at a slower than initially thought 2.1% in 2013, down from its 2.5% forecast last September

In search of a new standard – Pg. 7

- On the morning of September 12, 1919, just 10 months after the end of the first world war, bankers at NM Rothschild & Sons in London sat down to calculate a fair price for gold. They had been asked to do this by the Bank of England, which wanted to restore the city's status as an international finance centre
- At 11am that day, Rothschild set a reserve price at $20.67 an ounce…
- Nearly 95 years on, the fix remains the global gold benchmark, used by miners, central banks, jewelers and the financial industry to trade gold bars, value stocks and price derivative contracts
- The original five bullion dealers have been replaced by five banks: HSBC, Deutsche Bank, Scotia-Bank, Barclays and Societe Generale
- Since uncovering evidence of alleged abuse by bankers of the Libor and forex benchmarks regulators have been scrutinizing other big financial benchmarks for signs of weakness
- Unlike other commodities from copper to coffee, gold does not trade on an exchange in London
- The main futures contracts are traded in New York and Shanghai. The gold fixing takes it cue from and influence these markets
- Every day at 10:30am and 3pm London time, the five banks join a secure conference call. The chairman – the job rotates among the banks annually – suggests an initial price, close to the market price
- The process is a world apart from other benchmarks. Libor, for example, is independently calculated using lending rates, submitted by International banks, while foreign currency benchmarks are based on electronic trades within a 60-second window
- The fix is not especially lucrative for the banks, which typically charge clients a premium of 5 to 10 US cents an ounce above the benchmark price
- …nobody denies that arbitrage opportunities exist or that there is heavy trading in other gold markets during the fix

US share slide looms over junk bonds – Pg. 20

- A bruising drip in US equities at the end of last week is fanning concern that investors are poised to reassess lofty valuations in the junk bond market, potentially triggering a sell-off in the riskiest kind of company debt

- Historically, equities and prices for bonds of companies with low quality ratings have moved in tandem
- Junk bonds could be particularly vulnerable to declines following a multi-year rally in the securities that pushed valuations to levels that did not compensate investors adequately for the risks attached to the debt

Answer: 1633

14 April 2014

Question: In 1960, among married couples 21% of the time one spouse was better educated than the others; two-thirds of the time it was the husband. How has this ratio changed as of 2012?

Slowdown puts 1bn new middle class at risk – Pg. 1

- Almost a billion people in the developing world are at risk of slipping out of the ranks …raising questions about the durability of the past 30 years' remarkable march out of poverty
- One of the biggest questions confronting governments is what slower growth will mean for the creation of a solid middle class in countries such as China and India, which many are counting on to drive the global economy in the 21st century
- The IMF last week warned that the world could face years of subpar growth…
- The Asian Development Bank has defined the entry point to the new middle class as the $2 per day poverty line, adjusting for purchasing power, while other economists have argued a more robust definition begins at $10/day (Prof Note: That is 2 – 3 Starbucks/day)
- There were more than 2.8bn people – or 40% of the world's population – living on between $2 and $10 per day in the developing world in 2010,…

Fed policy maker warns on low rates – Pg. 5

- The US Federal Reserve's plan to keep interest rates low even once the economy is back to normal could be a policy mistake, …
- …he does not see a persuasive reason to think interest rates should be below their long-run level in 2016, if unemployment and inflation are back to normal

A slippery ladder – Pg. 7

- There is no doubt the world is less poor than it once was or that decades of rapid growth have created millions of consumers around the developing world. In 1990 an estimated 1.9bn people, or more than a third of the world's population, survived on less than $1.25/day. By 2010 that figure had fallen to 1.2bn, less than a fifth of the people on earth

Debt grows at biggest US groups while offshore cash piles increase – Pg. 15

- The biggest US companies have added significantly to their debts during the past three years, at the same time as corporate cash piles have increased,…

- The figures show how US companies have been able to raise money to pay for capital investment, dividends and share buybacks, even when they have not been spending their cash holdings
- S&P argues that the increase in borrowing will be manageable if interest rates rise gently as expected, but could make companies vulnerable if rates increase unexpectedly sharply
- The total cash holdings of the 1,100 companies rated by S&P for five years or longer rose by $204bn to $1.23tn during 2010-13,…
- One factor behind the increase in gross debt is what S&P describes as "synthetic cash repatriation". US companies with overseas cash have been choosing not to pay the tax that would be charged if they brought the money into the country, and instead have borrowed to fund distributions to shareholders or capital spending

Answer: 41% of married couples had unequal educations BUT 51% of the time (for the first time) the wife is better educated! Men…time to step up!!! (Question provided with permission from Elliot Eisenberg, Ph.D.)

12 April 2014

Question: The notional amount of Credit Default Swaps in 2007 was approximately how large?

Rich nations raise income tax again – Pg. 2

- Income taxes rose across most of the industrialized world for the third year running, as governments set about rebuilding their public finances, …
- Workers on average incomes paid higher taxes in 25 out of 34 countries in the Paris-based OECD over the past three years, as austerity measures reversed the previous trend for tax cuts in the aftermath of the financial crisis
- Average tax and social security contributions rose by 0.2 of a percentage point to 35.9% in 2013, following rises of 0.1 and 0..5 percentage points in 2012 and 2011. Recent rises have largely reversed the decline from 36.1% to 35.1% between 2007 and 2010
- In most countries the main driver for rising taxes was a fall in the value of tax free allowances and tax credits relative to earnings. Increases in employee social security contributions also played a role
- The average rate of income tax plus employee social security contributions in OECD countries last year was 25.4%. Belgium, with a 42.6% rate was the highest with Denmark and Germany being the only other countries with rates of more than 35%

Beijing bond failure adds to concerns – Pg. 2

- The Chinese government was unable to sell all the bonds offered at an auction yesterday, its first such failure in nearly a year amid concerns about slowing growth in the world's second-largest economy
- The bond failure followed inflation data that showed prices fell in China last month,, reinforcing the picture of a sluggish economy weighed down in part by government efforts to squeeze leverage out of the financial system
- Consumer prices fell 0.5% in March from the previous month,…

Rating agency warns Finland – Pg. 3

- Finland has a one-in-three chance of losing its triple A credit rating in the next two years, a rating agency warned, citing "persistent subpar growth" and exposure to Russia
- Maintaining Finland's triple A status has been held up as one of the main achievements of the country's unwieldy five-party coalition government

Fed minutes and flight to safety give dollar a bad week – Pg. 12

- ….the Fed had held an unscheduled meeting by video conference to debate scrapping the 6.5% unemployment rate as a forward guidance threshold
- Emerging market currencies, which have recovered strongly since mid-February after a heavy sell-off at the start of the year, remained subdued as the risk outlook became clouded

Answer: 62.2 Billion

11 April 2014

Question: In the U.S. when was the Social Security Act signed into law?

European push for high-risk loan return – Pg. 1

- Europe's top two central banks will today make a joint push to revive asset-backed securities, which were vilified for their role in the financial crash, in a bid to kick-start lending to the region's credit-starved companies
- Despite much lower default rates than in the US, the European securitization market has been frozen since the crisis
- Banks use asset-backed securities, which can be crated from bundles of loans for anything from mortgages to credit cards and cars, as a funding tool. Selling the securities frees up more money for loans to businesses and households

China lowers the wall for global investors with HK exchange link – Pg. 1

- China has taken a big step towards opening up its financial system to the rest of the world by allowing investors in Hong Kong to trade shares listed on the Shanghai stock exchange
- China has recently loosened restrictions on lending rates, widening the renminbi's daily trading band, and allowing the country's first ever corporate bond default
- China's domestic markets remain largely closed to overseas investors, who can only gain access through a quota system that allows foreign funds to bring US dollars or renminbi onshore to buy mainland equities and bonds
- The new links would enable overseas investors to bypass those quota systems, making trading far quicker and easier

Washington berated on IMF delays – Pg. 5

- Leading economies are considering ways of bypassing the US and progressing with reform to the IMF without what is its most important member

- The changes would double the IMF's quota – in effect its equity capital – to $720bn; shift six percentage points of total quota to emerging markets; and move two of the 24 IMF directorships from European to developing countries
- The reform was agreed by the entire membership and supposed to be ratified by 2012 but has been waiting for the US Congress to act, much to the frustration of emerging economies

US banks hit back on 'too big to fail subsidy' – Pg. 16

- The banking industry is fighting back against studies showing the largest companies still enjoy funding advantages because of the perception they are "too big to fail", which assumes a government bailout in a crisis
- On March 31, the IMF warned that the world's largest banks still received implicit public subsidies worth as much as $590bn because of their status

India offshore rupee debt to double – Pg. 20

- India is set to take a big step towards currency internationalization with World Bank plans to double its offshore rupee bond programme to $2bn and push leading Indian companies to raise global rupee-linked debt for the first time
- The $2bn programme represents a step-up In Indian attempts to tap fresh sources of global capital and heighten the international profile of its currency. The rupee has recovered strongly against the dollar after a serious of sharp depreciations last year
- India is following a path pioneered by China with its so-called "dim sum" bonds – offshore bonds denominated in renminbi – as Asia's two largest emerging nations accelerate moves to integrate their economies with the global financial system
- The IFC's bonds are bought and sold in dollars, but are denominated in rupees and offer returns linked to rupee interest and exchange rates. They also have a triple A rating, guaranteed by the lender
- India has struggled to raise capital to fund long-term projects in areas such as power and infrastructure, in part because of the underdeveloped domestic corporate bond market

Answer: 14 August 1935 (when the life expectancy of both sexes was 61.7 years)

10 April 2014

Question: Real Estate uses a Capitalization Rate to determine Final Gross Sales Price. What does Corporate Finance use to determine Final Gross Sales Price of a company?

IMF warns on debt as easing decelerates – Pg. 4

- Rising levels of debt prompted by five years of ultra-low interest rates could exacerbate the dangers of brining monetary policy back to normal, …
- Although the IMF has warned about the potential dangers of the exit from US quantitative easing for at least a year, its new concern is that prolonged low interest rates will make an exit even more difficult

- Rising government and corporate debt in many economies were high on the IMF's list of concerns. The consequences of interest rates rising, the report warned, threatened to be potentially systemic
- Household debt in Brazil, China, Singapore, Thailand and Turkey has increased more than 40% since 2008. Net issuance of emerging market corporate debt tripled from 2009 to 2013
- …the size of China's non-bank financial institutions had doubled since 2010 to 30 or 40% of GDP

Bundled loan sales hit pre-crisis high – Pg. 22

- Sales of a popular type of structured product have ballooned in the past couple of weeks to the highest levels since the build-up to the financial crisis, buoyed by investors' thirst for yield
- March saw the highest sales of collateralized loan obligations since May 2007, ….
- CLOs typically bundle leveraged loans made to companies but sometimes also include bonds and other securities to help boost returns for yield-hungry investors
- US banks have been some of the biggest buyers of CLOs in recent years, helping to drive total sales to a post-financial crisis record…
- This week the Federal Reserve granted banks a concession of two more years to comply with Volcker rule restrictions on CLOs holdings
- They now have until July 2017 to comply

Answer: EBITDA multiplier (Earnings Before Interest Taxes Depreciation and Amortization)

9 April 2014

Question: What are some characteristics of Universal Life Insurance?

IMF says recovery cuts risk of downturn – Pg. 1

- ..the fund forecast global growth of 3.6% in 2014, rising to 3.9% next year, it warned that the world still faced "years of slow and subpar growth" unless countries embark on structural reforms to improve their growth
- The fund expects the US to expand 2.8% this year, the Eurozone to regain positive momentum with a 1.2% expansion, and Japan to maintain its recent trajectory with 1.4% growth

BoJ refrains from more easing – Pg. 2

- The bank of Japan refrained from taking extra monetary easing measures yesterday, judging that progress towards its 2% inflation target should not be seriously threatened by last week's rise in the consumption tax, the first in 17 years
- A "moderate" recovery continued in the world's third-largest economy, the BoJ said in a statement supported by a pick-up in capital expenditure by the public and private sectors and "resilient" household consumption and housing investment

US raises concern over renminbi fall – Pg. 3

- The US has warned Beijing not to go back to manipulating its currency, following a sharp depreciation of the renminbi since the start of 2014
- The renminbi has fallen more than 2.5% against the US dollar since mid-February, a small amount for most emerging markets but a dramatic shift for the Chinese currency following years of slow and steady appreciation.

'Fragile five' rally heralds return of carry trade – Pg. 22

- The strategy of borrowing in low-yielding currencies to buy higher-yielding once has historically furled some of the most profitably booms and spectacular busts in foreign exchange markets – from the Asian crisis of 1997 to the yen-funded trades that unwound when the global financial crisis hit a decade later
- In the past couple of years, however, hedge funds and currency managers relying on carry strategies have struggled
- In the developed world, ultra-loose monetary policy left few opportunities to profit from differences in interest rates, while central banks in emerging markets proved apt in step in and limit any currency appreciation

Answer: Ability to adjust premiums, death benefit, and cash value up/down to meet custom needs. It may have a death benefit Option(s) as well as premium payments.

8 April 2014

Question: What are the three basic types of Life Insurance?

ECB and BoE join forces to revive bundled debt market – Pg. 4

- Europe's top two central banks are joining forces to push for the relaxation of rules on an asset class blamed for causing the global financial crisis, as they attempt to unclog credit flows in the region
- If new rules failed to gain traction at the level of bodies such as the Basel Committee, an EU-specific approach may be needed

Tougher leverage ratio rule on way – Pg. 14

- US regulators are expected to finalize a leverage ratio rule today that is aimed at making it harder for the largest US banks to manipulate their assets to meet capital requirements
- Most bank capital rules are "risk-weighted, requiring more loss-absorbing equity to be held against riskier loans and securities.
- Meanwhile, the leverage ratio is meant as a blunt backstop that requires capital against total assets, regardless of risk, so $1 of a safe US treasury is counted as $1 of a complex derivative
- The new rule will also influence how much banks like JPMorgan Chase, Goldman Sachs and Morgan Stanley can pay out to shareholders, since the leverage ratio rule will become a part of the Federal Reserve's annual stress tests
- US regulators have proposed minimums of 5% equity against total assets at the holding company level and 6% at the bank level

Zambia makes bond market return – Pg. 20

- Zambia has raised $1bn through an international bond sale in Africa's first sovereign debt issuance this year
- Zambia's higher borrowing costs reflect concerns about the country's growing budget deficit as well as cooling demand from global investors for emerging market debt
- Zambia's economy is expected to grow 6.5% this year,…
- S&P has maintained its negative outlook toward the country,…

Answer: Whole, Term and Universal

7 April 2014

Question: Who was born on Nevis AND a founder of the U.S.'s first Central Bank?

Property groups' bank stakes stir unease among Chinese regulators – Pg. 1

- Chinese property companies are buying stakes in banks, raising fears that the country's already stretched developers are trying to cosy up to their lenders
- Some of the developers are heavily indebted, sparking questions about the motivation for the deals (Prof Note: Whenever I enter negotiations on behalf of a client with a public lender, I always purchase equity shares in the lender as it helps with negotiations)
- Falls in housing sales across China at the beginning of this year and defaults by a handful of small developers have stirred fears about the risk of a serious property market downturn

Recovery 'on even keel but bereft of wind to fill sails' – Pg. 3

- The Tiger index – Tracking Indices for the Global Economic Recovery – shows that the global economy is "back on an even keep but remains bereft of a strong wind to fill its sails' …
- Tiger combines measures of economic activity, financial variables and indicators of confidence, according to the degree to which they are all moving up or down at the same time
- The IMF's latest forecasts, which are about to be published, are likely to show a weaker outlook for emerging economies than thought in the second half of 2014, alongside greater resilence in advanced economies, especially for the UK, where growth has been strong

Death knell for Brazil's economic matrix – Pg. 4

- Persistent inflationary pressures have forced Brazil's central bank to jack interest rates back up from a record low of 7.25% in 2012 to 11% last week, with possibility of more increases to come
- …the government unleashed unorthodox measures to curb inflation which threatened to upset its strategy of low interest rates. The most prominent was to unofficially force Petrobras, the state-owned oil company, to sell fuel imported at international prices for subsidized rates in Brazil
- The result was low growth and high inflation. Brazil's economy this year is set to grow at about 2%, continuing one of its slowest rates of expansion since the 1990s. Meanwhile,

inflation, expected to reach 6.3% this year, is near the top of the central bank's band of 4.5% plus or minus 2%
- Among the most important structural issues is reducing the tax burden, which has risen from 26% of GDP in 1997 to 36% in 2012

IMF expected to revise global growth forecasts – Pg. 22
- The IMF is likely to revise global growth up slightly due to increased strength in the advanced countries, but point to significant problems in many emerging economies, particularly the slowdown in China

Answer: Alexander Hamilton

5 April 2014

Question: Is the Federal Reserve the first central bank of the U.S.?

BoE warns on asset managers – Pg. 2
- Regulary pressure for a clampdown on the world's $87tn asset management sector intensified yesterday as a BoE policy maker warned the industry posed mounting risks to financial stability
- The industry's assets under management have already doubled over the past decade in dollar terms, and could swell to $400tn by 2050, …

Payrolls data reassure on US growth – Pg. 2
- The latest figure of 192,000 jobs in March is back in line with other data showing steady economic growth
- The figure suggests the Fed was right to taper by $10bn in January and March, taking the pace of purchases to $55bn. It also means that after a few months when the data were in effect worthless because of the weather distortions, the numbers are relevant once again
- A pick-up in the labour force participation rate was especially encouraging. It rose from 63% to 63.2%, the highest since last autumn

Congress shines a harsh light on GM – Pg. 10
- The old GM disappeared I a government-managed bankruptcy in 2009, and the new company bought only some of its assets
- (Prof Note: I still question if GM and Chrysler should have been bailed out. Our course as someone that grew up in the eighties, it is highly unlikely I will ever purchase an "American" car due to the constant maintenance issues that occurred in "American" cars during this period)

Japan pension fund signals shift towards equities – Pg. 12
- The world's biggest pension fund has offered a glimpse of willingness to adjust its investment strategy, announcing a raft of fund manager appointments and a shift to new equity benchmarks

- …revamp its bond-heavy portfolio to allocate a higher proportion of its $1.2tn in assets to domestic stocks and other riskier assets

Answer: No, it is the Third central bank of the U.S.

4 April 2014

Question: Discounting using a 0.00% discount rate provides what information?

Borrowing costs to stay low, says IMF – Pg. 3

- The cost of borrowing in the global economy is likely to remain low long after the financial crisis fades in people's memories and recovery gathers pace,…
- The fund predicted that, although real rates would creep up from their exceptionally low post-crisis levels, there were "no compelling reasons to expect…[they] will quickly return to the average level of 2% observed during the mid-2000s"
- The forecast that money will remain cheap for a long time should encourage borrowers, including governments, to take on more debt, …
- Looking back at trends in real interest rates since the 1980s, the fund noted that their movements had become more global over time and rates were higher only in countries that were perceived as risky
- Persistently low real interest rates help nations reduce debt servicing costs, making deficit reductions easier

China pledges to maintain growth – Pg. 2

- With growth in the world's second-largest economy continuing to decline, Mr Li has set a target of "about 7.5%" expansion this year, a goal he is unlikely to achieve without further stimulus

Junk bond experts balk at high values – Pg. 20

- A growing cadre of bond specialists employed by the big banks who sell securities to investors is warning that valuations in the junk bond markets are too high
- The bonds, which are sold by companies with more fragile balance sheets and a higher probability of default, have become one of the most popular securities among global investors, as central banks in the US, the UK, and Japan flooded the globe with easy money and brought benchmark rates to record lows
- Average spreads on high-yield debt over Treasuries stand at 355bps, ….

Answer: Do you get your money back, i.e. principal?

3 April 2014

Question: On a daily basis, what quantity of capital flows through the Federal Reserve's payment system?

Stock markets hit post-crisis highs as IMF warns on growth – Pg. 1

- Investors pushed global stock markets to post-crisis highs yesterday even as the IMF warned that the world faces "years of slow and subpar growth", high-lighting the contrast between buoyant traders and cautious policy makers
- However, Christine Lagarde, managing director of the IMF, warned of several obstacles to a sustained recovery including job-killing "low-flation" in the Eurozone and geopolitical tensions stemming from the crisis in Ukraine. She said the prospects of faster growth depended on more investment and structural reforms in labour and product markets
- Ms Largarde held out the prospect of the world economy growing by 22% over the next five years,…

Japan's utilities seek financial help – Pg. 2

- Renewed signs of the post-Fukushima strain on Japanese utilities' finances emerged yesterday as Kyushu Electric Power said it was in discussions with a government-owned bank over a possible capital infusion
- Japan relied on nuclear plants for 30% of its electricity before Fukushima, and the mass shut-down has inevitably put pressure on power companies
- Utilities have already raised electricity charges in response

Ex-offenders' plight proves key to US labour market woes – Pg. 3

- …in 1964 almost 97% of US men aged between 25 and 54 were participating in the labour force, the latest figure is 88%. A big part of the explanation is prison: the US locks people up at fives times the UK rate and 10 times that in Scandinavia
- That makes the jobs market prospects of those with criminal record vital both to the US Federal Reserve, in judging when it needs to raise interest rates, and to the broader outlook for US economy (Prof Note: At least one of my classes lectures were originally drafted behind prison walls! I utilize prison labour!)
- Given the statistics, however, it is no surprise that workers on the fringes of the labour market would turn out to have criminal records. From the late 1970s and early 1980s the US began to imprison ever larger numbers, often for non-violent drugs offences, via policies such as California's "three strikes" law
- From about 150,000 new prisoners a year in the late 1970s, the rate rose to more than 700,000 a year before a recent dip. That has created a huge population of former offenders, estimated at between 12m and 14m, or more than one in 15 US adults of working age
- In the long run, the best labour market policy would be to lock up fewer people, and there are signs that the penal boom is waning. In particular, left and right in the US seem ready to think again on drugs policy (Prof Note: Legalize Drugs and Prostitution…regulate and tax both!)

In search of shelter – Pg. 5

- The situation is different in China's biggest cities such as Beijing and Shanghai, where the main problem is an undersupply of good housing. But smaller cities accounted for as much as two-thirds of China's property under construction last year….

- Developers accounted for a fifth of all non-financial dollar bonds sold by companies across Asia (excluding Japan) in 2013, and more than 40% of new issuance this year
- Offshore credit accounts for more than half the total outstanding debt for at least six big developers…
- A second issue is that much of the lending has been priced at remarkably generous rates
- Declining sales have led developers to cut prices….

'Speculative excess' in credit raises Fed concern – Pg. 20

- Central bankers have been debating whether monetary policy should take into account asset bubbles ever since the low interest rates under Alan Greenspan were blamed for herding investors into riskier investments in the years preceding 2008

Answer: $4n

2 April 2014

Question: How do you know an arbitrage opportunity exists in the Futures market?

Pressure rises on Gross as Pimco fund plummets down rankings – Pg. 1

- Bill Gross's Total Return bond fund, the largest fixed income mutual fund in the world, was beaten by 94% of its rivals in March…
- The Total Return fund, which has $236bn in assets, lost 0.57% in March…

Asian economies endure shaky start to the year – Pg. 2

- The region's two largest economies, the export machines of China and Japan, have had a stuttering start to the year, weighing on their neighbours, even at a time when demand from the west is picking up
- Things have been marginally better elsewhere in north Asia. Japan, which yesterday introduced its first consumption tax increase since 1997, has had a poor start to the year
- The Philippines continues to surge ahead, while India and Indonesia have seen some improvement

Attention shifts to US tax code – Pg. 16

- US Republicans used an investigation into Caterpillar's tax strategy yesterday to highlight problems with US corporate tax rules, saying bashing companies like the heavy machinery maker focused on the wrong issue
- Caterpillar has been accused of using a Swiss affiliate to shift 85% of the profits it makes from selling parts to defer or avoid paying $2.4bn in US taxes,…

US law firm in London push – Pg. 16

- A leading US law firm has opened a practice in London to advise activist hedge funds amid signs that American funds could increase assaults on companies in the UK and continental Europe

Indonesia becomes a post-taper leading light – Pg. 20

- The Jakarta stock market is the best performing emerging market this year, up more than 20% in US dollar terms, while the rupiah has bounced almost 7%
- Yields on 10-year government bonds have come down to 7.8%, from 9% in January and versus Indian equivalents yielding 8.8%
- …the current account deficit, which widened to 4.4% in the second quarter of 2013, has come down below 3% again

Answer: The Present Value Formula is violated.

1 April 2014

Question: What is the definition of "Fiduciary Duty" according to Black's law dictionary?

Swiss name eight banks in widening forex probe – Pg. 1

- Switzerland's Wettbewerb-skommission said it had launched a probe into domestic lenders UBS, Credit Suisse, Julius Baer and Zurcher Kantonalbank, as well as four foreign banks: Barclays, JPMorgan, Citigroup, and RBS

IMF warns on 'too big to fail' – Pg. 3

- The world's largest banks still receive implicit public subsidies worth as much as %590bn because of their status as "too big to fail" and the assumption of a government bailout if they get into trouble
- The implicit subsidies take the form of the benefits that accrue to banks and their investors because of the bailout assumptions
- (Prof Note: What happens to the Senior Staff of a failed bank? Lifetime ban from financial services?!)

Fresh data add to Eurozone deflation fears – Pg. 3

- Inflation in the Eurozone hit its lowest level in more than four years in March, stoking fears that the currency bloc is drifting towards a damaging period of falling prices
- …inflation flowed to 0.5% last month…
- Disinflation is, in part, a global phenomenon. Price pressures in both the UK and the US have also dipped below central banks' targets as the weak global recovery has left a large amount of spare capacity across advanced economies
- The strength of the euro, which edged up against the dollar yesterday despite the drop in inflation, has also kept price pressures subdued by lowering the cost of imports (Prof Note: And the strength of the euro had kept me from holiday in Europe (though I must admit I am partial to Asia now))
- Debt burdens – which are fixed in nominal terms – would also increase in a scenario of falling prices

Yellen sees slack on jobs and in economy – Pg. 4

- …Fed Rsv would continue a highly stimulative monetary policy for the foreseeable future

- Some recent analysis suggests the US economy is starting to run out of spare capacity. In that case, highly stimulative monetary policy could start to push up wages and inflation

Triple A government debt ratings fall as financial crisis takes toll – Pg. 11

- The global pool of government bonds given a top Triple A "risk free" rating by all three main credit rating agencies has fallen 6% over the past year and by more than 50% since 2007,…
- The US, France and the UK are among countries that have lost their triple A status in the past few years

Answer: "A duty to act for the benefit of another on matters within the scope of the relationship. Fiduciary relationships – such as Trustee-Beneficiary – require an unusually high degree of care…[requiring] good faith, trust, confidence and candor." (Prof Note: This is EXTREMELY important that you have this definition memorized and understood. If not, how can you know when it is breached?!)

31 March 2014

Question: When doing Estate Planning, i.e. planning your financial future, who are the necessary players?

Bad Loan writedowns at Chinese banks soar – Pg. 1

- China's biggest banks more than double the level of bad loans they wrote off last year, in a sign that financial strains are mounting as growth in the world's second-largest economy slows
- The sharp acceleration in write-offs is the latest indication of the turbulence now buffeting China's financial system
- China's banks built up strong defensive walls over the past decade of their turbocharged growth that are now being tested. Since they had already set aside large reserves against possible losses, they were able to double their loan write-offs without undercutting their profitability or their capital cushions

Tokyo's increase in sales tax poses threat to Abenomics – Pg. 3

- …Japenese retailers spent the weekend taking advantage of a burst of consumer spending before the country's national sales tax rises tomorrow
- Most economists expect the world's number-three economy to suffer its first contraction in more than a year in the April-to-June quarter, led by a sharp drop in consumption
- It will also bear on a big looming policy decision: whether to go ahead with the next phase of the planned two-step tax increase, set for October 2015 unless Mr Abe stops it – a judgment the government says it wants to make by the end of the year
- To many outsiders, the hand-writing over the tax rise is hard to understand. At 5%, Japan's value-added consumption levy is among the rich world's lightest, and even after it increases to 8% tomorrow, or even the intended 10% next year, it will be well below the level applied in many OECD countries

- EU states, for instance, are required by treaty to maintain VAT of at least 15%, and most take significantly more
- Given Japan's vast public debt – worth about two-and-a-half years' economic output on a gross basis, the world's highest ratio – raising taxes looks to many like an obvious move
- Yet the debate in Japan has been haunted by the spectre of the last sales tax increase, in 1997. Then a deep recession followed, the effects of which are still being felt: 1997 was the year that Japan slipped in the mild but persistent deflation from which Mr Abe is trying to extract it today
- Optimists have noted a number of other differences from 1997. Then, the consumption tax increase occurred a few months before the Asian Financial Crisis and a worsening of bad-loan problems in Japan's domestic banking sector – additional burdens on the economy that are absent today

Moody's plays down economic impact of World Cup on Brazil – Pg. 5

- Spending on the World Cup will have negligible impact on Brazil's economy – negative or positive – in spite of perceptions among Brazilians that the tournament is costing the country dearly,…
- The games will generate only 0.4% of additional GDP for Brail in a 10-year period and the infrastructure spending envisaged amounts to just 0.7% of the country's total investment planned between 2010 and 2014,…

Hire the young and old to avoid 'workforce cliff', says McDonald's – Pg. 15

- …employers needed to offer more work placements, mentoring, site visits and talks in schools and colleges to replace the decline of traditional entry-level jobs for young people in many industries
- Three-quarters of McDonald's staff are under 30, but it has stepped up recruitment of older workers

Answer: Financial Planner (Captain), Attorney (Document Drafter), Life Insurance Consultant (Ensure Liquidity), Trust Officer (Structure Trust Vehicles), Accountant (Organize), Client (You…must be actively involved)

29 March 2014

Question: What type of Option Strategy provides positive payoff to a negative market but limits loss if the market increase?

Spectre of Eurozone deflation in view – Pg. 1

- The cost of borrowing for crisis hit countries in the Eurozone is tumbling amid expectations that the ECB will be forced to start buying government bonds to fend off the spectre of deflation
- Yields on 10-year Portuguese government bonds dropped below 4% for the first time since early 2010 yesterday while Spanish 10-year yields tumbled to a near-decade low

- Fears the Eurozone is drifting towards a Japanese-style bout of deflation were stoked further yesterday after prices fell in Spain this month and inflation edged down in Germany
- With Eurozone inflation running at 0.7% - well below half the target of just under 2% - policy makers were already under pressure to act even before yesterday's figures

Rotation to value crushes tech stocks – Pg. 12

- …the rush to buy expensive shares with an uncertain future has turned into a rout in the past month
- The Nasdaq internet index is down more than a tenth from its early-March peak…
- The reason is a big switch between shares. Investors have not just been dumping the most expensive stocks dependent on profits far in the future. They have also moved out of broader "growth" stocks, those which had attracted a premium valuation in anticipation of faster expansion of profits, and shifted to "value" shares, those which trade at a discount on measures such as price-to-book ratios
- The rotation is almost perfect. The cheapest US sectors on price to estimated earnings – telecoms, financials and energy – did best, while the most expensive, led by consumer discretionary, did worst
- This raises two possibilities for those who are bullish on the stock market. First, this might be a purely temporary reversal and the dotcom bubble may tart to suck in money again. Second, the rotation into cheap stocks – which has been extended worldwide, even this week to the much-maligned Chinese banks – might become the underpinning for a further advance
- Roaring stock markets tend to be led by growth stocks, as in pre-crach 1987 or 1999

Answer: A "Bear" Spread

28 March 2014

Question: How do you "bet" on temperature?

Fed under fire on 'opaque' stress tests – Pg. 1

- The aftershock of the stress tests was felt beyond US shores for the first time. The US subsidiaries of RBS, Santander and HSBC all failed on "qualitative" grounds, which includes failing to project losses rigorously when contemplating a severe recession or market meltdown

Brittan on Britain – Pg. 8

- The inevitable happened and the pound was devalued in the autumn of 1967
- Once devaluation had been achieved much of the interest went out of the exchange rate issue. It was only really in the 1970s that inflation became an issue in its own right
- The prevailing orthodoxy was that it was the result of a wage push by overpowerful unions and the task of government was to persuade or compel them to exercise restraint

- The Thatcher administration, which arrived in 1979, was theoretically committed to a monetary approach to inflation but this cut little ice with the BoE, which simply humuoured the government while carrying on its sweet pragmatic way

Marriott looks to speed up luxury transformation – Pg. 16

- Marriott International is accelerating its push into high-end hotels as it seeks to turn around its image as a staid, mid-market operator
- The Maryland-based company has a development pipeline of more than 200 luxury and lifestyle hotel projects around the world, reflecting more than $15bn of investment by owners and franchisees
- China, India and parts of the Middle East are propelling growth

Accenture tumbles on struggle passing higher costs to clients – Pg. 23

- ….executives cautioned that the technology and outsourcing consultancy was having difficulty passing higher costs on to clients
- It also expected sales in its consulting business to show little, if any, growth this year

Answer: Purchase (sell) a derivatives product based on Heating Degree Days (HDD) or Cooling Degree Days (CDD) which are purchased (sold) on the CME Group, www.cmegroup.com

27 March 2014

Question: What is a "Straddle" option strategy?

Bank run reveals China stresses – Pg. 2

- Hundreds of depositors have raced to pull their cash from a small rural bank in eastern China, forcing local officials to take emergency measures to calm the panic after the bank run began to spread

Technology fuels US output but jobs growth is modest, census finds – Pg. 6

- New technologies are transforming the structure of the US economy but creating only modest numbers of jobs, ….
- The 2012 economic census shows how technology is creating a boom in output for new industries – such as shale gas and internet retail – but only a modest increase in their payrolls
- Non-store retail, which includes online shops, recorded a boom in sales - …
- Healthcare remains the big source of jobs growth in the US, adding almost 1.8m jobs from 2007 to 2012, as the wave of baby boomer retirements begins to gather speed

US house rental investment vehicles set up lobby group – Pg. 22

- Investment vehicles that have snapped up billions of dollars worth of distressed houses with the goal of turning them into more lucrative rental properties have set up a trade group to represent their interests as they seek to expand

- Real estate investors and private equity vehicles have been buying "single-family" housing on the cheap, pouring an estimated $8bn into distressed housing over the past few years
- Large institutional investors currently manage 200,000 SFR homes in a total US market of about 14m such houses…

Answer: It is the payoff when combining a call and put option with the same time to maturity and same exercise price. The shape is a "V".

26 March 2014

Question: When is settlement for Forwards and Futures?

Banks hit by $100bn in US legal settlements since crisis – Pg. 1

- The milestone comes amid signs that banks' legal costs could rise further, with a number of large banks still under investigation by the task force set up by US President Barack Obama in 2012
- America's six big banks – JPMorgan Chase, Bank of America, Citigroup, Wells Fargo, Morgan Stanley and Goldman Sachs – had combined earnings of $76bn in 2013, just short of their collective peak in 2006

Brazil lashes out at 'Contradictory' downgrade – Pg. 4

- The Brazilian government has dismissed a move by S&P's to downgrade the country's credit rating as based on "inconsistent" analysis of Latin America's largest economy
- The downgrade to BBB-, one notch above junk status, puts pressure on the government…
- The downgrade underlines a growing lack of confidence in international markets in Brazil's fiscal and economic management over the past several years
- …Brazil had the fifth largest foreign reserves in the G20, corresponding to 10 times its foreign short-term debt, and that investment grew 6.3% in 2013

Venezuela bonds rally after sale of dollars – Pg. 4

- Venezuelan bonds have rallied strongly in response to a change foreign exchange policy on Monday, when the government sold dollars to private sector buyers at a rate that was eight times higher than the official one
- The new arrangement has been welcomed as a first step to normalizing Venezuela's foreign exchange market, from which most private sector buyers have so far in effect been excluded
- A chronic lack of dollars in the economy has caused widespread shortages of basic goods, including toilet rolls and milk, helping fuel more than a month of violent street protests…

Big US banks gain funding advantage, says Fed – Pg. 14

- The largest US banks have benefited from a significant funding advantage over their smaller peers,…
- The amount of taxpayer "subsidy" enjoyed by large banks, thanks to an implicit assumption that they will be bailed-out by the US government, has become a controversial topic as regulators and lawmakers try to reform the banking system

- …the Fed researchers suggested that requiring big banks to issue longer-term and "bail-inable" debt that can be converted into equity in times of stress, might be preferable to dismantling large lenders

Answer: Forwards are settled at maturity and Futures are marked-to-market daily

25 March 2014

Question: What is the price of a round-trip ticket between San Juan, Puerto Rico and Nevis?

US loses edge as employment powerhouse – Pg. 1

- The US is losing its edge as an employment powerhouse where the vast majority of people have a job or are looking for one, after its labour participation rate fell behind the UK's for the first time since 1978
- The labour force participation rate – the proportion of adults who are either working or looking for work – started to decline in the US in 2000 and has plunged since 2008 from 66 to 63%. The equivalent of 7.4m people are no longer part of the labour force
- US economists have calculated that between a half and two-thirds of the fall in participation reflects the retirement of America's baby boomers
- For the US, participation is crucial for monetary and fiscal policy because it affects the amount of spare capacity in the economy. If some of the people who have left the workforce will get jobs in the future then the unemployment rate – currently 6.7% - is understating spare capacity. That would mean the Federal Reserve can keep interest rates low for longer than it otherwise would. It would also imply potential growth and long-term tax revenues are higher

Fed's move into 'reverse repo' role risks backfiring – Pg. 20

- "Don't fight the Fed" is an oft-quoted adage among investors
- The Federal Reserve is taking on a greater role in the repurchase, or "repo" market, as part of an effort to exert greater control over interest rates and reduce future bouts of market tension
- Banks use the repo market to fund operations by borrowing cash from money market funds and other investors. In return, banks pledge assets such as bonds and other securities to the lenders. This activity has traditionally been considered a behind-the-scenes bulwark of the so-called shadow banking system
- Now, thanks to the Fed's vast balance sheet, which has ballooned to $4tn as it has bought huge quantities of Treasury and mortgage bonds to boost the economy, there is a new major player in the repo market
- It [Fed] has captured a 17% share of daily trading, thus depriving established banks of a significant chunk of their business
- Known as the reverse repo programme, the Fed's approach is designed to control short-term interest rates by providing investors with a home for their excess holdings of cash. The RRP enables the Fed to lend its bonds for a short period to a host of non-bank institutions that compose the shadow financing system. The Fed has agreements with some 90 money

market funds, which can lend cash to the central bank rather than a commercial bank or broker-dealer
- The central bank is also now far more engaged with a funding market that was at the epicenter of the financial crisis

FT 400 – Required reading for ALL Wealth Management Students!!!

Answer: Direction plays a HUGE role in pricing. $450 with return starting in San Juan. However, only $200 with return starting from Nevis. How do I know this?! I misread my ticket for departure and had to purchase a ticket from Nevis. Prof Note: Review your tickets the night before!

24 March 2014

Question: A family of four staying and eating at Nisbet Plantation on Nevis spends, on average, how much for a week's stay?

Regulators voice concerns as risky loans rise above level of credit peak – Pg. 1
- Debt investors are abandoning normal creditor protections on European leveraged buyout loans as they snap riskier securities at a faster rate and in greater proportions than at the peak of the credit bubble
- Cov-lite loans remove the early warning signs that lenders would traditionally expect. These include the obligation to maintain certain performance and financial ratios, which if breached allow banks to request cash or a debt restructuring
- The trend mirrors a buoyant US market, which private equity groups have predominantly used to fund European leveraged buyouts

Reality falls shy of reason in emerging markets – Pg. 2
- In aggregate, emerging market exports grew 4.3% year-on-year in January, up from 4.2% in December, but this meagre rise masks a divergence in fortunes between regions. Latin America and some parts of Africa have performed poorly, while emerging Asia and eastern Europe have been relatively buoyant
- …India and Indonesia appear to be graduating if not quite yet from the fragile five then at least from the grouping's critical list
- The stresses afflicting China, therefore, add emphasis to hopes that a strong upsurge in US, EU and Japanese demand for emerging market exports will soon materialize

Low interest rate fuels rush for German concrete gold – Pg. 4
- Germany, the eurozone's economic powerhouse, is known for its renting culture. But a combination of low interest rates and economic uncertainty stemming from the currency block's twin economic and financial crisis are slowly changing that
- The low savings rates coupled with a so far unfounded angst over inflation that are pushing some Germans into property are increasing prices more rapidly in cities than the rest of the country

Answer: $7,000 and this includes breakfast, High Tea, dinners and social events. As you can see my top three choices of hotels on Nevis are Four Seasons (where I swam as a boy), Mt. Nevis (where I collected pottery from an old estate as a boy), and Nisbet which, well, just has the old Nevis feel.

22 March 2014

Question: A family of four staying a week who eats all their meals at the Mt. Nevis Hotel spends, on average, how much for the week at the Mt. Nevis?

Workaholic ex-bankers impose their long-hours culture on new colleagues – Pg. 1

- Bankers' punishing hours are no longer merely of concern to the families of financiers – the fallout of their all-consuming office culture is spreading as they take their hard-driving ways to new workplaces

Fed dissenter attacks guidance – Pg. 2

- The US Federal Reserve has created uncertainty that will weaken US economic recovery,…
- On Wednesday, with the unemployment rate having fallen to 6.7%, the rate-setting FOMC scrapped its 6.5% threshold for a first rise in interest rates
- The Fed replaced the threshold with vague guidance about indicators – including labour market conditions, inflation and financial markets – that it will ponder in deciding when to raise interest rates

BofA trails the pack in Fed stress test results – Pg. 10

- Bank of America may have to lower its request for the amount of capital it can return to shareholders after recording the worst result measure of the Federal Reserve's stress test,…
- The Bank had the lowest tier one common capital ratio of all the big US banks, at 6%, 100bps above the regulatory minimum capital ratio of 5%
- The stress tests, introduced after the financial crisis to help regulators understand the health of US banks are not perceived as more as a tool to guide shareholders on what to expect in payouts over the coming quarters

Answer: $6,000 for the week. While I am not staying at the Mt. Nevis, I generally eat a meal a day here.

21 March2014

Question: A family of four staying a week who eats all their meals at the Four Seasons Nevis spends, on average, how much for the week at the Four Seasons Nevis?

Concern over US long-term jobless – Pg. 4

- America's long-term unemployed people face huge obstacles in returning to steady full-time work, with just 11% succeeding over the course of any given year,…
- A big rise in long-term unemployment – defined as joblessness extending beyond 26 weeks – has been one of the defining features of the US recession and its aftermath. There were

3.8 long-term unemployed in February 2014, …more than double the pre-financial crisis level of 1.9m in August 2008
- The share of jobless who have been out of work for more than six months has nearly doubled over that timeframe, from 19.8% to 37%
- The Fed this week dropped its reference to an unemployment rate threshold of 6.5% under which it would consider raising interest rates from close to zero, in favour of "qualitative guidance" that could give it more flexibility

Fiscal impact of housing giants assessed – Pg. 4
- The intensifying focus on what to do with Fannie Mae and Freddie Mac is highlighting a fundamental question about mortgage finance companies: are they cash cows or a liability contributing to the US deficit?
- By the end of the month, they will have made payments to the US government that exceed their bailout amounts
- One of the most likely outcomes may be maintaining the status quo

Fed's greater role in repo trading reflects fears over shadow banks – Pg. 13
- The Fed Rsv has assumed a much bigger role in a key funding market that has long been a prime component of the unregulated shadow banking system, reflecting central bank concerns that the sector poses a systemic risk
- The growing presence of the Fed, at the expense of established "dealer-banks" is a stark shift for the repo market, where banks have historically pawned out their assets to lenders including money market funds, insurers and mutual funds, in exchange for short-term financing
- The loans help lubricate the wider financial markets, but a pullback in repo financing is intensifying the financial crisis of 2008
- A wave of financial rules and a new "reverse repo" facility provided by the Fed have combined to move repo transactions away from the biggest banks
- The central bank's reverse repo facility is designed to give the Fed greater control over short-term interest rates by lending out assets from its vast portfolio of securities to banks as well as non-banks, such as money market funds
- While the Fed has 22 established primary dealers, the reverse repo facility has been extended to include 90 money market funds, a bulwark of the shadow banking system

US banks vie over jumbo mortgages – Pg. 20
- US banks have intensified their efforts to sell home loans to the very wealthy, with mortgage rates for the most expensive homes falling dramatically
- The average rate on jumbo loans is 4.46%, just 3 bps above the 4.43% on smaller loans that qualify for a government guarantee, and a far cry from the almost 50bp differential typical before the financial crisis
- The lack of loans being sold to the wider market is expected to hit issuance of "private-label" mortgage-backed securities, which is already low. MBS comprise home loans that are not guaranteed by the government's housing financiers

Answer: $25,000 which does NOT include airfare. The Four Seasons is at capacity and no, I am not staying at the Four Seasons.

20 March 2014

Question: What are the HP-12c keystrokes for the payment for a $400,000 loan, 30-year CPM, at 5.25%? (15 second answer)

Yellen hints at rate rises in hawkish forecasts – Pg. 1

- Fed officials now forecast rates of 1% by the end of 2015. That contrasts with their 0.75% median forecast in December. The median forecast for the end of 2016 rose from 1.75% to 2.25%
- The move drew a negative reaction from US markets with equities turning down and bond yields and the dollar strengthening
- The forecast suggest that the Fed is starting to believe that there is less spare capacity in the US economy, requiring earlier interest rate rises to ensure that inflation does not overshoot its objective of 2%
- The most important element of the new guidance is a statement that interest rates are likely to stay below their long-run level – which the Fed currently estimates at 4% - even after unemployment and inflation get back to normal
- The Fed's end-of-2014 unemployment rate forecast was cut from 6.35 to 6.2% and its end of 2015 forecast was down from 5.95 to 5.75%

US companies' frustration with China rise, survey shows – Pg. 4

- ….frustration mount over everything from government investigations to internet censorship
- Government pricing investigations, internet censorship and pollution were cited as challenges for US companies operating in the world's second-largest economy

Kerviel's 4.9bn (euro) SocGen fine reversed but jail term upheld – Pg. 13

- Mr Kerviel is now set to serve the three-year sentence handed down to him in 2010
- Four years ago, Mr Kerviel was found guilty of abuse of trust, forgery and computer abuse after amassing 50bn (euro) in hidden trades before the financial crisis
- The 37-year-old had been ordered to repay the money lost by the bank, which he described as a "lifetime death sentence". If he managed to earn $100,000 (euro) a year, it would have taken him 49,000 years to work off the debt

Second-lien loans stage a comeback – Pg. 20

- Second-lien corporate loans, a type of debt structure popular in the build-up to the financial crisis, re staging a comeback as a thirst for higher-yielding assets continues to drive investors into the riskier corners of US credit markets
- A buoyant loan market has prompted warnings from regulators, including the Federal Reserve, which say "prudent underwriting practices" have been deteriorating as investors lap up leveraged loans issued by companies

- Second-lien loans are attractive to corporate borrowers because, unlike bonds, the loans can be repaid at any time. Bonds can also be called ahead of maturity, but usually only after a number of years
- New second-tier loans have yields on average of 9%, compared with 4.8% yields for first-lien loans and 6.2% on junk bonds….

Answer: F Clx; 400000 Chs PV; 5.25 g I; 30 g n; Pmt… (0 FV is not necessary as '0' is loaded into registry by 'F Clx')

19 March 2014

Question: Using a general rule of thumb, a bond with a duration of 10 years would experience a price decline of XX% if benchmark interest rates rose 1%?

Russia retakes Crimea after 60 years with stroke of a pen – Pg. 1

- Russian President Vladimir Putin yesterday completed the first annexation of another European country's territory since the second world war…
- Less than three weeks after unmarked Russian soldiers took over Crimea's parliament,…
- The Crimean port city of Sevastopol, home to Russia's Black Sea Fleet, also joined Russia as a separate federal subject
- Russia's moves over Crimea have provoked the most serious European security crisis since the cold war

China weighs state rescue of developer – Pg. 2

- China's central bank and one of its largest state lenders are holding emergency talks over whether to bail out a defaulting real estate developer
- In a practice that is illegal but has become common in China's shadow banking sector, the company took deposits from individuals who were offered annual interest rates of between 18 and 36%
- Overinvestment in the sector is China's top risk this year and next,…
- Real estate construction has long been the main driver of the Chinese economy, accounting for about 16% of GDP, a third of all investment and about 40% of government revenues last year
- Property loans, including mortgages and loans to developers, accounted for a quarter of all new formal bank loans last year and property developers are also significant borrowers in the shadow banking sector
- Prices of land and housing in big cities are still rising, with average new home prices in the 70 largest cities up 8.7% in February from a year earlier

Hunger for long-term debt poses US rate risk – Pg. 18

- Long-dated bonds are noted for being more sensitive to changes in underlying interest rates than shorter-term debt securities

- Concern about duration exposure in bond portfolios is being downplayed for the moment. Long-term corporate debt has generated a total return of nearly 5% so far this year, while junk bonds have returned 2.4%...
- That is good news for institutional investors such as pension funds and insurers, which have been the biggest buyers of long-term corporate debt in recent months. They use high-grade, long-dated bonds to match their underlying liabilities, but a turn higher in rates stands to hurt those investors chasing the higher yields on longer-dated debt
- The yield on 10-year US Treasury bonds stands at 2.67%, but many economists forecast an increase to 3.5% by the end of the year. As a rule of thumb, a bond with a duration of 10 years would experience a price decline of 10% if benchmark interest rates rose 1%

Mortgage insurers rise from the ashes – Pg. 20

- There has been a sudden revitalization of private mortgage insurers, which provide cover for banks and lenders if a homeowner defaults on a loan
- Such insurance is typically required when buyers put less than 20% of the value of their home as downpayment. It makes the loans eligible for guarantee by Fannie Mae and Freddie mac, the US government's mortgage financiers, …
- In the last three months of 2013, private mortgage insurers accounted for 13.6% of new home loans – their biggest market share since the 14.7% recorded in early 2008,…

Answer: 10% price decline

18 March 2014

Question: With regard to multivariate regression analysis, what is the difference between the T- and F-Tests?

Fed set to adapt rates guidance – Pg. 4

- The Fed is likely to adapt its forward guidance on future interest rates and explain more about how it will behave once unemployment falls below its threshold of 6.5% - the level above which it says it will not raise interest rates
- ….the Fed is likely to taper its asset purchases by another $10bn to $55bn a month, and adopt forward guidance highlighting its willingness to keep interest rates low if inflation does not rise back towards its 2% goal
- …a reduced forecast is very unlikely to deter the Fed from another taper
- The Bank of England has already made the switch – its unemployment threshold was 7% - but the context is too different to give the Fed much of a road map. Inflation has been above target in the UK but below target in the US; the Fed is still buying assets while the BoE is not
- The Fed's new guidance regime is likely to have three elements: asset purchases, which give a minimum time before rates can rise; inflation, which is becoming more relevant as the economy recovers; and spare capacity; measured on a range of labour market indicators, not just unemployment

- Another possibility is guidance that rates will rise only slowly when the Fed does put them up.
- Inflation is where the Fed has an advantage over the BoE. Prices were up by only 1.2% on a year ago in January, using the Fed's preferred measure of inflation, and forecasts have that returning to 2% over the next three or four years. The Fed will probably highlight its intention to keep rates low as long as projected inflation remains under control.
- Finally, the Fed will probably try to emphasise the unemployment rate less while indicating that it still sees scope to absorb more spare capacity before interest rates need to rise

Bond default opens up Chinese debt divide – Pg. 4

- …China's first true bond default has laid bare the country's financial risks just as $400bn in debt comes due this year for cash-strapped local governments
- Bonds issued by local government financing companies – long seen as one of the big problems hanging over the Chinese economy – have found favour among domestic investors and brokerages
- Chinese bond yields have declined in general during the past few weeks as the central bank has eased liquidity conditions, but local government have benefited more than most. The spread between the yields of their double A bonds and top-rated central government bonds has narrowed by more than 50bps, a sign that investors view the local debt as safer than before

Answer: F-test tests overall significance and T-test tests individual significance of each independent variable.

17 March 2014

Question: How is the valuation, i.e. discounting, different between real estate and Fixed Income?

Big banks put forex bonuses on hold – Pg. 1

- Barclays, Citigroup and Royal Bank of Scotland have frozen bonuses across their foreign exchange trading teams pending internal investigations into possible manipulation of key currency benchmark
- The bonuses – which can be as high as $2m for top forex traders…
- The bonus freeze has affected traders in London, New York and elsewhere and extends beyond spot trading desks – the hotspot of investigative activity so far – to derivative trading units

Focus shifts to Malaysia's complex ties with Islam – Pg. 3

- Malaysia is not known as a base for radical Islamist terrorism, and it is precisely its success in managing its multi-ethnic population under the banner of moderate Islam that has turned the country into an important US ally
- Malaysia was at the forefront of nations condemning the September 11 attacks on the US provided its air space for the US-led war against the Taliban in Afghanistan

- Malaysia's constitution established Islam as the state religion when the country achieved independence from Britain in 1957
- Malays make up 60% of the population, with a quarter ethnic Chinese and the rest Indians and other minorities. Malays are constitutionally required to be Muslim. About 35% of the remaining population are Buddhist, Christians or Hindu
- Controversy continues to rage over the use of the Arabic world "Allah" by Christians in Bibles, an issue that first erupted in 2007 when the then home minister banned a Catholic newspaper from using it to describe the Christian God
- (Prof Note: Malaysia is a wonderful country with beautiful people….my experience and opinion)

Property industry alert over risk taking – Pg. 14

- Property investors are taking increasing financial risks as the sharp upturn in demand for European asset begins to drive up prices and deal volumes
- Industry insiders are warning that loan-to-value ratios are rising, lenders' covenants are becoming more relaxed and mezzanine finance is returning, with local experts reporting being outbid by up to 40% as a tide of global investment flows into European property market
- The sudden popularity of Spain ….has begun to raise eyebrows…
- Some investors in Europe talk of being outbid by 20% to 40% by US and Asian funds
- As competition for assets ratchets up, bank lending has returned. Loan to value ratios of up to 70% on senior debt are now accepted. Mezzanine finance – more expense, unsecured debt – is also available to take overall loan t value up to 85%, …

Answer: Real Estate discounts using a constant discount rate while Fixed Income uses a dynamic discount rate, i.e. Yield Curve plus a spread.

15 March 2014

Question: When estimating the total cost to live in a home, Professor Staiger uses what metric for total cost based on Principal and Interest payment?

Fed looses bolster QE criticism – Pg. 4

- The US Federal Reserve has unrealized losses of $53.2bn on its securities portfolio, laying bare the potential long-run price of quantitative easing
- The Fed's portfolio of Treasury securities is held on its books at $18bn more than their market value while its mortgage-backed securities (MBS) are marked at $38bn above which price at which they could currently be sold
- That shows how the $4tn asset portfolio that the Fed has built up exposes the taxpayer to swings in interest rates
- Ten-year Treasury yields rose from around 1.6% at the end of 2012 to 2.6% at the end of 2013, moving the Fed's balance sheet from an unrealized profit to an unrealized loss

- The Fed remits all of its profits to the Treasury. It makes vast sums at the moment because it pays banks just 0.25% on their reserves but buys long-term Treasury securities yielding 2 or 3%
- The Fed made those gains in 2012 when it was selling its short-term holdings in order to buy long-term securities – already referred to here as Operation Twist – as part of an effort to drive long-term interest rates down further

China and Crimea concerns fuel risk aversion – Pg. 11

- World stock markets put in hesitant performances at the end of a week dominated by uncertainty about the outlook for China and concerns about Ukraine ahead of tomorrow's secession vote to Crimea
- Escalating risk aversion in the markets continued to fuel demand for "havens" such as US and German government bonds, gold and yen
- China was at the heart of market concerns as a string of weak economic figures heightened worries about a growth slowdown
- Concerns about the tensions in Ukraine certainly took their toll in Russia's financial markets, with Micex stock index slipping a further 0.9% yesterday for a weekly fall of 7.6%

Answer: 150 – 200% over Principal and Interest

14 March 2014

Question: SDRs are the currency of the IMF. They consist of a basket of four currencies. How many currencies did it originally consist at inception?

China warning on defaults sparks fears over growth – Pg. 1

- China's premier has warend that future defaults on bonds and other financial products are "unavoidable" underlining wider concerns that a wave of bad debts threatens to derail growth in the world's second-largest economy
- …allow several, mostly privately owned, companies to default on their debts in order to address the problem of "moral hazard" in the economy,…
- China saw its first bond default in modern history just last week when Chaori Solar, a small privately owned solar-panel maker, failed to pay the interest…

BoE eyes tough bonus regime with clawback lasting six years – Pg. 13

- UK bankers could be hit by what appear to be the world's toughest rules for clawing back bonuses under proposals from the Bank of England aimed at preventing a repetition of the mis-selling and rate manipulation scandals that have hit the sector
- The rules, which will apply to bankers working around the world for UK institutions, …

Irish debt costs hit euro-era low – Pg. 20

- Irish borrowing costs fell to the lowest levels since the eurozone's launch in January 1999 yesterday, as yields in other peripheral Eurozone government bond markets traded at fresh lows
- Irish 10-year borrowing costs fell to 3.02% as low Eurozone inflation, expectations that the ECB will loosen monetary policy further and tensions in emerging markets sparked a rally in peripheral government bonds

US equity bulls are banking on growth – Pg. 20

- The upward march of US equities has propelled the benchmark well beyond highs in 2000 and 2007. Those twin peaks just above 1,500 were followed by brutal bear markets
- Including the reinvestment of dividends, the S&P500 has risen 210% since its bottom during the financial crisis in March 2009. It is a rally that has been led by cyclical stocks, which reflect the fortunes of the economy
- The key ingredients for the bullish case is a forecast acceleration in quarterly revenue growth for 2014, seen peaking at 4.5% for the third quarter
- One pressing issue for bullish investors and policy makers is whether this rise in household net wealth, up $9,800bn to $80,864bn during 2013 will propel the economy into a higher gear

Answer: 16 total currencies

13 March 2014

Question: What is the IRR of the following cash flow stream: (10.0), 2, 3, 4, 5 (assume annual cash flows)? (20 seconds to complete problem)

Pay rises likely to rev up Abenomics – Pg. 4

- Will Japanese companies, basking in record profits thanks to a weak yen, pass the wealth on by increasing pay?
- Yet it is the qualifications that may matter more than the yes-or-no answer. Economists cautioned that the relatively small increases agreed during the annual shunto – unions' "spring offensive" – may not be enough to push up purchasing power and support spending, crucial to the virtuous circle of rising prices, wages and growth Mr Abe wants to foster
- The base-pay increases are the first since before the global financial crisis, but smaller than workers had demanded
- Economists say base-pay increases are more important than their smallish yen values suggest, since they are harder to undo than overtime or bonus pay and more likely to be spent
- Japanese workers earn an average of one-quarter of their annual incomes as seasonal one-offs…

Fischer voices concerns on jobs – Pg. 6

- The US economy needs to continue with expansionary monetary policy because unemployment is too high and inflation is below target, said incoming Fed vice-chairman Stanley Fischer
- Mr Fisher's testimony puts him squarely behind current Fed policy and suggests he will not push for either an early interest rate rise or any change of pace in its gradual tapering of asset purchases

Fragile dream – Pg. 7

- For years, Ecobank appeared emblematic of a dynamic new class of business rising to the opportunity of growth in Africa. In recent weeks, some African investors feared it could fail, sending shockwaves across the continent

U-turn on Fannie-Freddie urged – Pg. 16

- [Treasury's 2008 agreement] That rescue wiped out holders of Fannie and Freddie's common equity and preferred shares, but hedge funds, insurers and state pension funds have since managed to reap substantial paper profits from their investments
- The latest Senate plan, which would maintain government backing of mortgages through a new federal insurance entity, adds to the number of bills in Congress overhauling Fannie and Freddie, …
- In August 2012, the Treasury said it would take all of Fannie and Freddie's future profits, rather than the 10% cash dividend that was part of its 2008 agreement, even though it controls just under 80% of the companies' shares

Currency investors mourn loss of volatility – Pg. 20

- Uncertainty over the pace of the US recovery, combined with the steady policy stance of the biggest central banks, has confounded fund managers and driven volatility in developed market currencies to lows barely seen since the "great moderation" that preceded the financial crisis

Answer: 12.83%

12 March 2014

Question: The Microsoft Excel formula, "=NPV()", provides an inaccurate number, why?

Wall Street braced for 25% fixed income fall – Pg. 1

- Wall Street's once lucrative fixed income divisions are braced for the worst start to the year since before the financial crisis with revenue declines of up to 25%, prompting banks to plan more redundancies on top of the tens of thousands of job cuts already made
- The weakness is expected to be even more severe among European banks such as Deutsche Bank and Credit Suisse, which are seeking to meet new capital requirements by shrinking their balance sheets

- New regulations such as the Volcker rule – which prohibits proprietary trading – and tougher capital requirements restrict the risk that banks can take and are sapping liquidity, …

Size of US finance sector revised down – Pg. 4

- The US financial sector contributes far less to economic output than previously thought, …
- …real output of the financial sector by around 8% to $983bn in 2012, and by a similar amount going all the way back to 1997
- While finance was revised downwards, manufacturing output was revised upwards by 11.5% for 2012 and a similar amount for previous years, reflecting the BEA's shift to count research and development as a capital output rather than a cost of doing business
- Using the new statistics, manufacturing output was $1,882bn in 2012 and accounted for 12.2% of US GDP
- The BEA is the agency that compiles US GDP statistics

Denver jobs fair offers the high life in booming pot industry – Pg. 4

- Colorado raised its forecast for 2014 tax revenue from recreational and medical pot to $134m, against an estimate of $67m (Prof Note: Legalize, regulate and tax other non-legal businesses)

Puerto Rico – Pg. 10

- The US commonwealth has been in recession since 2007 and, in recent months, the possibility of a default has been whispered. The risk disclosures note that Puerto Rico has failed to comply with disclosure obligations on a timely basis in three of the past five years, and admit that it may not be able to hour its obligations without access to further new funding

Yield spread reaches 1990s levels – Pg. 18

- Differences in government borrowing costs between the UK and Germany have reached levels not seen since the late 1990s, highlighting market judgment on diverging growth and inflation prospects for the two countries
- The difference – or "spread" – between yields on 10-year UK gilts over equivalent German Bunds this week reached its highest since 1998
- The US is also decoupling from continental Europe, with the spread between 10-year US Treasuries and Bunds at its highest since 2006
- The spread between 10-year US Treasuries and German Bunds reached 116bp on Monday, the highest since June 2006

Answer: The "=NPV()" formula discounts to one period prior, i.e. T=-1.

11 March 2014

Question: Term Life Insurance is like what type of Derivative Product?

Alibaba fund soars to 81m investors – Pg. 1

- A Chinese internet money market fund that launched just nine months ago now has more investors than the country's equity markets, in a sign of how quickly reforms are reshaping China's financial services industry
- The rate for ordinary demand deposits in savings accounts at major banks is just 0.35% a year.

Non-bank lending in China slows – Pg. 2

- Shadow lending in China slowed sharply in the first two months of the year as government efforts to control financial risks led banks to bring more credit back on to balance sheets
- On-balance-sheet bank loans accounted for nearly 64% of new credit issuance in China in the first two months of 2014, up from 44% last year

Apollos's charge to the top – Pg. 7

- Private equity is a mature business. But Apollo has transformed itself to take advantage of a dramatic shift in the post-crisis financial landscape. With new regulations curbing traditional banks' ability to make riskier loans, Apollo and other private equity firms are stepping in to fill the gap

Biggest ETF for S&P500 suffers near $18bn outflow – Pg. 22

- Investors have pulled nearly $18bn out of the biggest and best known S&P500 exchange traded fund so far this year even as the US stock market has set new highs, raising questions in a bull market that is charging into its sixth year
- The S&P500 is up 1.5% this year, ending last week at a record high. It has climbed 7% from its low in February, when emerging market turmoil sparked a mild sell-off

Activist funds raise corporate bond risk, says Moody's – Pg. 24

- The growing power of activists hedge funds has increased the risk of owning corporate bonds, one of the leading credit rating agencies is warning
- Bondholders could face "a rising tide of credit negative events" this yeasr, …
- A record amount of money has flowed into activist hedge funds, which target companies they believe are undervalued and pressure them into shareholder-friendly actions such as share buybacks and dividend hikes

Answer: Credit Default Swap, i.e. replace Credit with "life" and Default with "death" and you have a Life Death Swap.

10 March 2014

Question: Is there a governing body for financial terms? This weekend I was asked to define "peak capital" for a project. While I did define it loosely for the student, it brought back my concern for financial standards, definitions, etc.

NY regulator targets individuals behind corporate wrongdoing – Pg. 1

- …turning his sights on the individuals as well as institutions who squeeze struggling homeowners to help banks violate US sanctions
- ….now investigating the rapid growth of non-bank mortgage servicing companies

Buyout groups set to dodge tax bullet again on carried interest – Pg. 4

- …President Barack Obama eliminate the tax break on private equity and hedge fund profits in his latest budget request, …the top Republican tax writer in the House, included the same idea in his own massive revamp of the US tax code
- But the US buyout world is likely to dodge the bullet of higher taxes again
- Republicans have long been seen as the main obstacle to toughening the tax treatment of carried interest from capital gains, which has a lower rate, to ordinary income, which has a much higher rate

Klarman warns of asset price bubble – Pg. 11

- One of the world's most respected investors has raised the alarm over a looming asset price bubble, pointing to "nose-bleed valuations" in technology shares such as Netflix and Tesla Motors and warning of the potential for a brutal correction across financial markets
- "When the markets reverse, everything investors thought they knew will be turned upside down and inside out. 'Buy the dips' will be replaced with 'what was I thinking?'…Anyone who is poorly positioned and ill-prepared will find there's a long way to fall. Few, if any, will escape unscathed."
- "Any year in which the S&P 500 jumps 32% and the Nasdaq 40% while corporate earnings barely increase should be a cause for concern, not for further exuberance, " he wrote. "On almost any metric, the US equity market is historically quite expensive. A sceptic would have to be blind not to see bubbles inflating in junk bond issuance, credit quality, and yields, not to mention the nosebleed valuations of fashionable companies like Netflix and Tesla Motors"

Forex probe poised to eclipse Libor cases – Pg. 13

- The myriad probes into the largest financial market in the world is expected to trigger multibillion-dollar bills for fines and civil litigation and has prompted banks as well as regulators to put a vast number of internal and external staff on the case
- Analysts estimate that those three banks, as well as Barclays and HSBC will together have to set aside 8.5bn – 10.6bn (euro) for litigation costs including fines and penalties in 2014 and 2015, on top of the 16.4bn (euro) those five banks had already provisioned for legal costs to the end of 2013 (Probe: These are NOT fines, they are additional expense items which MUST be considered recurring rather than 'below the line', i.e. non-recurring. We need to be reading more about lifetime bans for senior individuals rather than expense items."
- The probe took a new turn last week when it emerged that officials at the Bank of England, which is assisting the FCA, were told of concerns about forex manipulation as early as 2006
- Financial regulators are investigating misconduct and market abuse at individual banks while antitrust regulators are looking for attempted collusion between them

Bullish outlook on Europe property – Pg. 13

- European property groups are raising a surge of new equity for expansion as international investor confidence in the sector returns

Answer: None! Unlike Accounting which follows US GAAP, finance has no formal governing body that defines terms and processes. It leads to different definitions of Yield and Capital. The Basel Standards attempt to address this for banks but in real estate, there really is no standard.

8 March 2014

Strong jobs data lift US outlook – Pg. 1

- Unexpectedly robust US jobs figures cleared some of the clouds from America's economic outlook yesterday, cementing expectations that the Federal Reserve will hold firm in gradually scaling back its support for the recovery
- The labour department data also showed a small increase in the unemployment rate from 6.6% to 6.7%, reversing a surprisingly steep decline in joblessness in recent months that had set off a vigourous debate among Fed officials about their forward guidance
- The rise in the jobless rate to 6.7% came as employment increased 42,000 while the ranks of the unemployed swelled by 223,000. But the labour force expanded 264,000 and the labour force participation rate held steady at 63%, which will be seen as a sign of health in the jobs market because it points to people being more hopeful of finding work and not giving up the search

Return of the buyout kings – Pg. 5

- For many investors, 2013 was a very good year. For the founders of four of the top US private equity funds, it was a year of outrageous fortune.
- Leon Black, founder of Apollo Group, made $546.3m. His rival, Stephen Schwarzman of Blackstone received $374.5m. henry Kravis and George Roberts of KKR made more than $150m each, while Bill Conway, David Rubenstein and Daniel d'Aniello, the co-founder of Carlyle, shared $750m
- The industry has been helped by the Fed's quantitative easing programme, which has kept long-term interest rates ultra-low, pushing yield-starved investors into buying riskier corporate bonds

Corporate bond default is China's first since 1990s – Pg. 12

- China experienced its first domestic bond default in recent history yesterday when a small Shanghai-based solar power company failed to pay out interest on a security it sold two years ago
- China has not seen a single outright default of a domestic corporate bond since it established a nascent bond market in the early 1990s
- The central bank introduced new rules and restrictions on the market in 1997 following a series of technical defaults on bonds issued by companies backed by local governments across the country that forced those governments to bail them out

7 March 2014

Trail of reclusive Bitcoin founder Nakamoto leads to Los Angeles – Pg. 1

- Bitcoin's much mythologized founder, Satoshi Nakamoto, may have been hiding in plain view all along – as the 64-year-old Japanese American called Satoshi Nakamoto
- For years the Bitcoin community has speculated about the identity of Mr Makamoto, creating an elaborate foundation story around the nearly $7bn of Bitcoins that are not in circulation
- …first inkling of a possible motive for creating the global digital currency. Mr Makamoto, a model railways enthusiast, was reportedly frustrated by high exchange rates and ban fees when buying train carriages from Britain

Fed forward guidance rethink urged – Pg. 4

- The Federal Reserve needs to follow the Bank of England and ditch "irrelevant" forward guidance on monetary policy linked soley to the US unemployment rate, …
- Stressing the urgency of a decision to change the Fed's current unemployment threshold of 6.5% for considering a rate rise, given that the rate in January stood at 6.6%..."We can't keep putting 6.5% in the statement when we've reached [the threshold]…we are going to have to figure out something else to communicate"
- He outlined two schools of thought. One that is associated with Professor Michael Woodford of Columbia university suggests that guidance on monetary policy works to stimulate the economy today by committing policy makers to keep rates in the future lower than they would normally prefer. The second, he said, was associated with keeping monetary policy loose to deal with headwinds that currently prevent a rapid recovery

Accidents will happen – but who is liable in a self-driving car? – Pg. 13

- Who is to blame if your self-driving car crashes (Prof Note: This is a great ethical class discussion)
- Autonomous vehicles are one of the car industry's most competitive areas of innovation, …worth more than $5tn…
- (Prof Note: Great Practicum/Thesis….effect on real estate prices with autonomous car! Think about it….get a van, sleep on the way to work….the commute is no longer a pain!)

Blockbuster week for US bond sales – Pg. 22

- A rush by companies to sell bonds has led to a blockbuster week of issuance in the US, with investors scrambling to put money to work as the prospect of military conflict over Ukraine recedes
- That marks the largest amount of corporate bonds sold in a single week in the US since last September, when Verizon offered a record $49bn in a single bond deal
- Strong demand for US credit exposure is also being driven in part by the relative lack of debt issuance since the start of the year

Race to join rally in subprime US car loans – Pg. 24

- Auto lenders, including banks, financial companies and the "captive" financing arms of big carmakres such as Ford and Toyota have been attracted into the subprime market by a combination of factors
- Low interest rates give smaller lenders access to cheaper funding and allow them to make bigger profits from loans, especially subprime ones that fetch higher repayment rates
- Sales of asset-backed securities comprised of auto loans surged 18%....
- Moody's warned at the start of the year that subprime auto "credit will continue to weaken gradually as lenders boost their volumes by moving further down the credit spectrum". The 12-month delinquency rate for loans to borrowers with credit scores below 620 – the historic cut-off point for subprime – has already been ticking up,…

6 March 2014

Question: What are the three basic Derivative Instruments?

Default poised to mark red letter day in China's corporate bond market – Pg. 1

- Chinese companies have missed interest payments on bonds before – which would be classified as a default in developed markets – but bailouts have always ultimately been provided by third parties
- As much as 80% of corporate debt issued in China comes directly from state-owned enterprises and local government investment companies, and these bonds are still seen as safe

Beijing warns Japan on 'course of history' – Pg. 4

- China's premier Li Keqiang has warned Japan that China would not allow any country to "reverse the course of history", as Beijing and Tokyo remain locked in an increasingly tense dispute over contested islands in the East China Sea
- Other Asian leaders have compared tensions in the region to the situation in Europe before the first and second world wars
- China's defence budget trails only the US, which last years spent $577bn, more than the next 10 highest spenders combined

A better bubble – Pg. 7

- In the world of technology stocks, it is February 2000 – at least as measured by the Nasdaq Composite, the index preferred by tech investors. A week ago it hit a level topped only during the final month of dotcom insanity before that bubble burst in March 2000
- The hopes are focused in four areas: social media, biotech, online retail/payment and a handful of disruptive hardware technologies, in particular Tesla's electric cars, Arm's cheap processors and 3D printing
- There was a solid story to tell about every bubble in history, from Dutch tulips in 1634 to British railway mania of the 1840s, Florida land in the 1920s or the safety provided by portfolio insurance in 1987
- (Prof Note: Sometimes I truly feel 80 years old. I have always shaken my head and thought social media was a fad, i.e. Facebook and MySpace. Could I really be wrong???!!!)

US natural gas price at odds with low stocks – Pg. 22

- The US natural gas market is sending out mixed messages. Supplies held in underground storage are at the lowest level in a decade, but futures prices suggest the country is still a land of plenty
- Gas producers replenish underground storage during the "injection season" from spring to late autumn, when supply surpasses demand
- The futures market does not seem to reflect this risk
- She likens this year's end-of-winter inventories to a serious crunch in 2003, which set of a "six-year cycle of tightness" that sent gas to record highs above $15 per mBtu (Prof Note: Ahhh the days when I was MD of a Gas Trading unit...Helena/Kevin…do you remember spending that Christmas Eve in the office with Risk Management screaming at us for a supplier default?! If Mayo did not know our names prior, he certainly did by Christmas! Kevin's wife is yelling at him on the phone to get home for his child's first Christmas Eve, Helena is running numbers for how bad it will get and I am screaming back at Risk Management that "YES I know what F'in day and time it is!")

Answer: Forward, Future, and Options

5 March 2014

Question: A REIT requires what percentage of its income to be distributed to shareholders?

Japan workers' basic pay edges up – Pg. 5

- In a sign that Japan's inflation-promoting economic policies may be starting to lift wages, basic pay for the average worker increased for the first time in nearly two years,…
- Such workers make up a growing share of the labour force, but with unemployment at 3.7% they are in short supply

US corporate bonds – Pg. 14

- A vexing part of investing in corporate bonds is all the moving parts. When yields on US junk bonds, for example, fell to historic lows below 5% last May, bulls happily pointed to spreads
- Take junk bonds. Average spreads hit 363bp on Friday – the narrowest since July of 2007.

Risk appetite returns as Putin eases tensions over Ukraine – Pg. 23

- Global equities rallied strongly and "haven" assets such as US Treasury bonds and gold retreated as an apparent easing of tensions in Ukraine sent a wave of relief flooding through risk markets
- The rouble rallied nearly 1.3% against the dollar

Answer: At least 90% (note a REIT does not pay tax so this distribution is taxed once at the shareholder personal tax rate)

4 March 2014

Question: Yes it was Long-Term Capital Management (LTCM) but what trade/bet brought the world to its knees in 1998?

War fears decimate Russia stocks – Pg. 1

- Fears of a war in Ukraine wiped a 10th of the value of Moscow's stock exchange and sent the rouble tumbling to an all-time low as the west scrambled to counter Russia's creeping invasion of Crimea
- …biggest daily fall since the 2008 financial crisis
- Economists said the combination of higher inflation, rising interest rates and capital flight could tip the struggling Russian economy into recession
- The cost of insuring Ukrainian and Russian debt against a default jumped by 15%

Corporate US 'foaming at mouth' on tax reform – Pg. 4

- One element of Mr Camp's plan involves raising $86bn in revenue over a decade by imposing a levy of 0.035% on financial institutions with more than $500bn in assets.
- Some of the axed tax breaks are small. But Mr Camp went after some big targets too. The hugely popular mortgage interest deduction, a pillar of the US housing industry, would be capped at $500,000 instead of $1m and the deduction for state and local taxes, precious to residents of high-tax states such as California and New York, is axed

Guidance must change, says Fed official – Pg. 4

- The brief heyday of numerical forward guidance, on interest rates is coming to an end, but an influential US Federal Reserve official has told the Financial Times he opposes the choice of another number to replace the 6.5% unemployment threshold for rate rises
- Mr Williams said it would take a "substantial change in the outlook" before he would be willing to revisit the Fed's plan to slow purchases by $10bn at each meeting, and despite some weak data,…
- If inflation does not rise back towards the 2% Fed goal, or the economy slows to a point where it is not creating enough jobs, then Mr Williams would not only support a delay in the taper but "in certain circumstances it could make sense to increase the purchases again"

Forex probes trigger shake-out – Pg. 15

- Banks including UBS are moving more foreign exchange business on to their electronic trading platforms as regulatory probes into alleged forex market manipulation prompt a shakeout on traditional trading floors
- At least 15 banks are under investigation by regulators worldwide amid allegations of collusion and manipulation in the forex market, and 22 traders have been subject to disciplinary action

Darden digests the winter blues as diners choose to eat at home – Pg. 25

- Sales at most of the company's restaurants fell in the December to February period, including an 8.8% dip at Red Lobster and 5.4% drop at Olive Garden

- (Prof Note: I do not know about all of you but all of these high-end groceries have sprung up around me: Harris Teeter, Whole Foods, etc. I can purchase a hunk/slab of Sashimi grade tuna at a fraction the price of a restaurant.)

Answer: Russian bond yield spreads.

3 March 2014

Question: The Consumer Financial Protection Bureau (CFPB) which is under the Federal Reserve was formed when and for what purpose?

Concerns over S&P's fresh peaks underpinned by record borrowings – Pg. 1

- US stocks are being propelled to fresh highs by investors borrowing a record amount of money in a high stakes gamble that is raising concerns over the potential for a sharp correction in the five-year bull run
- …last week, margin debt – money borrowed to buy stocks – hit a record level in January ….
- Peaks in the use of borrowed money have in the past been a precursor to big bear markets and are viewed as a warning sign (Prof Note: this was a preamble to the Great Depression)
- …margin debt stands at $451bn on the NYSE, ….

Markets braced for rouble to fall – Pg. 2

- Some foreign exchange dealers in Moscow were yesterday selling roubles at more than 37 to the dollar, 3% weaker than Friday's close of 35.86
- Central bank interventions would help to slow down the decline, …
- The rouble have been under pressure this year as growth has slowed, and investors have retreated from emerging markets as the US Federal Reserve cuts back its quantitative easing. It is down nearly 10% against the dollar since the start of the year

Eurozone QE bets see yields tumble – Pg. 15

- Financial market bet that the ECB will be forced to start buying government bonds to stem the threat of Eurozone deflation are driving sovereign borrowing costs lower across the region, …
- …expectations are also building that the ECB – whose governing council meets on Thursday – could soon launch a large asset purchase plan, or "quantitative easing" to prevent the Eurozone falling into a damaging deflationary slump

Fed rules force RBS into US pullback – Pg. 16

- The Fed confirmed last month that overseas lenders operating in the US would have to ringfence capital in the country to safeguard against future crises
- By pulling its assets below $50bn, it would avoid capital becoming trapped in the US by dint of the leverage ratio requirements under the Fed rules

Answer: Formed under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 to protect consumers. www.consumerfinance.gov

1 March 2014

Chinese consumers defy tradition and decide plastic has its privileges – Pg. 2

- China is rapidly ditching the centuries-old habit of paying its bills with trunkloads of cash, and making the shift to virtual forms of payment faster than any other country on earth
- The shift away from cash is remarkable for a country which was the first to print paper money a millennium ago: ….
- Very low rates of street crime make China, paradoxically, one of the safest countries for carrying around large wads of cash

US GDP growth revised down to 2.4% - Pg. 4

- The US economy grew at a slower pace in the last quarter of 2013 than initially estimated, extending a string of weak data that could raise pressure on the Federal Reserve to reconsider its "tapering" of bond purchases
- The revision was roughly in line with economists' expectations and mainly caused by lower consumer spending growth, from 3.3% to 2.6%, evidence that Americans were not quite as confident about making purchases during the holiday season as previously thought

Fall in renminbi marks seismic shift – Pg. 14

- Compared with the recent turmoil of double-digit currency devaluations and political unrest in other emerging markets, a modest fall this week in China's currency was an unlikely cause for global alarm. But, as with many things, China is different
- In the past nine trading days, the renminbi has dropped about 1.4% against the dollar to Rmb6.14 – levels not seen since last summer
- The renminbi was long viewed as a one-way bet. Since china last loosened the controls on its exchange rate in 2010, the currency has risen 10% against the US dollar. That slow, steady appreciation was backed by rising capital inflows, strong economic growth and the broader feeling that China had arrived as a global powerhouse

Norway's fund is net equity seller for first time – Pg. 14

- Norway's oil fund was a net seller of equities in the fourth quarter for the first time in its history even as surging share prices pushed the world's largest sovereign wealth fund to its second biggest annual performance
- The $840bn fund cut its exposure to equities significantly in the last three months of 2013, from 63.6% to 61.7% of assets
- The oil fund is one of the most closely watched investors in the world as it on average owns 1.3% of every listed company globally
- …fund's allocation to bonds increased from 35.5% to 37.3% during the fourth quarter…

28 February 2014

Question: An analyst states that the Maximum return for a project is 45.00% and the Minimum return is negative 15.00%. Knowing just this information, quantify the risk. (Answer should take less than 5 seconds).

Standard Life warns on Scots 'Yes' vote – Pg. 1

- The campaign for Scottish independence suffered a setback yesterday when two of the country's biggest employers warned on the risks of a Yes vote, in a sign that companies are ready to break their silence on the issue
- Royal Bank of Scotland, which has 12,000 staff in the country, warned that a vote for independence could damage its credit rating, although its chief executive insisted the group would remain "neutral" on the outcome of the referendum

Fall in renminbi leads investors and companies towards caution – Pg. 2

- The notion that the Chinese central bank is waging a campaign against currency speculators conjures up an image of Beijing taking on shadowy hedge funds managed by George Soros and his cohorts
- By guiding the renminbi down by 1% over the past week – its steepest depreciation since China introduced a new currency system in 2005 – the People's Bank of China has rekindled uncertainty about the exchange rate
- The main way in which Chinese companies have bet on a stronger renminbi is by borrowing dollars offshore, mainly in Hong Kong, and remitting that money into the mainland. The advantages of dollar debt are clear: the renminbi's appreciation makes eventual repayment easier and, more importantly, offshore interest rates are much lower than Chinese rates
- Safe investing practice dictates that companies borrowing in dollars to spend renminbi should hedge their currency exposure. Normally, they would buy contracts that guarantee them dollars at an agreed-upon price in the future when they need to repay the loans. But they relentless appreciation of the renminbi changed that calculation

Little cheer as Brazil avoids recession – Pg. 4

- Brazil avoided slipping into recession last year as the Latin American country leaned once again on its crumbling pillars of economic growth: household consumption and government spending
- The economy grew 0.7% in the fourth quarter, …
- Household consumption grew 0.7% in the quarter, while government spending rose 0.8% - together, they accounted for about 84.5% of the Brazilian economy,…

Fed wants a firmer grip on soft data – Pg. 5

- The unemployment rate has fallen much faster than the Fed expected, but it is because in many cases Americans are dropping out of the workforce rather than finding jobs
- …some are pushing for more changes such as simply lowering the threshold for higher rates to 6% or even 5.5%, or, to offer a more "qualitative" description of the conditions that would warrant rises, which Ms Yellen is advocating
- "The Federal Reserve simply does not have the authority to supervise or regulate Bitcoin in any way", she said

S&P hits at rental bonds' top rating – Pg. 20

- New bonds backed by rental income from thousands of single-family homes in the US do not yet deserve the highest available credit ratings, S&P's has warned
- The "operational infancy" of the single-family rental securitization industry, also known as the Reo-to-rental" market, means the rental-backed bonds should not currency be given triple A credit ratings, …
- The rental-backed bonds have been hailed as a new asset class that taps into a trend of diminishing home ownership in the US. But they have also been criticized by those who see the securities as a way for large investors to monetize the billions of dollars worth of distressed homes they have snapped up since the financial crisis

Answer: Range divided by six is an approximation of standard deviation which is a quantitative measure of risk. Of course this assumes a normal distribution for the project but assumptions must be made. Therefore, 45 - - 15 = 60, i.e. range is sixty (60). Sixty (60) divided by six (6) is ten (10). Therefore the standard deviation for the project is 10.00%.

27 February 2014

Foreign appetite for US properties hits new heights – Pg. 5

- Foreign investors' insatiable appetite for US properties extended throughout 2013, with international capital flows into the sector reaching a fresh high
- Last year the world's largest economy maintained its position as the top destination for direct commercial property investment by foreigners with $38.7bn pouring into the country, …
- Canadian, Chinese and Australian investors led the charge, …
- Almost half all investments were in office buildings, 16% in apartment blocks, 15% in retail, while hotels, industrial properties and land development made up the rest
- Foreign money comprises 10% of all capital for commercial property investment in the US, …

Trading houses to face more regulator scrutiny – Pg. 13

- Trading houses are set to attract greater attention from the UK's financial watchdog as commodity markets come under increased political and regulatory scrutiny
- Setting out its thinking on commodities for the first time since 2007, the UK financial regulator says in a report to be published today that trading houses are a test for regulators
- While stock market listings and public debt issuance have provided greater insight into the operations and performance of certain trading companies, such as Glencore Xstrata and Trafigura, many trading houses do not disclose detailed financial results

Moody's warns of subprime risk from mortgage servicers – Pg. 20

- Non-bank mortgage servicers are poised to become the "next generation" of subprime lenders as companies seek to diversify their rapidly expanding businesses in the face of mounting regulatory scrutiny…

- Moody's said it was concerned about the possibility that specialized servicers will attempt to offset a "decrease in growth by shifting business models and originating non-prime mortgages", which would be a "net credit negative" for the companies

Gender pay gap shows little sign of closing – SP 1

- There is no country on earth where women are paid as much as men
- The only light amid this gloom was that for many years the gap seemed to be narrowing. That trend now appears to be in reverse
- Some analysts believe the differences can be explained by the expectation that women will take on most of the work at home and more likely to have their careers interrupted by caring for young children or elderly parents
- Even when they are employed in the same industry, have the same education and the same experience, women are likely to be paid less
- (Prof Note: What this article fails to consider is the risk of job loss! Woman also occupy roles, e.g. education and medical, that are less cyclical and have greater longevity. My vote: Equal work, equal pay….PERIOD!)
- (Prof Note: Also, do woman not rule the world already? Head of IMF, Head of Fed, Next U.S. President, Head of Germany, Head of Howard Bank!)

26 February 2014

Question: What is one way that a Collateralized Mortgage Obligation (CMO) differs from a MBB, MPT, and/or MPTB, i.e. how is a CMO truly unique?

Bitcoin exchange fears $400m theft – Pg. 1

- Bitcoin is facing the biggest test of confidence in the nascent virtual currency, after its oldest and most famous exchange went dark and customers feared the loss of $400m worth of Bitcoin
- Global regulators including the US SEC and the European Banking Authority have warned repeatedly of the risks of fraud and losses in virtual currencies

Pace of US house price gains slows – Pg. 6

- The US saw the fastest annual house price growth in eight years in 2013 but momentum in the market is beginning to slacken,…
- The S&P's Case-Shiller index, which tracks property values in 20 metropolitan regions across the US, rose 13.4% in December from a year ago
- The pace at which prices have risen has begun to moderate
- Higher home prices and rising mortgage interest rates were taking a toll on affordability
- Robert Shiller, who co-founded the index, said: "Home price gain expectations have been trending down. We're losing our sense of optimism about housing and it's percolating through the nation"

Non-bank lending steps out of the shadows – Pg. 22

- US shadow banks are beginning to win friends and influence people, as a bill to boost lending to small businesses attests
- BDCs were written into existence in 1980 by a US law aimed at creating ways to finance corporate credit. They are able to invest in a wide range of assets – from loans to subordinated debt – while paying little or no corporate tax
- But unlike banks, borrowing by BDCs in the debt markets is strictly capped at a leverage ratio of one to one to protect investors. In other words, a BDC's debt cannot exceed its equity

Answer: Collateral Mortgage Obligations can have different classes, i.e. tranches.

25 February 2014

Question: What country in the EU has the largest economy?

Pope to overhaul Vatican's finances – Pg. 1

- …establishing a powerful new secretariat for the economy as well as a central bank
- The Secretariat for the Economy is to "have authority over all economic and administrative activities within the Holy See and the Vatican City State", including budget preparation, …
- As part of the shake-up, the Vatican will transform Apsa into a central bank with the Institute

Loss of faith – Pg. 7

- This has led to below-par growth during the past three years for Brazil: 2.7% in 2011 and 0.9% in 2012. It is expected to be below 2% for 2013

On and offline sales work in tandem for US stores – Pg. 17

- Welcome messages and discount notifications as consumers roam are growing in prevalence, while apps have been introduced that allow shoppers to scan items as they browse – to skip long queues at cash registers (Prof Note: Aye Caramba…is this real? One can scan/pay for an item and just walk out?! WOW!!!)
- In recent years, US bricks and mortar retailers have boosted their online presence in an attempt to keep up with web-based rivals such as cash registers
- But research shows that physical stores remain more important than ever as shoppers search for seamless shopping experience on and offline
- Some 21% of US shoppers plan to increase their in-store purchases this year from 9% in 2013,…

Ocwen faces uphill battle with $1bn sale of mortgage bond – Pg. 20

- Ocwen Financial, the biggest non-bank servicer of US mortgages, is aiming to sell as much as $1bn of a new type of debt this year to help finance its future growth
- But Ocwen may face an uphill battle to sell the new breed of bonds, which are backed by its mortgage servicing rights, after pricing its first such deal last week amid growing regulatory scrutiny over the company's rapid expansion

- Non-bank mortgage servicers have in recent years bought hundreds of billions of dollars worth of mortgage servicing rights (MSRs), which give them license to collect payments on US mortgages in exchange for a small portion of the income

It is time for central banks to take a step back – Pg. 22

- Since 2009, central banks have occupied the dominant role in economic policy making, driven partly by circumstance and partly by government's withdrawing from the sharp end of economic management
- It was always tenuous to link nominal policy rates to real, labour market phenomena such as unemployment, especially when employment and participation rates, wages and hours worked are structurally in transition for demographic and technological reasons
- Unorthodox monetary policies have served their purpose but their legacy is increasingly one of politics; limitations; and unintended, negative consequences. Instead, we need to deploy a wider array of policy tools, not least government policies that prioritize high levels of employment and training, more robust income formation, and a "long-termism" that requires corporate and fiscal governance reform
- Central banks should not be accountable for economic outcomes that lie outside their remit. Their primary function should be financial stability, including the management of goods- and asset- price inflation, of narrower banking structures, and of international monetary transmission effects

Answer: Germany

24 February 2014

Question: When interviewing, what is the best, in my opinion, answer to the question: "What is a weakness and/or area of improvement for yourself?"

International lenders scramble to foot the rescue bill – Pg. 2

- US and EU leaders are scrambling to build support for a new package from the IMF. This is becoming more urgent because diplomats fear Russia is poised to withdraw economic lifelines – a $15bn bailout and discounted natural gas - that are helping to sustain the cash-strapped country
- The IMF stresses that it is reluctant to revive a full Ukrainian assistance programme without clear commitments to reform, having been burnt by Kiev last time it provided aid
- One of the tools that the IMF could use is the recently created its rapid financing instrument (RFI), which would allow the fund to Lend Ukraine slightly more than $2bn in two tranches with few strings attached
- The RFI, created at the peak of the Eurozone crisis two years ago, is intended for teetering countries which cannot negotiated a full rescue programme

India now biggest importer of US weapons – Pg. 4

- India imported military kit worth $1.9bn from the US last year, making it the biggest foreign buyer of US weapons, …

- The US, which remained the largest exporter of military equipment, displaced Russia as India's biggest arms supplier. In total, the US exported $25.2bn of military equipment in 2013, compared with $24.9bn the previous year
- India overtook China to become the biggest arms importer in 2010, …
- India accounted for nearly 10% of the $63bn international defence market, outstripping much of the Middle East and China
- The Middle East continued to import military equipment at a rapid pace, and now represents a third of the global arms market

Dividend payouts surpass $1tn mark – Pg. 15

- Dividends paid by listed companies across the globe in 2013 totalled more than $1tn of the first time,…
- The $1.03tn payout represents an increase of more than 40% on the $717bn in dividends paid in 2009. Dividends from companies in emerging markets last year totaled more than twice the 2009 total

Norway's oil fund to double specialists – Pg. 16

- The world's biggest sovereign wealth fund is looking to more than double the number of industry specialists in its equities team. The move is part of the renewed efforts by the $840bn Norwegian oil fund to outperform global stock markets
- …owing an average of 1.25% of every listed company globally
- The oil fund splits the 85 to 90 people in its equity unit into four groups
- Three are focused on investment: one employs sector specialists; another deals with special situations or projects, such as companies seeking to list; and a third invests more broadly in global equities
- Eight of the fund's 10 biggest equity holdings at the end of September were in euorpe, led by Nestle, Royal Dutch Shell, Novartis and HSBC

Answer: I need to continue to work on writing more succinctly.

22 February 2014

Prof Note: On the Stage Capital Group, www.stagecapitalgroup.com, monthly country summaries are being developed and published. Our first country summary, in honour of the Olympics is Russia. See the monthly piece on 'news' and located in 'categories'. As the website slowly develops, additional monthly summaries will be added.

Question: What is a sovereign J-curve?

Drama, fear and gallows humour as Fed confronted Lehman's implosion – Pg. 1

- The transcripts, which are published with a five-year lag show that Fed officials did not immediately foresee the economic devastation that Lehman's failure would wreak

Fannie Mae dividends exceed bailout as income hits $84bn – Pg. 4

- Rising home prices and a decline in serious loan delinquency rates contributed to Fannie Mae's strong performance, which will allow it to pay $7.2bn in dividends next month to the US Treasury
- With that payment, Fannie Mae will have doled out a total of $121.1bn in dividends to the Treasury, compared to the $116.1bn in support it received during the financial crisis
- The dividends also do not count as a repayment to the US government, as that is not an option as part of the bailout terms that led to Fannie and Freddie being overseen by Washington
- There are several plans in Congress to wind down Fannie and Freddie, which together received a $188bn government bailout

Bondholders take the strain in Detroit's $18bn restructure – Pg. 10

- Detroit is putting pension funds ahead of bondholders in a proposed restructuring plan as it seeks to pay $18bn in debts and emerge from the largest municipal bankruptcy in US history
- Under the plan….pay retired police and firefighters 90% of their pensions, while general public employees would get two-thirds of theirs
- Decades of globalization have wreaked havoc on Detroit, shifting its core manufacturing jobs overseas and shrinking its population – and tax base – from 1.8m in 1950 to 700,000 today

Answer: Trend of a sovereign's trade balance following a devaluation (country induced) or depreciated (market induced) currency. Initially it worsens but improves as long-term effects grasp that imports are more expense and exports begin to improve globally due to weakened currency.

21 February 2014

IMF warns India over taper risks to growth – Pg. 4

- The Indian economy with growth set to fall to its lowest annual level in a decade, is vulnerable to the withdrawal of global liquidity and India's own shortcomings, …
- GDP growth is expected to decline to 4.6% in the fiscal year to March – about half the level of three years ago – and then rise to 5.4% the following year,…
- The main risk for India identified by the IMF is the likelihood of a further tightening of global liquidity as the US Federal Reserve "tapers" its bond-buying programme
- …government had artificially boosted revenues in the current year by forcing state-owned companies to pay hefty early dividends, while overestimating revenue for the year from other sources such taxes and telecom spectrum auctions
- The IMF called for further interest rate rises to tackle inflation – which it predicted would stay at nearly 10% - more steps to cut the fiscal deficit, enhanced supervision of banks, liberalization of energy markets and greater investment in infrastructure

Abe grapples with mystery of missing J-curve – Pg. 4

- Japan's spending on imports began exceeding the value of its exports after the 2011 Fukishima nuclear accident, which le to the shutdown of atomic power plants and forced up

purchases of foreign oil and gas. The high proportion of energy in japan's imports may be one factor preventing the J-curve from taking shape….

Private equity goups slash Brazil fundraising – Pg. 17

- Private equity and venture capital groups has slashed fundraising for Brazil by more than 70% over the past two years as the country's gloomier economic outlook drives away larger companies such as London-based 3i
- After luring investors with 7.5% growth in 2010, Brazil's consumption-led economy has quickly run out of steam - …
- Brazil is also one of the emerging markets that has suffered the most from the US Federal Reserve tapering its bond-buying

20 February 2014

Tapering support inside Fed was strong – Pg. 1

- Minutes of its January meeting show that only a couple officials had concerns about slowing asset purchases, suggesting that the Fed is likely by another $10bn to $55bn in March despite a run of weaker data on the economy
- The Fed began tapering its asset purchases, which are designed to push down long-term interest rates, from $85bn a month in December
- They also show preparations for a change in forward guidance on the future path of interest rates, as the unemployment rate nears the Fed's threshold of 6.5%

Fears of debt default contagion – Pg. 2

- The worsening violence in Ukraine is adding to the strains on emerging markets, as investors weigh the risks to neighbouring economies and the potential for a Ukranian debt default to trigger renewed sell-off in the assets of other countries
- The yield on Ukrainian debt maturing in June leapt more than 11% to 34.27% yesterday, as doubts grew over the disbursement of $2bn promised by Russia, the second installment in its $15bn bailout

US unemployment falls as baby boomers stop working – Pg. 5

- The drop in the percentage of US citizens at work is often cast as a story about the long-term unemployed who give up trying to find work. But declining workforce participation rates, which has sharply reduced headline unemployment calculations in the world's largest economy, could be related to a very different phenomenon: the greying of the US
- The proportion of the US population in work or looking for jobs has dwindled from 66% of those aged over 16 in 2000 to 62.8% in 2013

Municipal bonds' allure boosted by tax breaks – Pg. 22

- A rally in the bonds has catapulted the group to the top performing position among US fixed income assets classes, with a total returns of 2.2%

- …what is noteworthy this time is that the strong performance in "munis" is coming after the worst year for the $4tn market in almost two decades and just seven months after the biggest municipal bankruptcy in US history
- The biggest pull to the securities is coming from their tax advantages. Most investors in muni bonds are wealthy individuals seeking long-term streams of income and tax breaks
- Average yields on triple A rated muni bonds maturing in 30 years have fallen 33bps since the start of the year to trade at 3.87% this week,…

19 February 2014

Question: The NPV formula in MS Excel is incorrect, why?

BoJ boosts liquidity to encourage bank lending – Pg. 3

- The Bank of Japan has stepped up its efforts to boost the flow of cash around the world's third-largest economy, bolstering its loan-support programme in the hope of encouraging debt-wary companies and households to overcome their aversion to borrowing
- To increase the incentives for banks to push out more loans, the BoJ said that it would extend two programmes that were due to expire in April, while relaxing their terms. Under the first, banks had been allowed to borrow from the BoJ amounts equivalent to their net increase in lending – a limit that will now rise to twice the net increase
- A separate programme to channel funds to high-growth investments will be doubled….
- Both facilities will be at the rock-bottom rate of 0.1% for up to four years

Heightened activity in private equity IPOs – Pg. 15

- The deluge of IPOs is also being fuelled by the robust after-market performance of recent flotations.
- There has been particular interest in the retail sector – including value propositions, internet-related groups and traditional high street names

Mortgage rules spawn new breed of lender – Pg. 20

- The qualified mortgage – or QM – rule, which came into effect last month, is designed to ensure that lenders properly judge the ability of borrowers to repay their mortgage debts when originating new loans – thereby avoiding the kind of loose lending that precipitated the subprime crisis
- Loans that fall under QM criteria come with a range of benefits for lenders, including greater immunity from borrower lawsuits
- Many of the largest US lenders have said they do not intend to originate or securitize high numbers of non-QM loans, raising fears that mortgage credit could soon dry up for millions of Americans. At the same time, a crop of new non-bank lenders are stepping in to fill what they see as a gap left by the banks

Housebuilders out in the cold as confidence in sector slides – Pg. 21

- Shares in US homebuilders retreated yesterday as confidence among builders fell to its lowest level in nine months amid frigid winter conditions that stifled buying activity

Answer: It is actually a Present Value formula. It discounts to one period prior to the first cash flow.

18 February 2014

Question: Of the five Greeks, which measures Interest Rate Sensitivity?

Goldman bond platform retreat – Pg. 15

- Goldman Sachs has quietly retreated from its electronic bond trading platform in a move that highlights challenges investment banks face in revamping their fixed-income trading businesses
- People familiar with Goldman's plans say that further development of its GSessions platform has been put on hold after a last-ditch revamp late last year failed to bring in significantly more business from investors
- Bond trading has for years been one of Wall Street's biggest profit generators, but new financial regulation and shifts in the way investors buy and sell debt have forced banks to reconsider how they make trades on behalf of clients
- Big investors have given these bank-run "single-dealer" platforms the thumbs-down, forcing banks to consider creating a "multi-dealer" platform that would involve most of their rivals

Hedge fund investors settle for lower returns – Pg. 16

- Investors in hedge funds are scaling back expectations of blockbuster double digit returns in favour of lower risk
- …the majority of pension funds and other institutional investors are now targeting annual returns of less than 10% a year form their hedge fund allocations…

US to apply regulation to foreign lenders – Pg. 18

- The biggest foreign banks in the US are braced for new rules that will govern their structure and demand tougher capital requirements, in a move aimed at helping them withstand a future crisis
- Critics worry that the Fed's move will increase regulatory competition between the US and Europe, whose regulators have threatened to retaliate by imposing stricter rules on US banks there. It could also increase the chances of banks engaging in regulatory arbitrage (Prof Note: You mean like what AIG did with insurance regulations???)
- The new Fed measures would require foreign banks to set up a separately capitalized intermediate holding company for US operations, including a new governing structure apart from the parent company

Answer: Rho (Five "Greeks": Delta, Theta, Gamma, Rho, Vega (yes…I know Vega is not a real Greek but hey…we are finance geeks NOT Fraternity punks! (yeah, that's right you Fraternity men….bring it on! ☺) Whose got the muscled and ripped paychecks now???!!! ☺)

17 February 2014

Question: What is the daily volume of Foreign Exchange, i.e. currency, traded?

Japan fund rejects rebalancing plan – Pg. 2

- The head of Japan's Government Pension Investment Fund has hit out at pressure to rebalance its bond-heavy portfolio, arguing that his $1.2tn-in-assets institution should not be used as a tool to push up stock prices
- Japan's economic growth in the fourth quarter is expected to have accelerated to an annualized 2.9% from 1% in the third quarter, …
- Mr Abe has set great store on higher stock prices

Barroso warns Scots over EU – Pg. 3

- Scotland's independence campaign was dealt a blow when Barroso, European Commission president, said it would be "difficult, if not impossible" for an independent Scotland to join the EU
- His comments came just days after the UK's chancellor, backed by the country's two other biggest parties, said Scotland could not keep the pound if it chose to end the three-century old union with England
- …an independent Scotland would require the backing of every existing member to join the EU
- Spain is wary of setting a precedent that could make it easier for Catalonia to break away, …

Forex in the spotlight – Pg. 5

- To date, the Libor affair has led to the firing of dozens of traders and has cost banks almost $6bn in regulatory penalties. Three chief executives – Bob Diamond at Barclays, Piet Moerland at Rabobank and David Caplin at broker Martin – lost their jobs as a direct result of the affair
- The scale of the $5.3tn a day foreign exchange market dwarfs all others
- The Libor scandal has taught banks that it may pay to be ruthless in their own investigations
- Collusion, if it is proved, may have been made possible by three things – the archaic structure of the forex market, which still relies on telephone or "voice" trading, rather than more transparent exchange-based electronic orders; a near-total absence of regulatory oversight; and the dominance of the market by a cosy club of currency traders from a few large banks. Four groups – Deutsche Bank, Citigroup, Barclays and UBS – account for more than half the market

Negotiating equal pay – Pg. 9

- In the US men still earn more money than women, even in roles that are dominated by woman such as nursing.
- Although woman are valiant when negotiating for others whom they feel a need to protect, they are less forthright when it comes to their own pay and tend to accept the first offer presented to them (Prof Note: Personally, I believe this to be true! My 20 years experience has men quitting in anger while woman put their head down and work harder (for less))

Answer: $5,300,000,000,000 ($5.3tn)

15 February 2014

Eurozone exceeds recovery hopes – Pg. 1

- The eurozone's recovery beat expectations at the end of last years, with even the worst hit southern economies showing surprisingly strong growth, boosting hopes that the region's crisis years were over
- The figures mean that the region's economy grew by 0.5% between the final quarter of 2012 and the end of 2013. In 2012 the region's economy contracted on the back of fears that the monetary union could collapse
- France and Germany, the region's two largest economies, beat expectations with growth of 0.3% and 0.4%, respectively, while the Netherlands also expanded by a brisk 0.7%

'Uber-middle' pulls away from the pack as UK salary divided deepens – Pg. 1

- In 1975, more than a decade before the Big Bank that deregulated the City, the average London financial services worker earned about 3,800 (sterling) a year, a salary that was outstripped by a sizeable proportion of other professionals. Academics earned about 5,000 (sterling), about a third more, while natural scientists and engineers earned roughly 10% more than finance workers
- Now the average London financial service salary is about 102,000 (sterling) including bonuses while academics earn about 48,000 (sterling), natural scientists average about 42,000 (sterling) and mechanical engineers 46,000 (sterling)

Spiralling housing costs fuel fears of Brazilian bubble – Pg. 2

- A number of economists including Robert Shiller, ….have warned that a bubble may be building in Latin America's largest economy, where house prices have tripled since 2008, rising faster than the cost of rents
- Since January 2008, prices in Sao Paulo and Rio de Janiero have risen 197% and 243% respectively

Banks cleared on marijuana trade – Pg. 4

- US regulators gave banks the green light to accept money from legal marijuana busiensses but cautioned that they expected financial institutions to conduct "thorough due diligence" and report possible criminal activity
- Twenty states and the District of Columbia have legalized medical marijuana, while Colorado and Washington have gone further by allowing recreational use. It remains a federal crime, however, to grow or sell the plan. Banks, wary of being prosecuted for violating federal law, have shied away from accepting deposits from "cannabusinesses"

The world in 2114 – Pg. 7

- The biggest trend of future history is that the world economy will keep growing and becoming more connected. Material prosperity will increase and healthy longevity will rise
- …various reproductive options will become largely commoditized and separated from sexual intercourse – not to mention traditional heterosexual marriage. This will, incidentally, help

facilitate non-traditional forms of marriage and child rearing, as well as delayed marriage and single parenthood

14 February 2014

Question: What is the difference between the financially ignorant and the financially savvy? How do you know the financially savvy is for you?

Huge loss looms in Thai rice sales – Pg. 2

- Thailand's embattled government is trying to sell huge quantities of rice to settle a near $4bn debt it owes farmers under a subsidy scheme inflicting ever more financial and political damage on the nation
- But the two sales altogether would raise only about $400m at current international market prices for benchmark Thai 5% broken rice – barely a tenth of what is owed

Australia jobless rate hits 10-year high – Pg. 6

- Australia's unemployment rate hit a 10-year high of 6% just as Canberra appeared to soften its hardlines stance towards bailing out struggling businesses
- The Australian dollar fell almost 1% to $0.895 as investors bet that interest rates would remain at the record low of 2.5% for some time
- The economy is cooling following a decade-long mining boom that caused wages to surge and the Australian dollar to strengthen. Policy makers are looking to non-mining sectors to contribute to growth as investment in mining and natural gas slows
- Most economists predict that the national unemployment rate will stabilize in the coming months

Funds on the edge – Pg. 7

- Foreign investors are also held back by rising demand for assurances on risk management, compliance and back-office processes – concerns intensified since the fraud perpetuated by US fund manager Bernard Madoff
- In China, the hedge fund world is comparable to that of the wildcat pioneering days of its counterparts in the US in the late 20th century. Regulatory changes, though, are bringing the industry out of the shadows and giving it a solid legal foundation
- Despite the risks, there are big advantages to putting money into funds able to invest in China's markets directly. There are more than 2,500 listed companies for managers to choose from when investing onshore, while those who try to play China offshore have only 160 or so listed in Hong Kong or the US

Ranks of the US mortgage middlemen start to swell – Pg. 16

- When distressed US homeowners call their lender to ask for a reduction on their mortgage payments, the voice on the other end of the phone may no longer be an employee from a bank

- Instead troubled borrowers are increasingly likely to be dealing with a little known "mortgage servicer" called Ocwen Financial
- New rules that forced banks to hold more capital against so-called "mortgage servicing rights" – assets that give companies the right to collect payments on home loans in return for a small cut of the income – have proved a bonanza for Ocwen and other specialist servicers who are less constrained by regulation (Prof Note: I deal with a few of these for clients. It is interesting, they are so aggressive to speak with me BUT when I refuse to speak on a recorded line and ask them to call me right back they delay for weeks and again try with the recorded line again)
- Ocwen is able to modify loans without owning them

Answer: The Financially savvy do not embrace you tonight and say the stereotypical, "I love you!". The financially savvy says, "you make me 'efficient'!". You know your special someone is seeking greater efficiency if he/she does not follow up and say, "you are my super-efficiency!" Remember, to be just 'efficient' is to seek greater efficiency through combining your portfolio with a "risk-free" asset. All: Remember the lessons of Bill Clinton (Interns are not risk-free); the lesson of Elliot Spitzer (Prostitutes are not risk-free). It seems everyone is in search of that elusive "risk-free" investment. How about getting rich slowly through disciplined investment? HAPPY VALENTINES DAY!!!

13 February 2014

New blows hit India's investment reputation – Pg. 1

- It emerged yesterday that the Indian government is moving to scrap conciliation talks with UK-based telecoms group Vodafone aimed at resolving a $2.6bn dispute over taxes allegedly due on a cross-border deal in 2007
- The move are the latest in a spate of tax-related disagreements to dog multinationals in Asia's third-largest economy.

Municipal bond investors return after mini-break in wake of Detroit – Pg. 1

- The $4tn US municipal bond market has become one of the best performing asset classes this year, reversing a wave of redemptions after Detroit's $18.5bn bankruptcy last July
- Investors have been tempted back by the generous tax breaks offered by muni bonds and low prices, while rout in emerging markets has boosted their relative safety
- Munis have returned 2.2% year-to-date, …ahead of the broad US Treasuries index which has delivered 1.2%. That compares with 1.8% for investment grade corporate debt and 1.3% for junk bonds
- Average yields on triple A rated muni bonds maturing in 30 years have fallen 26bps in 2014 to trade at 3.84% this week

Big Four swagger around pitfalls – for now – Pg. 15

- Even as their revenues ascent to fresh records, PwC, Deloitte, KPMG and EY are struggling to navigage new legal and regulatory pitfalls in two of their most important markets – China and the European Union

- The so-called mid-tier players, including Grant Thornton and BDO, had a market share of 33%, also unchanged on 2008
- The restrictions on consultancy touch on a particularly important part of the Big Four's business

Bitcoin doubts grow after more attacks on exchanges – Pg. 22

- Hacking attacks have forced two leading Bitcoin exchanges to halt withdrawals, in a development that will further damage the prospects of mainstream acceptance for the virtual currency
- The design flow, known for some time in the Bitcoin community, makes it possible for a user to change details used to identify a transaction. This can lead to bookkeeping accidents, but could also allow people to defraud and exchange by claiming a transaction had not gone through

12 February 2014

Question: Qualitatively what are the symbols for both Project and Portfolio Variance in each equation?

Yellen snubs emerging nation pleas over effects of 'taper' – Pg. 1

- Janet Yellen has turned a cold shoulder to please of emerging markets by signaling that only a domestic slowdown will influence US monetary policy, ….
- …Ms Yellen noted emerging market turmoil for the first time, saying the Fed was "watching closely the recent volatility". However, she showed no sympathy for complaints that the Fed had failed to co-ordinate its policy with other countries
- Ms Yellen's remarks suggest that she still thinks there is labour market slack beyond the unemployed
- Treasury yields were higher after her testimony, with the 10-year note at 2.72%, up from 2.67%

US legislators ready to lift debt ceiling – Pg. 3

- Congress will vote this week to increase US borrowings after John Boehner, …bucked conservatives in this part and declared he would not attach any conditions to lifting the debt ceiling
- Mr Boehner's decision is a big win for the White House
- Under US law, Congress must approve extra government borrowings, which have rocketed in recent years as deficits swelled in the wake of the financial crisis and the stimulus measures that followed
- The Treasury has said that the debt ceiling had to be lifted by February 27, otherwise incoming tax receipts would be unlikely to cover outlays, pushing the US to the brink of a sovereign default

France debt level in 'danger zone' – Pg. 4

- France is in danger of missing its deficit reduction targets, risking a "serious blow" to the country's financial credibility, …
- …revised 2013 target of 4.1% of GDP had been missed and this year's 3.6% objective was "not at this point guaranteed", mainly due to lower than forecast tax receipts

Investors warned on worldwide property risks – Pg. 17

- Real estate investors are pouring into property assets around the world but do not property understand the risks of doing so (Prof Note: Really??? This will irk people, I know, but if you do not have someone on your staff involved in the acquisition of anything over $10.0m USD that cannot write the risk equations (portfolio and project) that is a HUGE problem in my opinion. This is Statistics 101….ok, portfolio risk is 2nd year grad work but you get my point!)
- Investors in North America, Europe, Asia and Australia do not have sufficiently strong risk management procedures and have not integrated their real estate teams into their wider asset allocation systems (Prof Selfish Note: Thank god…this keeps me fed!)
- Investors do not appreciate the complexity of real estate as an asset class or the limitations of available performance benchmarking data, while many of those who do attempt to measure the performance of their property investments are using the wrong benchmarking comparisons (Prof Note: the Fund I worked for completely used the wrong metric…it was a fund that provided high leverage loans for construction development financing. It was benchmarked against the Lehman (now Barclays) debt index, i.e. AGG. What a frigging joke!)
- The demand for property is pushing investors into riskier behavior,…

Answer: Project Variance (Summation, Data Value, Expected Return, and Probability of each data value); Portfolio Variance (Double Summation, Weight of first asset, Weight of second asset, Covariance of two assets)

11 February 2014

Question: How will tapering lead to higher long-term rates?

UBS probe as heat rises over 'princelings' – Pg. 1

- Two Hong Kong-based bankers at UBS have been suspended over the appointment of a well-connected Chinese banker, underlining the sensitivity over a US inquiry into the practice of hiring the offspring of China's political elite to win business
- US authorities have requested information on hiring practices from a string of banks, including UBS, since launching a probe into whether "princelings" were given jobs at JPMorgan to help win business
- The hiring of well-connected offspring of politicians and state company bosses has long been common among global banks trying to expand in Asia

San Francisco Fed highlights challenges in front of Yellen – Pg. 4

- By tradition, the Fed Chair speaks for the whole Federal Open Market Committee when testifying to Congress, and broadly sticks to what the committee has already discussed

- A new research paper from the San Francisco Fed – the regional bank Ms Yellen led until 2010 – shows the difficulties ahead with forward price guidance about interest rates. It suggests investors began to expect an earlier rise in US rates during the run-up to last December, when the Fed first tapered its asset purchases from $85bn to $75bn a month
- The median of the Fed's December forecasts showed an interest rate of 0.75% at the end of 2015. Its median forecast in September was 1%
- The paper highlights a problem for Ms Yellen and the Fed: markets have tended to draw information about when interest rates will rise from changes in asset purchases, rather than regarding them as two separate tools
- At present, the Fed's guidance merely says that it plans to keep interest rates low "well past" a 6.5% unemployment rate, but that may be too vague for markets if the economy starts to accelerate
- Other possibilities could include an "inflation floor", setting out a minimum level of expected inflation before interest rates will rise, or a cap on the degree of rate rises before the unemployment rate reaches a particular level
- Most market estimates of when rates will rise use derivatives prices but the San Francisco Fed paper has a different methodology that relies on the Treasury yield curve. Derivative markets have tended to show markets more in line with the Fed's thinking since September, after pricing in a significantly earlier rate rise during the "taper tantrum" period last summer
- Derivatives data from the CME show the chances of a rate hike rising above 50% by the Fed's July 2015 meeting

P2P lenders install 'speed bumps' – Pg. 20

- The biggest peer-to-peer lenders have been forced to install "speed bumps" to stop sophisticated investors from snapping up the most attractive loans
- P2P lending was conceived to connect borrowers with individual lenders directly, bypassing banks
- Today more than 60% of the industry's loans are purchased by institutions

Bitcoin drops as Japan exchange halts withdrawals – Pg. 22

- Bitcoin prices yo-yoed after one of the world's biggest bitcoin exchanges, Japan's Mt Gox, announced that it had suspended withdrawals because of a software flaw that would allow people trading the virtual currency to defraud exchanges

Answer: Tapering will reduce demand for long-term instruments. This will shift the demand curve left thus decreasing the price. As the price decreasing, long-term rates will increase, i.e. price is inversely rated to yield.

10 February 2014

Question: The Forex scandal is said to be the same magnitude of the Libor scandal. What is the notional amount of contracts pegged to Libor (to provide an ideal of scale)?

Let weak banks fail, says new regulator – Pg. 1

- The eurozone's new chief banking regulator has warned that some of the region's lenders have no future and should be allowed to die, heralding a far tougher approach to supervision across the currency bloc
- Her readiness to countenance bank failures will trigger alarm among national politicians, for example in Italy and Germany, who will be reluctant to see local lenders go to the wall
- Global rules set before the financial crisis allowed lenders to hold no capital against their government bond portfolios, at the discretion of national regulators. But, despite the region's crisis exposing the depth of the interconnections between the sovereigns and their banking systems, Europe's lenders have been buying government bonds in increasing amounts

Chinese credit squeeze felt overseas – Pg. 1

- China's vast development bank has begun asking some international clients to postpone drawing down previously committed credit lines, in moves that highlight how strains on the country's financial system are reverberating abroad
- Regulators in China have been trying to rein in rapid credit growth by making it harder for banks to move assets off their balance sheets, and by pushing up the cost of borrowing in the money market
- CDB and Eximbank have become pillars of global development finance, together lending more to governments and companies in developing countries than the World Bank
- Their funding largest comes from selling bonds to Chinese banks, but that has become more difficult amid tightening of monetary conditions

Allow women six-year breaks, says UK's only blue-chip chairwoman – Pg. 13

- The only woman to char a bluechip British company has called for employers to allow female staff to take family-friendly career breaks of up to six years
- …with better hiring and staff retention policies, companies would realize the economic benefit of holding on to their best female employees through child-rearing and beyond
- (Prof Note: No issue but what about an equivalent six years for men?!)

Answer: $330tn.

8 February 2014

Jobs data deal blow to recovery hope in US – Pg. 1

- The US economy added a meagre 113,000 jobs in January, denting hopes the recovery is accelerating and posing a challenging to Janet Yellen in her first weeks as Federal Reserve chairwoman
- …the unemployment rate fell from 6.7% to 6.6% - but they raise the stakes for other numbers between now and the Fed's next policy meeting in March
- Without stronger evidence of a slowdown, the Fed is likely to carry on slowing its asset purchases by $10bn per meeting, but with unemployment almost hitting the Fed's rate-rise threshold of 6.5% it will soon have to update its communication policy

- Among the weakest areas in the labour market in January were government, which lost 29,000 positions, and retail, which shed 13,000 positions

Bank of England faces forex probe in scrutiny – Pg. 8

- The BoE is facing scrutiny over whether officials there knew about and tacitly approved of the behavior of traders who now face allegations that they rigged foreign-exchange benchmarks
- A group of traders told the central bank they were sharing information about aggregate client orders before the fix of key benchmarks
- The thorny issue of BoE's knowledge of behavior that has sparked a worldwide probe has parallels in the Libor investigation
- Colluding over prices in the $5.3tn spot market would be 'every bit as bad' as Libor rigging

Singapore moves to clean up trading practices – Pg. 12

- Singapore is set to introduce sweeping changes to its equities markets in a package of actual and proposed measures aimed at cleaning up trading practices in the wake of an embarrassing "penny stocks crash" last year
- The new rules will include a minimum trading price, to reduce volatility and speculation in smallcaps; collateral requirements for securities trading and a new short-selling reporting regime

7 February 2014

Question: Bank regulators rate banks using a multitude of methods. One method, known as CAMELs, is often utilized. What is CAMELs?

Martoma found guilty on all insider charges – Pg. 1

- …guilty on all counts in the largest insider trading case on record
- …casual way in which some doctors shared insights into confidential clinical drug trials with hedge fund traders in exchange for thousands of dollars in fees
- He will remain on bail until he is sentenced. The charges carry a possible penalty of 20 years in prison (Prof Note: The charges carry a possible cost to tax payers of up to $700,000 for housing + legal expenses)
- Mr Martoma is the 78th person convicted of insider trading charges brought by the US attorney's office in Manhattan since 2009,…

Fed rule to hit services, cities say – Pg. 2

- Cities and states across the US are warning regulators that they will face budget crunches to pay for schools, roads and sewage systems if a proposed liquidity rule for banks is finalized
- Because of state and federal budget cuts, New York and other municipalities now obtain most of their funding for infrastructure improvements by issuing bonds
- Fitch said the high quality liquid asset proposal could "cause banks to begin reducing their holdings in municipal bonds" to meet the liquidity requirements and that the rule could increase "liquidity risk for municipal bond holders"

- Fitch said banks held $404bn of the $3.7tn municipal securities market

ECB resist calls for rate cut – Pg. 4

- The ECB yesterday disappointed investors eager for more action to counter the rising threat of deflation in the region, holding interest rates steady and offering few hints that it could soon loosen monetary policy
- While lower inflation was primarily down to lower energy and food costs, more worrying causes such as weak demand and high unemployment were also factors…

Baby boomers have blighted their children's prospects – Pg. 7

- The rise of modern states coincided with a valorization of youth. Napoleon marked the change. After him, age came to be associated with the ancien regime, youth with the hope of something better. Scarcely out of university, the great Polish poet, Adam Mickiewicz, wrote his "Ode to Youth" in 1820, the best-known expression of this attitude
- Today things look different. Heirs of the Golden Age still run the show, and septuagenarian rock stars hog the limelight. Meanwhile the young face dismal employment prospects, insecurity if they do land a job, and soaring bills for their housing and education. Their plight is an extraordinary generational triumph for their parents' cohort. In the US, escalating college tuition fees have prompted little protest
- Modern warfare requires few soldiers. There is no ideology of youth anymore, and it is not just the unemployed under-25s who have lost faith in the future. From the point of view of the modern state and its politicians, who needs the young? (Prof Note: Read this article in entirety…it is very sad and, I believe, true)

S&P warns of higher risk in bank bail-in bonds ahead of downgrade – Pg. 11

- The "bail-in" bonds issued by banks to absorb losses in the case of financial difficulty are much riskier than first thought, ….
- The credit rating agency's move could push up the cost of issuing these bonds for banks, which have been using them to incrase their capital levels ahead of regulators' stress tests in Europe and the US
- Bail-in bonds – also known as hybrid bonds or "wipeout bonds" – can be written off or converted into equity if a bank's capital falls below a set "trigger" level. But banks also have the option of stopping interest payments on hybrid debt if they face a capital shortage

Homebuilders lead advance as Goldman cites supply shortage – Pg. 19

- US homebuilders were lifted yesterday as analysts at Goldman Sachs said the sector would continue to recover this years as mortgage rates stabilized and economy growth picked up

Answer: Capital adequacy, Asset Quality, Management, Earnings, Liquidity, Sensitivity

6 February 2014

Question: $475,000 mortgage, CPM structure, 4.5% fixed, 30-year amortization. How much interest is paid in the first year as a percentage of total first year nominal payment? (this should take under 90 seconds)

New York opens new front in forex probe – Pg. 1

- New York's top banking regulator has demanded documents for more than a dozen banks, opening a new front in the sprawling global investigation into alleged foreign exchange manipulation
- The global investigation is adding to the considerable woes of global banks' forex desks, which are under pressure as top bankers leave amid rapidly falling revenues, intense regulatory scrutiny and a push towards electronic trading

US jobs report faces one-off factors – Pg. 3

- Markets are desperate for a clear guide to the Health of the US economy but tomorrow's data on non-farm payrolls will not help; so many one-off factors will hit January's report that the outcome is anybody's guess
- The consensus forecast for the jobs growth of 181,000 after a feeble 74,000 jobs were added in December
- Bad weather was the most common explanation for December's weak jobs growth but the excuse will stretch thin if January is bad as well
- The expiry of unemployment benefits meanwhile – which were not renewed for 2014 by Congress – makes it even harder to forecast the unemployment rate in January. The consensus is that it will hold steady at 6.7%
- At the turn of the year, hundreds of thousands of long-term unemployed workers had their benefits stopped, and the question is what they will do. There are two plausible responses: drop out of the labour market altogether or else accept any job going, even if it pays far less than a worker wants
- If expiring benefits do cause a further drop in the unemployment rate, it will be a problem for the US Federal Reserve. The 6.5% threshold, above which the Fed says it is unlikely to raise interest rates, is near

ECB action too close to call as threat of deflation mounts – Pg. 3

- Words matter. But for central banks, nothing talks as loudly as printing money
- Thinned by banks' repayments of its cheap loans, the ECB's stock of euro notes and reserves could for the first time be eclipsed by the US Federal Reserve's pile of dollars. Depending on what has happened to growth in recent months, the ECB's balance sheet could now represent a smaller portion of economic output than the Fed's
- …ECB…inflation, already less than half the central bank's target of just 2%, edged down to 0.7% last month
- The deflationary threat, if realized, would exacerbate pressures on the eurozone's periphery by raising its real debt burdens and stifling spending by businesses and households
- The latest inflation surprise and rising money market rates could force the 24 policy makers on the governing council to take one of three steps

- The first, and least controversial, move would be for the ECB to stop absorbing the liquidity created by its earlier purchases of government bonds, made through one of its crisis fighting measures, the Securities Markets Programme
- A more meaningful but less probably step would be a rate cut, lowering the main refinancing rate from its current record low of 0.25% by either 10 or 15bps
- A rarer option still is for the deposit rate, levied on banks' reserves parked at the ECB, to fall below zero

Sluggish wage rises hit Japanese recovery – Pg. 4

- Total worker earnings rose 0.8% in December compared with the same month a year earlier, …

Knives are out for Malaysia prime minister – Pg. 4

- For southeast Asia's third-largest economy – and to foreign investors – Mr Najib's survival matters
- Inflation has jumped sharply in recent months, hitting 3.2% in December, the highest since November 2011. Electricity tariffs rose by 15% last month
- Tensions between the majority Malays – most of them Muslims – and Christians have also escalated. (Prof Note: My understanding in Malaysia is that there are three cultural classes: ChineseMalay, IndianMalay, and MalayMalay. I once said to someone on Malaysia in complete ignorance of what I was really saying (lesson learned), "You are MalayMalay, right?" The response was, "No, I am CHINESEMalay." Note to self…keep your mouth shut about cultural identities when you are completely ignorant!)

Shadow banks step out to fund mid-market corporate America – Pg. 11

- More than a quarter of the loans extended last year to middle-market US companies – the beating heart of Corporate America – were issued by shadow banks that fall outside the realm of traditional finance
- Banks issued 73% of middle-market loans last year,….
- The growth of shadow banks has prompted concern among analysts about a loosening of lending standards as traditional banks struggle to compete with more lightly regulated entitites

Answer: $7,662.83 Principal and $21,218.23 Interest paid. 73.5% Interest.

5 February 2014

Question: What does a downward sloping yield curve indicate for a sovereign nation?

Scale of forex fix probe to rival Libor – Pg. 1

- The global investigation into the manipulation of the foreign exchange market is proving as serious as the Libor rigging probe, which has resulted in more than $6bn of fines for banks, … (Prof Note: ENOUGH with the damn fines!!! How about 458years of sentences for those involved???!!! Fines are simply a cost of doing business at this point!)

- The Libor scandal has shattered confidence in banks' integrity and prompted the dismissal of dozens of traders, some of whom face criminal charges

US deficit poised for short-term fall – Pg. 4

- The US budget deficit will drop to 3% of the economy this year – a return to normal for public finances of the world's largest economy after concerns after debt dogged much of Barack Obama's presidency
- ….the US budget deficit would fall from $680bn in the 2013 fiscal year to $514bn this year and further to $478bn, or 2.6% of the economy
- Meanwhile, the big fiscal questions mainly driven by the rising government costs as the baby-boomers generation retirees, remain unresolved, probably to the handed over to Mr Obama's successor in the Oval Office after 2016

After the party – Pg. 6

- Growth in GDP plummeted from 3.4% in 2012 to just 1.3% last year [Russia]. That prompted the economy minister to cut drastically its long-term outlook and declare the country's growth would fall below the world average for the next 16 years (Prof Note: Ouch!)
- There is general agreement on the problem: businesses are not investing enough. Investment dropped 0.3% last year. But there is no consensus over what should be done
- The government is now preparing legislation to tax companies owned by Russians but registered abroad, and exclude them from loans, subsidies and state contracts
- Investor confidence in the rule of law and protection of property rights was deeply shaken by the break-up of Yukos, once Russia's largest oil company, through a forced bankruptcy and the expropriation of its shareholders
- The jitters among emerging markets currencies, which have driven the rouble to its lowest level in almost five years, could also support such a recovery
- …Russian factories are running at about 65% of capacity – close to the highest utilization since the breakup of the Soviet Union

Zeal for Blackstone home rental bond fades – Pg. 20

- But two years on, after spending more than $8bn on 43,000 houses and creating a bond backed by rental proceeds, it seems Blackstone needs to kickstart a PR offensive on its home turf – Wall Street
- Some investors and market participants have soured on "single-family rental" securitizations recently even as new deals prepare to come to market

Answer: No long-term investment; lack of health

4 February 2014

Question: What is the S&P 500 index and how is it calculated?

Weak US data shake markets – Pg. 1

- Weak US manufacturing data and a new warning about the federal debt ceiling shook financial markets, underlining the enduring risks to the world's largest economy in 2014
- Markets also had a reminder about dangers from fiscal policy as Jack Lew, the US Treasury secretary, issued an urgent call for Congress to raise the debt ceiling by the end of the month
- The timetable for raising the debt ceiling is tight this month because it is tax refund season and cash is flowing out of the Treasury's coffers
- Yields on 10-year Treasuries fell to levels last seen during October's government shutdown at 2.6%

Philippine central bank head warns over rate rise policies – Pg. 2

- The Philippine central bank governor has waded into the battle over the handling of monetary policy and its impact on emerging markets as capital starts flowing out of the prospect of higher US interest rates
- …rather than pointing the finger at the US, as India and Brazil have done….warned fellow emerging economies that their own efforts at raising rates to cope with volatile currencies could do them more harm than good

Financial figures warn of job losses and disruption if nation votes Yes – Pg. 4

- Scotland's 1707 political union with England was a defining moment for its financial sector – it led to the creation of the Royal Bank of Scotland, which would become one of the world's biggest banks
- …90,000 employed across Scottish banks, asset managers and other financial companies – accounting for more than 9% of its GDP - ….
- There are also concerns over the sustainability of Scotland as the base for such banks. Management of RBS is already based in London,…

US mortgage battle intensifies – Pg. 14

- As refinancing activity has plummeted, banks are trying to step up new home loans, in an attempt to offset the dramatic revenue drag on overall earnings
- Higher interest rates have deterred borrowers from refinancing, which had been a steady revenue stream. But as credit quality improves, banks are vying for a slice of the new purchase market
- Mortgage origination volumes halved across most of the US banks in the fourth quarter, hurting net income and revenues

Answer: The Standard and Poor's 500 (S&P500) is a stock market index comprised of 500 large capitalized corporations in the United States. It is one of the most widely recognized indices and used as a proxy for U.S. performance.

The index is a **market-weighted index** which indicates the price movements of the market relative to total market capitalization size. The absolute price change for any of the 500 companies included do not equally affect the value of the S&P 500 as the index is weighted based on market capitalization.

3 February 2014

Question: What is the Dow Jones Industrial Average (DJIA) and how is it calculated?

Japan pledge to balance budget in doubt – Pg. 4

- Japan is on course to break a pledge to balance its budget by 2020, …
- The forecast underscores tensions over the best way to improve Japan's fiscal condition, which has steadily worsened over the past two decades amid shrinking tax revenues and rising social security payments
- The forecast also assumes Japan will follow through with a second increase in consumption tax scheduled for October 2015

Yes, Scotland? – Pg. 9

- After 307 years as part of Great Britain, Scotland will soon decide whether it is time to once again go it alone
- …impact on the remaining UK….departure of 8.3% of its population and about 9.2% of its GDP
- If its geographic share of UK oil and gas output is taken into account, Scotland's GDP per head is bigger than that of France. Even excluding the North Sea's hydrocarbon bounty, per capita GDP is higher than that of Italy. Oil, whisky and a broad range of manufactured goods mean an independent Scotland would be one of the world's top 35 exporters
- Scotland's fiscal health will also be challenged by the relatively rapid ageing of its population and the long-term decline of oil output from depleted North Sea reserves

Answer: The Dow Jones Industrial Average (DJIA) is a stock market index comprises of 30 large capitalized mulit-national corporations in the United States. It is one of the most widely recognized indices and while it is used as a proxy for U.S. performance, given that all 30 companies are multi-nationals, it is also a good proxy for global performance.

The index is a **price-weighted index** which indicates that price movements relative to market size and/or company capitalization are not considered. The absolute price change for any of the 30 companies included equally affect the value of the DJIA.

1 February 2014

Turmoil dents major stock markets – Pg. 1

- The four biggest global stock markets recorded sharp losses in January for the first time in four years, as weeks of turmoil in emerging markets spread to the developed world
- Stocks in the US, UK, Europe and Japan have not posted simultaneous declines for January since 2010 when the Eurozone debt crisis was at its height, …

Deflation spectre adds to calls for ECB action – Pg. 3

- Eurozone inflation fell significantly below market forecasts in January, stoking fresh fears of a Japanese-style bout of deflation and raising expectations of further action by the ECB
- Overall inflation across the 18-country single currency area slowed to 0.7% in January, ….
- The slide will add to calls for the ECB, which has a 2% inflation target, to take further action to reverse the downward pressure on prices
- The central bank cut its benchmark lending rate to a record low of 0.25% in November in the face of falling inflation

EM turmoil raises fears of contagion – Pg. 12

- After currencies plummeted in countries such as Argentina, Turkey and South Africa, the US S&P 500 was on track to end the month down nearly 4% from the start of 2014
- The danger seemed obvious: while US and European equities largely shrugged off the 1997 Asian market crisis, global economic and capital market links have since become much closer, increasing potential spillover or "contagion" effects
- Contagion to US or European financial markets could spread through several channels. Most obvious are trade links
- Emerging markets and developing countries account for nearly 40% of the global economy – double their share in 1997…
- Another route for rapid contagion would be through banks

31 January 2014

Question: How do banks traditionally make $$$?

Headwinds start to weaken after holding back economy – Pg. 2

- Growth in the US economy accelerated to an annualized pace of 3.2% in the last quarter of 2013, validating the decision by the Federal Reserve to taper its asset purchases and boosting hopes for a strong 2014
- Here are five key takeaways from the GDP data
- 1. It was a collection of extremes
- 2. Taper talk had a real impact
- 3. Despite high profits, business will not invest
- 4. Emerging markets will affect US growth
- 5. But the bottom line is: good news

Philippines construction boom shows indications of slowdown – Pg. 6

- ….housing shortfall expected to rise to 5.8m homes by 2016, from 3.6m in 2010, …
- …full-year growth of 7.2% in 2013 following a 6.8% rise in 2012, the first time in 23 years the Phillippines has posted growth above 6% for two consecutive years. By value, construction and real estate sectors accounted for almost a fifth of the economy, almost as much as manufacturing

- After surging 18.2% in the first half of 2013, the annual growth in the value of private construction activity slowed to 0.6% in the third quarter and contracted by 0.4% in the last three months of 2013

Fear of contagion – Pg. 7

- Economists say that although all developing nations are vulnerable to the unwinding of US vulnerable to the unwinding of US monetary stimulus, the prospect of slowing Chinese growth and other global influences, the differences between them are at least as important as their collective frailties
- In South Africa, Turkey and Russia – as well as in Argentina – the sharp currency falls of recent days have administered a shock to retailers, as prices of imported goods rise and people rein in their spending
- A related concern is that the rises in interest rates needed to combat rising inflation and defend currencies could hit indebted corporations, forcing them to scale back investment plans.

Shutters come down for house rental sites – Pg. 16

- Paris has introduced more stringent requirements for people seeking to rent out second homes in the city
- A legal clampdown has come into place in New York, and Berlin introduced new laws on January 1 that mean residents must now apply for a permit to rent out housing or face a steep fine
- The peer-to-peer rental websites have cried foul, claiming that attempts to prevent the general public from being able to offer their vacant homes for rent will only drive the market underground

Answer: Generally on the spread between short- and long-term rates. Banks borrow short-term and lend long-term earning the difference, i.e. spread.

30 January 2014

Question: What is Monte Carlo Analysis?

Sell-off in EM currencies continues despite rate rises – Pg. 1

- The sell-off in emerging market currencies intensified yesterday despite a string of rate rises by central banks as investors sent a strong signal that policy makers would need to make tougher action to restore confidence
- The sell-off also hit currencies seen as more rebust, with the Mexican peso down 0.8%
- Analysts said that contagion had spread across emerging markets as local companies sought to buy dollars and investors in local currency bonds rushed to hedge currency risk

Fed shrugs off turmoil with fresh $10bn taper – Pg. 1

- The US Federal Reserve reduced its monthly asset purchases by another $10bn to $65bn yesterday as it shrugged off emerging market turmoil at outgoing chairman Ben Bernanke's final meeting
- Its decision – presented without any acknowledgement of the volatility that is rocking emerging markets – offers no respite for countries such as Turkey and South Africa, which have rushed to raise interest rates to try and stabilize their currencies
- …shows the central bank still expects strong growth this year and was not disturbed by a weak US jobs report in January. It means that Fed asset purchases are still on course to halt by the end of the year
- …Ms. Yellen will also inherit a bloated $4tn balance sheet and the task of normalizing policy without triggering inflation or any further financial instability

Asian output roars back as western growth drives recovery – Pg. 3

- Asia's factories are beginning to hum again, suggesting stronger growth in the west may finally be starting to feed through to the region's traditional export hubs

Employers hit out at call for big rise in the minimum wage – Pg. 4

- Employers of low-wage workers rejected Barack Obama's call for a 40% rise in the minimum wage, as the US president took to the road to reinforce his State of the Union message on tackling inequality
- …call to raise the minimum wage from $7.25 to $10.10…

Big pension funds shift from stocks to bonds – Pg. 20

- The move has undermined the thesis that 2014 could prove to be a repeat of 1994, when bond market collapsed in response to sharp interest rate rises, …
- IN short, the bond vigilantes behind 1994's bond market rout appear unlikely to return. Indeed, the big equity gains of 2013 have spurred pension funds to lock in profits and "de-risk" with a greater weighting in bonds to make their portfolios safer
- In 1994 emerging markets suffered the most as interest rates moved swiftly higher in the US, UK and other industrialized economies. This time the troubles in the developing world again look serious – and this is before there has been a single rate rise in the developed world
- Disinflation in the Eurozone and even concerns over deflation, or a sustained period of falling prices – with the European Central Bank expected to loosen monetary policy further – are helping to underpin bonds. This will keep the bond vigilantes in check

Answer: It is a sampling technique, i.e. simple random sampling. It is named after the area in southern France known for its gambling.

29 January 2014

Question: In "normal" markets Federal Funds Rate (FFR) tracks 30-day US$ Libor by what spread?

Action by EM central banks lifts sentiment – Pg. 1

- Emerging market central banks have stepped up the fight against inflation and falling currencies, helping emerging market equities stage a nascent recovery after falling back into bear territory in recent days
- India's central bank surprised investors by raising its policy interest rate 25bps early yesterday, while Russia's central bank intervened in foreign exchange markets to support the rouble
- Among the concerns weighing on emerging market investors, several identified China as the most worrying

From the cradle to the grave – Pg. 5

- According to figures published by the US Pew Research Centre last year, almost half of adults in their forties and fifties have a parent aged 65 or older and are either raising a young child or financially supporting a grown child. (Prof Note: Just today my own mother asked to move in with me for financial reasons. I am negotiating with an Aunt to take her as a roommate)
- Woman live almost six years longer than men, average 83 years versus 77 years for men
- …long-term care expenditure will grow. Currently it represents 1.5% of GDP across industrialized countries and is predicted to at least double by 2050
- The nature of home and work life has blurred, in large part due to technology and flexible working.

Answer: 7 to 12 basis points

28 January 2014

Question: Under "normal" market conditions, what is the premium of the discount rate over the Fed Funds rate?

Pressure mounts on EM nations to lift rates – Pg. 1

- Emerging market countries are facing fresh pressure to raise interest rates, after Brazil warned that others would need to follow its lead in tightening monetary policy,…
- The emerging markets sell-off continued yesterday with currencies and global equities taking a further hit.
- The latest market jitters were triggered by last week's abrupt devaluation of the Argentine peso, which provided a reminder of the vulnerabilities some countries face as central banks in the developed world tighten monetary policy

Twin forced lead to Japan's worst trade deficit – Pg. 4

- Japan has unveiled its worst annual trade deficit on record, underlining the impact of the total shutdown of nuclear power and putting the often heated debate over the currency-weakening effects of "Abenomics" in a new light
- …tepid demand in big export markets has resulted in sluggish shipments, even as a tumbling yen has boosted manufacturer profitability

- In the US in particular, the automotive industry has raised concerns about the weakening of the yen as a result of Japan's ultra-loose monetary policy

Turkey's central bank calls crisis meeting – Pg. 4

- …30 out of 31 economists said they now expected an increase in the country's overnight rate from the current 7.75%, with a median expectation of a 2.25% rise
- Increasing interest rates now will also have an impact on growth, already below Turkey's long-term trend of 5%, at a politically sensitive time

Chinese fund staves off default – Pg. 16

- A Chinese fund company has avoided a high-profile default, reaching a last-minute agreement to repay investors in a soured $500m high-yield investment trust, in a case that sent tremors through global markets
- Trust loans, which have typically been given to higher-risk borrowers such as property developers and mining companies, make up the largest slice of China's vast shadow banking sector. With formal bank lending slowing, shadow financing rose to account for more than a third of new credit in China in 2013

Answer: 100 basis points

27 January 2014

Question: Tim Geithner, former U.S. Treasury Secretary, has a graduate degree from what University?

Prof Note: Thank you for all your concern regarding the shooting at Columbia Mall. I do own a property in the mall parking lot but I was fortunately lecturing a Saturday Seminar at Georgetown at the time of the shooting, i.e. I am fine. Rather than focus on the negatives, let us all focus on the blessings in our lives and use this as a reason to be thankful for all the good. I am thankful for all of you! God Bless.

ECB poised for battle to ward off deflation – Pg. 1

- …by buying packages of bank loans to households and companies
- The implication was that buying government debt directly from member states was illegal though the central bank has already bought sovereign bonds from investors. Since the corporate bond market was small and working well, he said, "there is no need to do something in that field"
- The threat of a prolonged period of falling prices, as seen in Japan over the past two decades, is increasingly viewed as a big risk to the global economic recovery

Pay doubles in five years for MBA graduates from top business schools – Pg. 1

- The 2010 graduates reporting the highest salaries three years after graduation studied at te two top-ranked schools. Alumni from Stanford drew the highest salary, averaging an annual $182,000 over three years, while Harvard Business School graduates took home $176,000 on the same basis – though their alma mater is the top-ranked MBA

- In China, where the MBA degree is a comparative rarity, alumni now enjoy much higher salary rises than their peers in the US and Europe

IMF sovereign debt plans in jeopardy – Pg. 3

- The IMF's biggest shareholders are set to scupper the organizations primary proposal for overhauling the government bankruptcy system over fears the policy could have systemic consequences
- The most controversial idea was the IMF to explore ways to force some stricken countries that seek its assistance to "voluntarily reschedule" debt repayments over the programme period so that the fund's money is not used to repay private creditors, only for a debt restructuring to happen later when the burden proves unsustainable – as was the case with Greece

Yellen left with challenge of guidance tactics – Pg. 4

- The Ben Bernanke era at the US Federal Reserve will end this week and, barring severe market turmoil in the next few days, the final act is very likely to be another $10bn reduction in the pace of asset purchases, to $65bn a month
- Fed officials generally expect a $10bn taper at each meeting this year unless there is a shift in the economic outlook. A weak payrolls report and some emerging market wobbles offer little basis on which to call such a shift
- Here are three pressing issues for Ms Yellen to wrestle with:
    - What to do with forward guidance
    - Solving the participation rate puzzle
    - Finishing the communications revolution

Citi to pay half of bonus in cash – Pg. 13

- …US banks continue to be much more generous than their European rivals

Answer: Johns Hopkins University

25 January 2014

Question: What is the US Federal Reserve's inflation target and why is it important?

Currencies hit in wake of Argentina – Pg. 1

- The currencies of Turkey, Brazil, South Africa, India and Russia all tumbled in value yesterday after a shock slump in the Argentine peso highlighted the challenges that emerging markets face in a world hit by US monetary tapering and easing Chinese growth
- The emerging markets turmoil also triggered a global sell-off in riskier assets and a rush into safer bond markets
- The main causes of Argentina's problems have been that Buenos Aires, best by a large current account deficit and meagre foreign currency reserves, has allowed domestic inflation to reach about 25%, driving its citizens to seek a store of value by changing their pesos for US dollars

- A key issue for brazil and South Africa, by contrast, has been signs that the Chinese economy may be slowing amid financial distress among shadow finance institutions. China imports large quantitites of raw materials from both Brazil and South Africa
- Russia's economy is also closely tied to the price of commodities that have been driven by China's easing investment demand….
- Turkey and India are concerned whether the unwinding of US stimulus may deplete the flows of liquidity necessary to finance current account deficits and short-term debt

Carney hints at low interest rates for the medium term – Pg. 2

- Mark Carney said yesterday that the long hangover from the 2008-09 crisis will ensure interest rates are likely to remain "well below historical norms" in the medium term even as the British economy recovers
- The BoE governor also signaled that the central bank would drop the simple link between interest rates and the unemployment rate…
- The US Federal Reserve has found its unemployment target was achieved earlier than thought, but largely because many people have stopped looking for jobs rather than finding them, while the ECB has kept its guidance vague and may also be overtaken by events if inflation falls deeper into dangerous territory

Similarities to Asian contagion of 1997 go only so far, say experts – Pg. 4

- Suddenly, it feels like 1997 all over again. The biggest one-day swoon of Argentina's peso yesterday was more than a little reminiscent of the day 17 years ago when the Thai baht was driven into free-fall, triggering a wave of contagion through Asia
- Turkey, which has seen its lira fall more than 6% this year, is attracting added concern because of a trend among its citizens to seek refuge in the dollar, another characteristic of Argentina's economy before Thursday's currency decline
- …economists emphasize that, while some emerging markets share some characteristics with Argentina, few suffer from so pronounced a mix of domestic economic mismanagement and external frailties. Buenos Aires, best with a large current account deficit and meagre foreign currency reserves, allowed domestic inflation to hit about 25%, driving its citizens to seek a store of value by changing their pesos for dollars

Regulators warn on fast growing non-traded Reits – Pg. 14

- So-called non-traded real estate investment trusts (Reits) own income-generating property portfolios like their publicly listed counterparts. But these unlisted Reits that raise funds through share sales by broker-dealer networks tend to target mother and father investors and have come under fire in recent years
- These companies lack transparency, have high management fees and broker commissions and are illiquid assets that do not have mark-to-market pricing – an accounting practice that allows investors to assess the fair value of a company's assets
- Income-oriented investors have been drawn to REits, which distribure at last 90% of taxable income to shareholders annually in the form of dividends.
- Fees and commissions can rise to 12% of original investment and investors are often locked in for seven to 10 years

- Finra has warned investors their returns, upon liquidation, may be less than the original investment

Answer: 2.00% but has been steady at around 1.50% for the recent past. This is bad as consumers will wait to consume if inflation runs low. With 70.1% of US GDP being consumer, this will cause low growth for the short- to medium-term.

24 January 2014

Question: What were the respective sizes of the U.S. Federal Reserve's balance sheet at the beginning of the financial crisis and currently?

Argentine peso plunges amid emerging markets sell-off – Pg. 1

- Argentina's peso suffered its biggest one-day fall since the 2002 financial crisis after the country's central bank pulled its support for the currency in an effort to preserve foreign exchange reserves that have fallen by almost a third over the past year
- The peso fall added to increased risk aversion on global markets.
- The peso's fall will have been hastened by a broader sell-off in emerging markets yesterday, with weak data from China's manufacturing sector adding to concerns over the effectds of the Federal Reserve's tapering plans. Turkey's central bank was forced to intervene to prop up the lira and the South African rand, Brazilian real and Chilean peso also fell sharply
- Foreign currency reserves, which fell to $29.44bn on Wednesday, are at a seven-year low as the government drains its coffers to serve debt and pay for rising energy imports

US capital spending set to slow to four-year low in sign of caution – Pg. 1

- Capital spending by US companies is expected to grow this year at its slowest pace for four years, in a sign of caution over the outlook for global demand
- Strong corporate balance sheets, rising business confidence and signs of stronger growth in the US economy have encouraged hopes of an acceleration in capital spending by American companies
- The total net debt of non-financial companies in the S&P 500 has dropped from seven times their earnings before interest tax, depreciation and amortization at the end of 2007 to only three times by last October, …
- The stagnant outlook for capital spending by US companies follows a steady deceleration in growth that began in 2012

Swiss redouble efforts to cool property markets – Pg. 6

- Switzerland has doubled the amount of capital banks must hold against risks their mortgage books, in a renewed effort to calm a property market boom
- Since 2000, the price of a freehold flat in the Alpine state has soared 76% fuelled by surging immigration and, more recently, by historically low interest rates as the Swiss National Bank tries to prevent the franc appreciating

Harbour of debt – Pg. 7

- Four decades after US tax concessions helped swell corporate investment, Puerto Rico's bondsd are at risk of being downgraded to junk status
- Puerto Rico's modern growth began in the mid-1970s. As the island struggled with soaring oil prices and high unemployment, the US Congress decided to throw its territory a lifeline. It granted s special status that allowed American companies to expand their manufacturing operations on the island without being taxed on the profits earned there
- But by 2006 the incentives were phased out
- Facing a shortage of funds, the island could rely on another favourable aspect of the US tax system: US municipal bonds. A unique status granted to Puerto Rico, an unincorporated territory of the US, meant that its "munis" were expected from federal, state and local taxes. This "triple tax-free" advantage was popular with US investors, who were undaunted by Peurto Rico's history of fiscal trouble. In fact, it was part of their appeal, as the added risk mean they carried even higher yields compared with other local government debt in the US
- The small island of 3.7m people borrowed at levels rivalling large US states such as California and New York. It accumulated $70bn in debt – roughly equal to 80% of its GDP (Prof Note: Stop…this is ridiculous…stated another way…"they were lent…." Give a heroin user a clean needle and are you really helping them?)
- The island's underground economy is estimated to be worth about $17bn, or 25% of the GDP. It includes unreported income generated by the self-employed and remittances from Puerto Ricans living off the island
- Many have seen their savings dwindle as house prices fell in the aftermath of the US financial crisis, and more recently with a collapse in bond prices (Prof Note: My family's home in PR sits empty. The price has collapsed and when the Navy left viable renters left with it. Let me know if anyone wants to purchase a home in Fajardo!)

Pearson warns of slowdown in US – Pg. 17

- Pearson said its profits for 2013 would be below analysts' expectations, after its North American education business faced continued problems and the cost of restructuring exceeded previous guidance by about 30m (sterling)
- The company pointed to strong growth in education businesses in South Africa and China, with margins before restructuring charges similar to those in 2012

Renminbi jumps to eighth most used form of payment – Pg. 20

- Factors including its appreciation, ballooning trade volumes and the currency's increasing attractiveness as a conduit for portfolio investments contributed to an upsurge in usage that Swift, the payments company, put at 15% between November and December last year
- Some 74% of the renminbi payments are concentrated in Hong Kong….

Answer: $800bn at the beginning of the financial crisis and over $4tn today….

23 January 2014

Question: What is(are) the main difference(s) between project and portfolio variance (risk)?

China's hotels shoot down their five-star ratings in bling battle – Pg. 1

- More than 50 hotels last year asked to have their five-star ratings downgraded…
- Others have suspended their five-star applications in the hope of staying on government registers of acceptably austere accommodation
- Other strict instructions include "travelling with smaller entourages, simplifying receptions and practicing frugality"
- The belt-tightening has hit hotel operators particularly hard because of the loss of banquet business and overnight guests

India weighs inflation targeting – Pg. 2

- Over the next two years, it said, the RBI should prepare to reach that goal by targeting a reduction in headline retail inflation – now standing at 9.9% - to 8% within 12 months, and 6% in two years
- In considering India's stubbornly high inflation, the RBI has also, until now, focused maily on wholesale prices, which is widely seen as the wrong measure of genuine inflationary pressure in the economy

Japan set to beat deflation, says Abe – Pg. 4

- The BoJ's huge monetary stimulus and related fall in the yen has helped push up prices, but the concern is that much of those increases have been imported energy costs
- To combat Japan's ageing society he pledged to reform the labour market that he said bound workers to "old industries" and pledged that by 2020, 30% of leading positions would be occupied by woman

Brazil focuses on cost of welfare as growth slows – Pg. 6

- Brazil is not the only large developing country being criticized for funding populist social security programmes. India too has come under criticism for building an expansive welfare system while avoiding tough economic and labour reforms that would boost productivity and growth
- …some academics fear that Brazil is encouraging a welfare mentality when it needs to foster entrepreneurialism to become internationally competitive

Hong Kong property – Pg. 14

- Hong Kong, where HK Land mostly operates, and Singapore, where it is listed, are the two Asian property markets thought to be most at risk from withdrawal of the Federal Reserve's stimulus because of their dollar links and the credit boom both enjoyed.
- Hong Kong home prices peaked in March last year, having more than doubled since their 2008 trough

'Repo' market shrinks on cash hoarding – Pg. 22

- Cash hoarding by lenders and increased reliance on central bank funding caused the eurozone's "repo" market, where banks can access short-term funding, to shrink by nearly a tenth in the second half of last year

- The size of the market for "repurchase", or repo, contracts declined 8.2% ….
- The contraction indicates that banks and other lenders were less keep to lend to borrowers such as companies and other banks in the run-up to the new year
- The market proved volatile during the global financial crisis – but the repo industry argues that was a consequence, not a cause of global financial market tensions

Answer: Portfolio variance considers weight and covariance as additional factors. Project variances does not consider weight (or rather it is considered at 100.0%) nor covariance (or rather as it is a single asset it is perfectly correlated with itself).

22 January 2014

Question: When and where is the Case-Shiller index published?

Concentrated cash pile puts recovery in hands of the few – Pg. 1

- The pile of unspent corporate cash that has built up since the start of the financial crisis is being held by an increasingly concentrated pool of companies that will be crucial to hopes of a pick-up in investment to stimulate the global economy
- About a third of the world's biggest non-financial companies are sitting on most of a $2.8tn gross cash pile, ….
- Of the non-financial members of the S&P Global 1200 index, just 32% of companies held 82% of the aggregate cash pile, the highest level since at least 2000
- With nearly $150bn in its coffers, Apple alone was sitting on about 5% of the total at ten end of its fiscal year

IMF warns on risks to recovery – Pg. 2

- Weaker emerging economies are exposed to sudden capital flight with the global economy on course to strengthen as expected this year, …
- Although the fund said growth in most advanced emerging economies was accelerating as expected, it said the world was "not out of the woods yet" with deflation fears rising in Europe and the US and vulnerability in some emerging economies
- The warnings came as the IMF upgraded its 2014 global growth expectations by 0.1%. It now forecasts 3.7% expansion of the global economy in 2014

Holy disorder – Pg. 7

- The 18th century house of god is at risk of repossession not because of the prohibitive cost of repairs but as a result of the commercial misadventures of its clergy
- (Prof Note: About 5 years ago I was asked to review a church's finances. They were a disaster! Two former clergy had become "Financial Advisors" and were taking regular fees for "god knows what!" reason(s). I told the church I would fix the finances for free (a HUGE commitment of my time) with two conditions: (1) The two "Financial Advisors" be terminated immediately and (2) I have the ability to make decisions without committee approval. The church said, "no". I told Finance Committee that while the parishioners may forgive debts, the banks will not!)

Gold survey most bearish since 2002 – Pg. 20

- Gold analysts are more bearish than at any time since 2002 and expect an average price of $1,219 a troy ounce this year, …
- Weak inflationary pressure was another concern, since gold is viewed by investors as an inflation hedge

Japanese bonds signal lack of faith in inflation – Pg. 22

- Japan's bond market is signaling that the Bank of Japan will fall well short of its 2% target for inflation, ….
- The yield gap between 10-year nominal government bonds and inflation-linked debt has settled at about 1.1% since the beginning of the year

Answer: 9:00am EST last Tuesday of every month. www.standardandpoors.com

21 January 2014

Question: What is the Super-Efficient Portfolio?

Bucking the trend – Pg. 6

- The opening ceremony of the first US bank to be created in three years began, fittingly, with a prayer
- Bank of Bird-in-Hand, backed by Amish investors and based among rolling hills of rural Pennsylvania, opened it sdoors to the public on a brisk morning in early December
- The number of banks in the US dwindled from 8,533 just before the onset of the crisis in late 2007 to 6,891 at the end of last year….
- That figure is a little over half of the 13,221 banks counted just two decades ago – the lowest since FDIC began collecting its data in 1934 during the depths of the Great Depression
- An FDIC study found community banks hold 46% of outstanding small loans to farms and businesses, despite owing 14$ of the banking industry's total assets
- The five largest US banks now hold 44.2% of the banking industry's total assets – up from less than 10% in 1990
- The death of new banks known as "de novo" banks in industry parlance, is unusual. During the S&L crisis, which saw hundreds of small US banks and thrifts collapse, an average of 196 de novo banks and savings institutions emerged annually between 1984 and 1992
- According to the FDIC, 16% of the bank failures experienced from 2008 to October 2013 were in institutions in their second to seventh year of operation
- Bank failures have come down from their recent highs. Only 22 banks failed in the first three quarters of 2013, the lowest since 2008. The number of institutions on the FDIC's "problem list", now at 515, has been falling for 10 consecutive quarters

Reinsurers left with 'nowhere to hide', says S&P – Pg. 16

- Global reinsurers are facing potential credit rating downgrades after S&P's warned the industry had "nowhere to hide" from mounting competition
- Consolidation "may be one of the few viable survival options" for some smaller reinsurance companies trying to compete globally with larger rivals,…
- Capital markets investors are investing in the sector through specialist vehicles set up by reinsurers that non-insurers can invest in, known as "sidecars", as well as instruments such as catastrophe bonds being issued by primary insurers
- S&P said "nearly half" of the reinsurers whose credit-worthiness it rates were "significantly exposed" to pressures from mounting competition

Bundled mortgage defaults hit high – Pg. 20

- The default rate of "sliced and diced" loans backed by commercial mortgages in Europe has hit a two-year high, highlighting difficulties in resuscitating the securitization market
- Historically, banks have sold CMBS and other asset-backed securities to fixed income investors seeking steady interest payments while freeing more capital for loans

Answer: The point of tangency between the Capital Market line and the Efficient Frontier. It is the singular portfolio on the efficient frontier whereby greater points of return cannot be found through positive or negative leverage at the risk-free rate.

20 January 2014

Question: The payment for a standard Constant Payment Mortgage (CPM) is calculated iteratively using what formula? (3 second answer)

UK looks at scrapping Bitcoin tax as global regulators seek to cash in - Pg. 1

- Britain is reviewing the tax treatment of Bitcoin, the virtual currency that governments around the world fear can be used for tax evasion and money laundering
- The review comes as tax authorities around the world seek to capture revenues from the virtual currency and minimize risks of avoidance and evasion
- Over the past year, the value of the world's stock of Bitcoins has risen from $150m to $10bn adding urgency to regulator's efforts to clarify its status
- The virtual currency economy in the UK has been held back because of regulatory uncertainty and difficulties in obtaining bank accounts

Slowing price rises awaken deflation ogre – Pg. 2

- She [Lagarde] is the first high-profile policy maker to warn that extremely low inflation in rich countries could trigger the sort of prolonged period of falling prices that has dogged Japan for two decades – although, ironically, Asia's second-largest economy is now starting to see inflation rise
- At 1.5%, US inflation is also significantly below the Federal Reserve's target
- But a prolonged period of disinflation or falling prices can weaken demand because consumers and businesses will put off spending decisions in the expectation that prices will

be even lower in the weeks and months ahead. And it can be catastrophic for economies where the level of debt is high (Prof Note: Can you say "United States"?)

An MBA sets executives on course for the top – Pg. 9

- Financial Times analysis reveals that of the world's largest 500 listed companies by market capitalization – 29% are led by an MBA graduate (Prof Note: MBAs are like law degrees; there are so many but so few of quality!)
- The concentration of top business leaders from a handful of prestigious business schools indicates that the largest listed companies may place greater value on an MBA gained from one of these well-known schools
- An MBA from HBS does not come cheaply. While the average tuition fees charged for full-time programmes ranked by the FT is $85,000, an HBS MBA costs $134,000 – and entails a two-year break from a career

Answer: Present Value formula.

18 January 2014

Question: What is the percentage of interest paid over the total life of a $500,000 mortgage which is a Constant Payment Mortgage at 4.5% fixed interest for 30 years? (answer should be derived in less than 20 seconds once calculate is in hand.)

Is this nuts? – Pg. 5

- While macro strategists tell us US companies in particular are over-investing in the face of sharp deflationary pressures and shrinking margins, is it really too cloddish to ask again whether, in a world awash with easy money, a combination of tech-fever and feverish greed has caused investors to lose touch with reality?
- Similar dynamics are visible in other asset classes. Irish sovereign debt yields little more than UK Gilts, despite the trauma of Ireland's banking sector collapse; the yield on Portugal's 10-year government paper has fallen 30% in four months

Traders surpassed in Wall St reshuffle – Pg. 9

- It looks like the revenge of the investment bankers. For years, Wall Street's traditional business of advising companies on acquisitions and helping them sell debt and equity has been subjugated to the traders
- At Goldman, trading accounted for about 46% of total revenues in 2013, the lowest percentage since 2002, while investment banking had its best year since the crisis
- Year-on-year fixed income trading revenues fell 14 to 15% in the fourth quarter at Goldman, Morgan Stanley and Citigroup
- Goldman cut its share of pay to revenues by a percentage point to 36.9%. Morgan Stanley's came down from 45% to 42% in the institutional securities group and said it would "trend down to 40%"

Risky 'payment-in-kind' debt returns in Europe – Pg. 12

- Investors fretting that the corporate credit market is becoming overheated have pointed to the return of boom-era "payment-in-kind" debt
- These are high-yield bonds, which are mainly issued by private equity sponsors of leveraged buyouts, give borrowers the option to pay lenders with more debt, rather than cash

Answer: Monthly payment is $2,533.43. Total nominal payments are 2533.43*12*30 = $912,033.56. Therefore $412,033.56 is total interest paid or 45% of total payment. When you put it this way, living in your parent's basement with free food and cable really is not that bad! Mom, Dad, we love you! P.S. We ain't leav'n! ☺ P.S. I still remembering visiting with a former student's family several years ago in San Francisco. The father is a successful medical professional with an amazing home. As he was showing me the grounds surrounding his home he said to me, "Roger, I love my children but they are content staying here to live." I said, "I am just a guest and you are going to have to call the authorities to get me to leave! This house is amazing!!!" He smiled and yes, I did leave without incident but I left with a full belly of delicious food!

17 January 2014

Question: What is a back-of-the-envelope estimate of risk, i.e. standard deviation? Please explain why this can be used as an easy approximation.

China's vast shadow bank sector put to test – Pg. 1

- China's huge shadow banking sector is facing its toughest test after ICBC, the world's biggest bank by assets, whose branches sell many of these wealth products, refused to bail out investors in a dud $500m issue
- The enormous growth of poorly regulated financing outside the formal banking sector in China and the potential for a panicked run on these shadowy products and institutions pose one of the biggest risks to the global economy this year
- In China, investment trusts and other wealth management products have become a vital source of off-balance sheet funding, and account for almost a third of credit in the world's second-largest economy, up from less than a quarter in 2012
- Globally, shadow banking is worth $71.2tn ….with its estimate of China's sector exceeding $2.1tn

Goldman and Citi wreck Wall St hopes for escaping crisis doldrums – Pg. 1

- Wall Street's earnings season has dashed hopes the sector would bounce back from its post-crisis doldrums, with Goldman Sachs posting weak results in fixed income trading and Citigroup missing forecasts for the second consecutive quarter
- Trading in bonds, currencies and commodities – Wall Street's driving force for three decades – continues to struggle
- Investors are failing to take comfort from a far stronger performance in investment banking, particularly equity underwriting – where initial public offerings such as Twitter's have boosted banks' fee income

Fed 'needs to do more' to stimulate US economy – Pg. 3

- …challenges ahead for chair-woman Janet yellen, who takes over a FOMC that has begun to slow its monetary easing, but must still deal with a weak economy
- Prices are up just 1.5% on a year ago, ….
- The Fed targets an annual inflation rate of 2%. Worries over disinflation are far more acute in the Eurozone
- Fears exist of a Japanese-style drop in prices in a currency bloc already struggling with a twin sovereign debt and banking crisis, a dearth of domestic demand and businesses that are showing little appetite to invest

On short notice – Pg. 7

- In the past five years, while other big developed economies have been suffering through the financial crisis, the average Canadian home price has risen 38% to US$355,000….
- This has been driven in part by Toronto, where a condominium boom has driven prices to record highs
- At the same time, Canadian households have been on a debt binge fuelled by easy bank lending, low interest rates and government-insured mortgages. The household debt-to-income ratio rose to a record 163.7% in the third quarter, close to the US peak of about 165% on an adjusted basis
- One of the biggest concerns is the duration of Canadian mortgages. The typical mortgage is refinanced every five years, unlike in the US, where the 30-year fixed-rate mortgage is the standard
- The government shortened the maximum amortization – or the period in which the entire mortgage could be paid off – to 25 years from 30 years. It has also limited the amount Canadians can borrow when refinancing to 80% from 85% of the value of their home

Correlation breakdown spells the end for broad stock gains – Pg. 20

- Tight-knit relationships that have defined the US equity market's five-year bull-run are breaking down as investors look to a future with less monetary stimulus from central banks
- Equity market correlations, which measure the relationships between different stocks, have fallen to their lowest levels since the onset of the financial crisis, …
- Correlations have been closely followed by investors since the crisis, as stock prices have tended to rise and fall in broad unison rather than diverge based on the merits of the individual companies
- A decline in correlated stock moves will be welcomed by active investment managers who have struggled to beat US equity benchmarks in recent years and seen sales of passive investment funds soar

Answer: Range divided by 6 (Range/6). It assumes the distribution is normal and that 99.7% of the data is captured between +/- 3 standard deviation from the mean. This assumption also assumes away outliers which are data values that fall outside of +/- 3 standard deviations from the mean.

16 January 2014

Question: What is a yield curve and what does it tell us about a country?

IMF warns of growing threat from deflation – Pg. 1

- The growing threat of deflation risks derailing the global economic recovery…
- …the IMF, warned yesterday as she said the world had yet to put the financial crisis behind it
- Slow inflation could allow central bankers to keep monetary policy exceptionally loose, even as employment picks up in countries including the US and the UK
- Inflation in the UK has fallen back to the BoE's 2% target for the first time in years while the US consumer price index is up by only 1.2% on a year ago. But the Eurozone is at greatest risk, with inflation falling to just 0.8% in December and unemployment still stuck at 12.1%

Farewell to the 'Fragile Five' after fallout threat from tapering spreads – Pg. 1

- When judged by their perceived ability to repay short-term foreign borrowings, the countries particularly exposed to the fallout of tapering are South Africa, Turkey, Brazil, India, Indonesia, Hungary, Chile and Poland, …
- Ukraine, Venezuela and Argentina are also seen as exposed

China's shadow bank loans leap – Pg. 2

- The rise of China's shadow banking sector has been thrown into a sharp relief by data from the central bank showing that it accounts for nearly one-third of aggregate financing in the world's second-biggest economy
- China's shadow banking sector has helped fuel an alarming run-up in the debt owed by local governments, which have established off-balance-sheet vehicles to borrow money for development projects

Global economy battles decline in productivity growth – Pg. 3

- Big questions for 2014 include whether the advanced world will move from witnessing falling rates from inflation towards deflation? Will the Federal Reserve taper its asset purchases more quickly? And will US action destroy capital flows to emerging economies?
- If overall productivity growth disappears in the years ahead, it will dash hopes that rich countries can improve their populations' living standards and that emerging economies can catch up with the advanced world
- The story for both labour productivity – output per hour worked – and total factor productivity is the same. Declining growth rates are a result of a long history of falling productivity growth in advanced economies which is no longer more than offset by huge rises in the efficiency of emerging economies
- For the US, still the world's largest and one of the world's richest economies, the trend raises the question whether its productivity crisis in the product of its weak demand recovery or that its powers to innovate and push the possibilities of economic activity further have stalled
- A return of growth is also predicted in North Africa and the Middle East after two difficult years, even though lost ground is unlikely to be recovered

Puerto Rico creditors meet on growing fears of default – Pg. 20

- Creditors to Puerto Rico are meeting in New York today with lawyers and debt restructuring specialists as a moratorium on payments on the territory's $70bn in public sector debt and $40bn of unfunded pension liabilities appears increasingly likely
- Puerto Rico cannot raise taxes much more, since the debt per capita is more than $14,000, while income per capita is almost $17,000, a ratio – at 83% - that makes California, Illinois or New York – each at 6% - models of prudence
- Meanwhile, at 14%, the unemployment rate is twice the national average

Answer: The cost of money at various points in time, i.e. X-axis is time and Y-axis is rate. Generally it is upward sloping in normal markets demonstrating it costs more to borrow money for longer periods of time. The shape is an indicator of the financial health of a sovereign and the sovereign's banking sector.

15 January 2014

Question: What type of risk is eliminated when assembling assets into a physical portfolio?

US fails to approve extra IMF funds – Pg. 4

- International financial reform and the G20 group of economies have suffered a serious blow after the US Congress refused to ratify a capital increase for the IMF agreed four years ago
- A $1.012tn budget package agreed on Monday evening left out funds for the IMF despite intense lobbying by the Treasury and White House because of opposition from conservative Republicans in the House
- Existing loans to the IMF would become permanent capital so the US does not have to commit new money. The refusal of the US to ratify the agreement is particularly ironic after it drive the deal through in the first place

Global output hit by stalling efficiency – Pg. 4

- The global economy is suffering a productivity crisis as most countries last year failed to improve their overall efficiency for the first time in decades
- Productivity growth is the most important ingredient for raising prosperity in rich and poor countries alike
- Labour productivity growth also slowed for the third consecutive year
- Globally, it found that labour productivity growth declined from 1.8% in 2012 to 1.7% in 2013, having been as high as 3.9% in 2010. Total factor productivity dipped 0.1%

Fannie Mae warns on property – Pg. 20

- Weakening demand by financial companies that have been snapping up thousands of US homes on the cheap could fuel a future fall in house prices….
- The warning is one of the first instances of a US government agency voicing concern about the increased involvement of institutional buyers – including some from the "shadow banking" sector – in the country's property market

Answer: Unsystematic risk which is unique risk to an individual asset. Systematic risk, market risk, is undiversifiable physically. Systematic risk can be diversified using financial instruments.

14 January 2014

Question: Define Efficiency.

Investors with yield appetite turn to the hungry for mortgage bonds – Pg. 1

- …as demand for debt backed by commercial mortgages has soared in recent months, yield-hungry investors are rushing to snap up deals that package loans to non-traditional properties – from data centres to water parks
- CMBS sales surged to $102bn last year, their highest since the financial crisis and a 15.6% increase on 2012, …
- Pro-Forma underwriting, where originators estimate property cash flows on optimistic projections rather than current rates, has crept back, ….
- Interest only loans, another hallmark of pre-crisis lending, have also returned.

Pledges of $330m to save Detroit's art – Pg. 4

- The city of Detroit may get to keep its Van Gogh, Bruegel and Matisse pieces after a group of charitable foundations and philanthropists pledged more than $330m to help plug holes in Detroit's pension systems
- Christie's said the pieces would raise between $454m and $867m if sold to help the city pay down its roughly $18.5bn in debts
- The flight of US manufacturing overseas, and of the auto industry in particular, lay behind decades of decline in Detroit, as its population – and tax base – shrunk from 1.8m in 1950 to 700,000 today

Hunting in the US bond junkyard turns tricky – Pg. 18

- Junk or high yield – bonds have rallied strongly since the financial crisis. But as benchmark interest rates start to rise, that search is about to become more challenging
- The flood of central bank money that has kept interest rates near record lows, pushing investors into higher yielding but riskier assets, is receding. And with it, a guarantee of steady gains in junk bonds
- Over the course of 2014, the yield on the 10-year Treasury bond is expected to rise by nearly a percentage point to 3.65%, …
- One reason is the rally in the securities has pushed spreads over Treasuries and yields to multiyear lows below 6%, eroding a cushion that tends to insulate junk bonds from the impact of rising rates
- But more worrying for some is that the rally came as companies with ratings deep in junk territory, those rated "triple C" or below, sold record amounts of debt in 2012 and 2013
- In spite of strong performance for equities late last year, fund flows have remained positive for US investment grade and high yield bonds in 2013, highlighting demand for income producing securities
- …in contrast to 2007, the current average junk bond yield of 5.6% is far higher than the yield on offer from the five-year Treasury note, at a difference of about 420bps. In June 2007, this spread had narrowed to a record low of 238bps

Answer: The maximization of return for any given level of risk.

13 January 2014

China's peer-to-peer lending boom suffers reversal of fortune – Pg. 1

- Borrowers are defaulting on loans in a sign of how higher rates generated by reduced liquidity are causing stress in the riskiest corners of the country's financial market (Prof Note: I have always found it perverse that higher risk means higher interest rates. Would it not make sense that higher risk means a lower Loan-to-Value/Loan-to-Cost? Why charge those that have the least ability to pay the most? Why not reduce risk through less leverage?! Just a thought….)
- The shift is also an early warning that rising interest rates could pose problems for the sector in the US and Europe, where P2P lending has expanded rapidly in recent years as banks scaled back their lending
- Amid concerns about the uncontrolled growth of the industry, the Chinese central bank last year said it would more closely supervise P2P websites

Dollar disruptions – Pg. 5

- But after the onset of the financial crisis in 2008, the dollar defied the sceptics as investors swallowed misgivings and dived into everyone's default safe place: US government bonds. Even as the Federal Reserve printed $2.5tn to prevent a financial collapse, the dollar stayed stable
- Previous periods of dollar strength have been accompanied by crises in emerging markets. In the 1980s the currencies of many countries collapsed when pegs to the dollar snapped under pressure, and the effective burden of dollar-denominated debts soared. Many countries were forced to default and chaos ensued
- "if history is any guide, a strengthening US dollar is bad news for developing countries"
- Emerging markets have previously suffered because of a phenomenon economists call "original sin" – the inability of developing countries to borrow from foreigners in their own currencies. That meant most local companies, banks and governments were forced to borrow in dollars
- Many countries therefore fixed their own exchange rates to the US currency. But that often proved untenable when the dollar strengthened. When they were forced to devalue, the cost of dollar debts sometimes became so high that many were bankrupted, deepening the financial turmoil
- Original sin, however, has receded as many governments have gradually weaned themselves off the addiction to dollar debt since the 1990s crises
- The larger developing economies such as Brazil and South Korea now have deep local markets that have become their primary funding tool
- Overall, the developing world's local bond markets have swelled to about $10tn and can act as a crisis backstop
- …most currencies are now allowed to fluctuate, providing an additional pressure valve in crises. Further depreciations would make emerging market exports cheaper and claw back

some of the competitiveness lost in recent years. Central bank reserves have been bolstered to provide additional insurance. Emerging countries had a financial war chest of almost $7.5tn by mid-2013, up from $1.2tn a decade ago

- The average percentage of government debt denominated in a foreign currency peaked at almost 80% in the early 1990s but still stood at roughly 46% last year…
- In some markets, such as Malaysia and Mexico, international investors control almost half the domestic government bond market
- Of the almost $10tn worth of locally denominated bonds, almost two-thirds are in Brazil, China and South Korea

Big banks depend heavily on equities markets – Pg. 13

- Banks are becoming increasingly dependent on surging equity markets, generating nearly half of total investment banking revenues from equity trading and underwriting in the fourth quarter

11 January 2014

Question: What is a 'Promissory Note'?

Recovery hopes hit by weak US jobs growth – Pg. 1

- Jobs growth, at just 74,000, came in far below expectations of 197,000 increase
- The news is unlikely to put the US Federal Reserve off a further slowing of its asset purchases this month, from a pace of $75bn to $65bn. But it does all but rule out a faster taper for now
- In one of the most perverse jobs reports for months, the unemployment rate fell from 7 to 6.7%, despite weak jobs growth, as more people dropped out of looking for work
- Ten-year bond yields slid by 9bps to 2.88% and the stock market was flat as the news deflated some of the market optimism of recent weeks
- The labour force participation rate fell to 62.8%, its lowest since the late-1970s, dragging the unemployment rate down close to the Fed's threshold of 6.5% after which it could raise interest rates

Fischer among Obama nominees for Fed – Pg. 2

- Fed governors seldom dissent on policy and the nominations help fill out the board with two new officials close to Ms Yellen in outlook. Both Mr Fischer and Ms Brainard have extensive international expertise and are likely to back Ms Yellen's efforts to bring down the 6.7% unemployment rate
- …Mr Fischer has not had the same scrutiny, and has some vulnerable points on his CV, including a stint at Citigroup from 2002 to 2005 in the run-up to the financial crisis

Sales of US subprime car loan securities surge – Pg. 8

- Sales of risky pools of securities backed by car loans are accelerating at the start of 2014 as investors snatch up the higher-yielding bonds that were popular in the build-up to the financial crisis

- The rise in deals backed by subprime car loans comes as benchmark interest rates remain near historic lows. In addition, expectations for an increase in economic activity and higher consumer spending in the coming months has encouraged a growing number of investors to buy assets tied to lower credit loans
- Stable delinquency rates and stable used car values – which boost recovery rates on defaulted debt and ease losses for bondholders – have also helped lift subprime motor debt

Malaysia's Genting set for US casinos push – Pg. 8

- For at least two years the mighty Las Vegas gambling strip has waited for signs that its dominance of the US casino business might be coming under serious threat from the other side of the world – Asia
- But developments this week in three US states provided the clearest sign yet that one of Asia's biggest casino operators, Malaysia's Genting group, may finally be getting into position to turn the tables on its rivals
- Genting was founded in 1965 by Malaysia's Lim family with a single hotel and casino in Genting Highlands, a lush hill resort on Peninsular Malaysis
- Almost a year ago, Genting, whose sole US casino business hitherto had been a casino opened in New York in 2011, strode into the Las Vegas strip by buying an 87-acre site there from Boyd Gaming. The aim is to develop the site into a 3,500 room property with 175,000ft [sf?] of gaming space right in the heart of the US gaming business

Hotel groups jostle for position in Africa – Pg. 10

- Africa is becoming the new battleground for global domination among hotel groups
- Just as the Middle East was for several years the region where the likes of Marriott, Hilton, Starwood and InterContinental Hotels Group fought for market share, so sub-Saharan Africa is now the setting for the latest rollout of their global brands
- The IMF forecasts that sub-Saharan Africa will have economic growth of 6% in 2014 – second only to the 6.5% in the developing Asia region, which includes China and India, and much higher than the global rate of 3.6%

China sells record renminbi bond in London – Pg. 12

- Bank of China has sold record $413m bond to investors, the biggest offshore renminbi bond to date in London
- Forty per cent of the buyers were European investors – the highest proportion on record – with the rest coming from Hong Kong and Asia

Answer: A legal instrument in which one party promises in writing to pay a sum of money to another party either at a fixed or determinable point in time or upon demand. The terms of the borrowing, such as interest rate, may be reflected in the note. If the note is unconditional and saleable it is a negotiate instrument.

10 January 2014

Question: What is the gross sales price for a real estate project at time T?

Too early to declare crisis over, warns ECB – Pg. 1

- The ECB yesterday strengthened its commitment to ultra-low interest rates as its president Mario Draghi said it was too early to declare the euroxone debt crisis over
- Tumbling sovereign bond yields in crisis-hit countries and better than expected economic data in recent weeks have raised hopes that the recovery is gathering pace, with confidence among businesses and households now at its highest level for two-and-a-half years
- The US Federal Reserve is scaling back its quantitative easing programme and the Bank of England is under pressure to raise rates as the UK economy recovers, whereas Mr Draghi is adamant that the ECB stands ready to do more if conditions worsen

Challenging year forced Brazil to rethink growth strategies – Pg. 2

- Retail sales during the week before Christmas rose 2.7% - the lowest increase since 2003 as inflation and rising debt levels scared away customers
- The end of the commodity supercycle and expectactions of a tapering of US monetary stimulus signaled an end to the era of easy liquidity that has masked Brazil's flawed economic policies and helped sustain its exhausted model of consumption-led growth
- Even beer consumption in Brazil, the world's third-biggest consumer and producer, is expected to have dropped for the first time in 10 years….
- Brazil's stock market posted the worst yearly loss among the world's 20 biggest equity indices last year, …
- One of the biggest disappointments for investors has been the government's reliance on consumption to drive growth, particularly the car industry
- ….consumers are now laden down with record levels of debt and the country's roads are clogged with record levels of traffic
- …the country's decade-long consumption binge has helped drive annual inflation close to 6.5% ceiling of the central bank's tolerance band, forcing the government to enforce costly fuel subsidies to help cap prices

Bankers warn on US mortgage rule changes – Pg. 4

- Big changes to US mortgage regulation coming into effect today could push vulnerable borrowers towards a new breed of shadow lenders as banks comply with rules to assess customers' ability to repay, ….
- ….most extensive overhaul of US mortgage lending in recent history – demand eight pieces of financial information about a borrower including employment status, debts and income to ensure a prolonged ability to repay debt (Prof Note: how about a determination of skills? That should matter!!!)
- The rules are aimed at preventing the kind of risky loans that led to the US housing bust that wiped out $7tn in homeowner equity and sparked the broader financial crisis
- Under the ability-to-pay requirements, before a lender can issue a loan it has to make a "reasonable, good-faith determination" that a borrower is able to repay a mortgage…..
- A qualified mortgage will need further requirements: points and fees cannot exceed 3% of the loan amount, although higher percentages are permitted if the loan is below $100,000.

Loan term cannot exceed 30 years, while debt-to-income ratios are laregely are also not allowed to surpass 43%
- The non-bank share of subprime mortgage serving has shifted from about 28% at the start of 2010 to 66% in 2013,….

Rating cut knocks Exxon while retailers face cost of discounts – Pg. 21
- Exxonmobile lost just under 1% to close at $99.77 as the biggest drag on the S&P500 after Citigroup cut its rating on the oil company from "buy" to "neutral"

Answer: NOI at year T +1 divided by Terminal Capitalization Rate

9 January 2014

Question: How many Libors are calculated and published daily?

Fed to take cautious approach to tapering – Pg. 1
- The US Federal Reserve plans to "proceed cautiously" in slowing down its asset purchases in an effort to calm market fears over the momentous decision to taper its third round of quantitative easing
- …Ben Bernanke, the outgoing chairman, signaled that the Fed was likely to slow its purchases by $10bn at each meeting
- There were also concerns that inflation was too low, indicating that there was some dissent on the rate-setting committee and there is still a group that will push for easy policy to support the economic recovery

Obama-Pentagon tensions revealed – Pg. 3
- In a blistering memoir to be published next week, Robert Gates, Mr Obama's first secretary of defense, has lifted the lid on these searing tensions. Duty: Memoirs of a Secretary of War mixes devastating criticism of the competence and political tactics of the Obama White House, especially of Vice-president Joe Biden but also Mr Obama, with respect for the president's ultimate judgments about the war
- In a withering aside about one exchange over Afghanistan, Mr Gates talks of the "complete unfamiliarity of both men with the American military culture" and of "the depth of the Obama White House's distrust of the nation's military leadership"

Collision course – Pg. 7
- The two sides in Thailand's political struggle are hurtling towards what could be the most damaging confrontation yet to hit a country whose reputation for democratic and economic leadership in southeast Asia is crumbling. The opposition is boycotting elections called for February 2 and is intensifying efforts to not only overthrow the government, but also suspend the rule of parliament. At a time when autocratic regimes are tightening their grip in neighbouring countries such as Cambodia and Vietnam, both sides in Thailand have chipped away at the credibility of one of the few relatively free countries in a region of growing financial power

- The Thai crisis also highlights deep social divisions obscured by the tourist image of a "land of smiles" where "happiness has a thousand faces"
- Speculation has been growing about a military coup – of which at least 18 have succeeded or been attempted since the end of the absolute monarchy in 1932

Investors take action as US inflation expectations rise – Pg. 13

- US inflation expectations have jumped up to their highest level since August, with central banks and investors seeking insurance against the prospect that a recovering American economy will stoke price pressures
- Inflation expectations as measured by the difference between yields on 10-year nominal Treasury notes and Treasury inflation protected securities (Tips), have risen to 2.27% from a low of about 2.10% a month ago
- Tips help insulate holders from the threat of rising prices, as their value increases when the seasonally adjusted consumer price index rises. In contrast, holders of fixed-rate bonds suffer when inflation erodes their value
- US inflation fell last year, ….

China's swing to frugality dents Bentley – Pg. 16

- Bentley's sales in China fell last year as the luxury carmaker felt the pain of a crackdown on exuberant spending and ostentatious purchases that has taken the shine off the world's largest luxury goods market
- China was the only region to post a decline in sales for the British carmaker…

Push for Fannie and Freddie solution – Pg. 17

- US senators Bob Corker and Mark Warner have made another push for their legislation to wind down Fannie Mae and Freddie Mac….
- A growing chorus, particularly among hedge funds, calls for Fannie and Freddie to be left as they are, given that they are performing well amid rising home prices and loan quality
- By the end of 2013, the two were on track to pay total of $185.3bn in dividends to the US government, which injected $188bn into them in 2008 (Prof Note: Enough….keep that nationalized and be done with it. They are too big to fail which means, to me, they need to be nationalized)

Commercial paper enjoys US revival – Pg. 20

- Companies are increasingly raising money by selling commercial paper, breathing new life into a type of short-term debt that all but collapsed in the aftermath of the global financial crisis
- Companies are selling the temporary 'IOUs' to take advantage of short-term interest rates that continue to hover around zero per cent at a time when longer-term borrowing costs have begun to rise following announcement that the federal reserve will begin to taper its emergency bond purchases
- Commercial paper issued by banks and other institutions is not expected to recover to pre-crisis peak soon.

- Last year US banks began to offer a new type of commercial paper designed to help them skirt the regulation

Answer: 150 (10 currencies; 15 maturities)

8 January 2014

Question: What is Modified Internal Rate of Return (MIRR)?

JPMorgan had Madoff concerns in 1998 – Pg. 1

- The bank agreed yesterday to pay $2.6bn to head off a criminal prosecution and private litigation over failures to act on its suspicious, some of which came more than a decade before Madoff's Ponzi scheme was revealed
- Its $1.7bn payment to the DoJ is "the largest-ever bank forfeiture"….it also agreed to pay $350m to the Office of the Comptroller of Currency $325m to Irving Picard, trustee for the Madoff bankruptcy, and $218m to plantiffs in class-action lawsuits
- In 1996 another bank closed Madoff's account after investigating a series of round-trip transactions with one of JPMorgan's largest private clients, and determining it had no legitimate business purpose
- In 1998 and 2007, JPMorgan's asset management arm declined to invest in Madoff funds, with one manager commenting that the returns were "possibly too good to be true" and citing Madoff's refusal to meet to discuss his strategy

Cambodia unrest stokes retail fear – Pg. 2

- A deadly crackdown by Cambodia's government on protesting garment workers has stoked fears about the country's stability and dealt a fresh blow to international retailers seeking alternatie Asian manufacturing sites as wages in China rise

Central banks' influence set to wane despite reserves rise – Pg. 2

- Central banks rebuilt foreign currency reserves in the third quarter of 2013 but their influence in currency markets may be set to decline as the US Federal Reserve starts to scale back its exceptional stimulus
- IMF data published at the end of December show that growth in central bank reserves resumed in the third quarter of the year as emerging markets stabilized, with total holdings rising from $11.1tn to $11.4tn – although a weak dollar exaggerates the pace of growth
- China….hit a fresh high of $3.66tn in the same period

Bundesbank warns over 'enormous' Bitcoin risks – Pg. 2

- "There is no state guarantee for Bitcoins and investors could lose all their money"
- Bitcoin, which can only be traded online via specialist exchanges and has no central authority in charge of supply, has grown in popularity over the past year and has attracted a number of high-profile investors. But regulators have also sounded fears over the currency's stability for money laundering and other illegal activities
- China last month blocked the country's Bitcoin exchanges from accepting new cash…

- Malaysia's central bank has also warned on Bitcoin in recent days….

Eurozone deflation concern grows – Pg. 3

- Core inflation, which excludes more volatile items such as food and energy costs, slowed to 0.7%, the lowest since the series began
- The ECB's latest forecasts show inflation hitting 1.1% this year, before rising to 1.3% in 2015

Obama pushes move on jobless – Pg. 6

- The US Senate advanced legislation to restore federal jobless benefits for the long-term unemployed, in a surprise win for Democrats and President Obama….
- The legislation would temporarily restore federal unemployment payments that lapsed in late December for 1.3m Americans who have been out of work for more than 26 weeks
- The bill would only extend jobless benefits for three months, and would cost the federal government $6bn

China developer hops on to London assets bandwagon – Pg. 14

- Greenland Holdings Group, the China state-owned developer, has bought a brewery site in southwest London from developer Minerva for tis first UK deal

US investors make contrarian bets – Pg. 20

- At the start of a year, many investors assess their portfolios, and often see laggards over the past 12 months as being a short-term buying opportunity

Answer: An alternative method to quantify central location for return from IRR. It allows the bifurcation of the reinvestment rate and the discount rate (MIRR). It also provides a single solution only. See attached for detailed explanation.

7 January 2014

Question: Who is the first female Federal Reserve Chairperson?

Rapid fall in capital flows poses growth risk – Pg. 1

- The flow of money through the global financial system is stuck at the same level as a decade ago, raising fresh concerns about the strength of the economic recovery following six years of financial crisis
- A dramatic slowdown in cross-border capital flows – shown in an analysis ….highlights how the US subprime mortgage and Eurozone debt crises threw into reverse the globalization of finance, and raises doubts over whether flows will ever return to their pre-crisis peak
- In mid-2007 cross-border capital inflows into the G20 group of economies were equivalent to almost 18% of those countries' economic output. In mid-2013 the equivalent figure was 4.3%. In dollar terms, G20 capital cross-border inflows have since fallen 67.5% form mid-2007

- As a result of the collapse in bank lending, flows into foreign direct investment account for a much larger share than before the crisis – which, given that most reflect long-term investment decisions, is possibly a harbinger of greater stability in the future
- Meanwhile, emerging markets account for a much larger share of capital flows than before 2008

Powered down – Pg. 7

- …the expansion in capital flows up until 2007 went hand-in-hand with the integration of the world's economies; the reversal of that globalization could explain the lackluster post-crisis performance of advanced countries
- Among the most important factors determining the extent of sell-off was the size of the relevant countries' financial markets, …

Bitcoin rebounds in China to $1,000 – Pg. 20

- Bitcoin has bounced back in China, helping to push the virtual currency back above $1,000 a unit, as exchanges devise workaround solutions to the regulatory crackdown last month
- In the US, Bitcoin received a further fillip after Zynga, the provider of online social network games, said it would begin a pilot programme to accept the virtual currency

Equities slip as investors await fresh clues on global outlook – Pg. 21

- Global equities started the first full trading week of 2014 on a subdued note, as investors digested the latest reports on global service sector activity and looked ahead to central bank meetings in Europe and jobs figures from the US later this week

Answer: Janet Yellen was confirmed today

6 January 2014

Question: What is the Rule of 72?

Europe set to soften bank split reforms – Pg. 1

- Brussels is set to ease flagship financial reforms so that big European banks are not automatically forced to split lending operations from risky trading
- In a further twist, the commission adds its own "narrowly defined" version of the US Volcker rule, which outlaws proprietary trading

Duke chief sees low US growth – Pg. 13

- US electricity companies are facing a future of slow demand growth that is likely to force further consolidation, ….
- …company was planning for average annual demand growth of just 0.5-1% per year. That compares with growth of 2% in the 1990s and early 2000s, and 5% to 7% during the 1960s and 1970s
- US electricity consumption has fallen in four of the past five years, and is thought to have declined again in 2013, ….

- Duke became the largest US utility by market capitalization, valued at about $48bn, as a result of the acquisition of Progress Energy for about $26bn, including about $12bn in debt, in a deal completed last year
- Exelon bought Constellation Energy for about $10.6bn, including debt, that same year

Nakheel debt repayment highlights Dubai property revival – Pg. 16

- Dubai developer Nakheel underscored the speed of the emirate's property recovery by announcing it is to repay more than half its bank debt this year
- Dubai's state-owned entities are striving to repay loans and bonds as the emirate deals with its $140bn debt burden, $85bn of which matures by 2017
- Dubai's real estate crash of 2008, which pushed Nakheel and Dubai towards bankruptcy, saw valuations drop by two-thirds

Answer: A back-of-the-envelope calculation of doubling. For instance, if one earns 10% per year then it takes 7.2 years to double. If one needs to double ones money in five years then one needs to earn 72/5% (14.4%)/year.

4 January 2014

Question: Value-at-Risk is a common measure for portfolio managers to assess and attempt to quantify risk. What does it answer (qualitatively) and what are two major pitfalls?

Fed move trips up flagship Pimco fund – Pg. 1

- The flagship bond fund run by Pimco's Bill Gross in 2013 suffered its worst annual performance in almost 20 years while equity funds focused on smaller companies were buoyed by signs of a western economic recovery
- The $244bn Pimco Total Return Fund – until recently the biggest mutual fund in the world – lost 1.9% in 2013, ….

Bernanke upbeat on US economy – Pg. 2

- …difficult reforms in Europe and Japan were "still in early stages" but "we have also seen indications of better growth"
- …the US recovery "clearly remains incomplete", with unemployment still at 7%
- …the Fed balance sheet now exceeds $4tn, much larger than the pre-crisis level of $800bn, and officials have warned that interest rates would remain close to zero until well after the unemployment rate dips to 6.5%

Colorado enjoys relaxation of marijuana legislation – Pg. 2

- …there are laws against public consumption and, given the rising popularity of marijuana-spiked sweets, drinks, cookies and other products, the cannabis market is about more than hand-rolled joints
- ….marijuana remains illegal under federal law

- Colorado has projected sales of about $578m this year that would yield nearly $70m in tax revenue under a 25% levy (Prof Note: Legalize and regulate! Legalize prostitution, regulate, control and tax!)
- ….consumers can chose from items such as vaporisers, infused body oils and potlaced peanut butter cups (Prof Note: Reeses watch out!)

Periphery debt rallies on Eurozone optimism – Pg. 12

- Positive economic news has caused risk premiums on Spanish and Portuguese government debt to fall to their lowest levels since early 2011, reflecting confidence that the eurozone's outlook is improving
- In December, unemployment in Spain fell 107,000, the biggest monthly fall since records began 16 years ago
- Italy's 10-year yield declined to 3.95%, the lowest level since May, ….

Answer: Value-at-Risk answers the question: "How much can be lost in a given time period with X% confidence?" Two major pitfalls is that there is no standard for confidence level, i.e. some may use 1.00%, others 2.50%, and others 5.00%, etc. There is also no standard measure for the time period of the loss, i.e. one week, one day, etc. Finally, VaR assumes a normal distribution which often underestimates the thickness of the left tail, i.e. the loss could be substantially higher for the calculated confidence level. See attached memo on VaR for additional information.

3 January 2014

Question: Name three pitfalls in using IRR as a measure of expected return for a project.

Factory boom fuels hopes on recovery – Pg. 1

- The world's factories roared into life towards the end of 2013 as manufacturing activity delivered its fastest growth in almost three years, fueling hopes that the global recovery will accelerate this year
- Businesses around the world also expressed confidence that conditions would stay strong in the months ahead, signaling that 2014 could be the year when the global economy returns to health after the ravages of the financial crisis
- US manufacturers are hiring workers at the fastest rate since June 2011, while new orders soared to levels not seen since early 2010

China approves local debt rollovers – Pg. 2

- …china has given local governments the go-ahead to issue bonds as a way of rolling over their debt to avoid defaults
- Local government debt levels have soared 70% to almost $3tn in less than three years…
- Nearly 40% of that overall amount will mature before the end of this year, …

Market melt-up – Pg. 6

- First, bond yields remain historically low, with 10-year Treasury bills yielding barely 3%. When yields are low it is justifiable to pay a higher multiple for stocks because cheaper credit makes it easier for companies to make profits
- Further, there is no evidence that investors are growing overexcited …
- …stocks are unquestionably overpriced. Robert Shiller's cyclically adjusted price/earnings multiple (Cape), long regarded as a reliable indicator of long-term value, is now at a level at which the market peaked before bear markets several times in the past
- The same is true of "Tobin's q", which compares share prices with the total replacement value of corporate assets
- Further, profit margins are at a historic high and over time have shown a strong tendency to revert to the historic mean

BlackRock enters Detroit debt fight – Pg. 20

- The company lodged a court filing that could allow it to put its legal muscle behind an effort to ensure bondholders get paid ahead of retirees and other creditors
- Detroit's bankruptcy has raised the issue of where general obligation bonds, which are secured against future tax revenues, rank when a US municipality goes under. Institutional investors fear an outcome that could undercut legal protections and therefore bond prices
- Ambac, the bond insurance company, has sued Detroit, claiming tax revenues should be ringfenced to pay general obligation bonds first. BlackRock last week filed a notice with the court reserving its right to join the case in support

Heavyweight Apple drags on tech sector after downgrade – Pg. 21

- …Wells Fargo cut its rating on Apple to "market perform" from "outperform" (Prof Note: Soon there may be only three triple A rated companies in America)

Answer: (1) The Net Present Value equation is a polynomial which can lead to multiple solutions for the IRR, i.e. there may not be a single-solution, (2) It fails to account for risk, i.e. it is an expected measure of central location for return and does not answer the more important question in investing (Return OF Capital), (3) Assumes the reinvestment rate is the same as the discount rate (this is corrected using the Modified Internal Rate of Return calculation). Please note there are additional pitfalls, for simplicity, only three have been provided.

2 January 2014

Question: $400,000 mortgage; 4.25% fixed interest; 25-year constant payment mortgage; What is the monthly payment? What is the "true" monthly payment? Answer is pre-tax. (Prof Note: I will try and provide a short finance question this year with each summary (no promises on every day). The answer will be located at the bottom of the day's summary. Former students must be able to complete these in under five minutes. This one, 15 seconds with a 12c.)

Fiat buys remaining 41.5% of Chrysler – Pg. 1

- Fiat will pay $3.65bn to acquire the 41.5% of Chrysler it does not already own, resolving one of the car industry's biggest strategic issues

- The transaction will allow Fiat to merge Chrysler's operations entirely with its own, exploiting badly needed economies of scale
- Of the $3.65bn, $1.9bn will come from a "special distribution" by Chrysler to sharehodlers. Fiat will hand on its portion of the distribution to Veba [union pension trust]. Fiat will pay the remaining $1.7bn – which it said it expected to be able to fund from cash on hand – directly to Veba

ECB fails to narrow interest rate gap – Pg. 1

- ECB action has only modest success in easing big differences in interest rates paid by businesses across the Eurozone, which remain near peaks seen at the height of the debt crisis
- The divergences highlight the weaknesses of the Eurozone banking system, which policy makers are urgently trying to resolve. They also reflect the greater attention being paid by markets to country-specific risks and the impact the Eurozone crisis has had on perceptions about default risks

UK's economic recovery expected to gather momentum this year – Pg. 1

- Britain's economic recovery is expected to strengthen in 2014 as the sixth-largest economy shrugs off fears over the sustainability of the upswing, …

Minimum wage rise in 13 states sets stage for battle in Congress – Pg. 2

- The epicenter of the push to increase minimum wages at the state level is in the US northeast, where New York, New Jersey, Connecticut and Rhode island are making the move,…
- …Connecticut, this week touted the wage increase in his state – from $8.25 per hour to $8.70 in 2014 and $9 in 2015
- (Prof Note: Where in the public school forum is a household budget show to students demonstrating that a high school degree with minimum wage provides poverty level lifestyle? How about making education more affordable? $3,000/credit…aye caramba!)

Sugar high – Pg. 5

- US credit markets rebounded in 2013 as a flood of central bank money and continued low interest rates pushed investors into riskier but higher-yielding assets
- Issuance of syndicated leveraged loans – those made to companies that already carry high debt loads – reached $535.2bn in 2013. That is just shy of the $604.2bn sold in 2007, at the height of the last credit bubble
- …loans that come with fewer protections for lenders, known as "covenant-lite", accounted for almost 60% of loans sold in 2013, compared with a 25% share in 2007 (Prof Note: Lets call a cov-lit what it is….a put option on the lender….WONDERFUL!)
- Sales of "payment-in-kind" notes, which give borrowers an option to repay lenders with more debt, reached $11.5bn in 2012 – a post-crisis high
- Sales of "junk", or high-yield, bonds surged to a record in 2013 as companies rushed to refinance and investors snapped up the resulting assets. Issuance of junk bonds rates "triple C" – the lowest designation – jumped to $15.3bn, surpassing the pre-crisis peak

- In contrast to 2007, the current average junk bond yield of 5.6% is far higher than the yield on offer from the five-year Treasury note, at a difference of about 423bps. In June 2007, this spread had narrowed to a record low of 238bps

Property investment in London soars 47% - Pg. 12

- Investment increased 47% over the previous year although it is still below the pre-crisis peak of 20.54bn (sterling) in 2007
- Overseas investors flocked to London's central business districts in 2013, drawn by a weak pound and the UK's status as a haven for capital
- Rents in the West End have hit an average of 100 (sterling)/sf

China trusts bring contrasting fortunes – Pg. 13

- The term "shadow banking" in China for many observers conjures up images of underground lenders handing out credit to sketchy borrowers at usurious rates. But that is a simplistic view of many of the financial institutions that have moved into gaps left behind by the country's heavily regulated banks
- The first misunderstanding about Chinese trusts is what they actually are. Their business has nothing to do with the term "trusts" used in the west to describe funds that are conservatively managed for the benefit of a third party
- In China, trusts are the widest ranging of the country's financial institutions. They can engage in investment banking, property lending, and even private equity deals. They are also biggest force in shadow banking, with $1.65tn of assets under management, more than insurance companies or securities brokerages

Answer: f clx; 400000 CHS PV; 4.25 g I; 25 g n; pmt…2,166.95 (real payment is double (RPS Metric); real payment is 1.5X – 2.0X P&I payment and includes taxes, maintenance, insurance, etc, etc.)