



31 December 2015

“Rosh Hashanah” Sorry for typo.

Nevis News: Big news day! Drone crashed into tree on third flight. Golf Cart broke and left me hoofing it back. Biked down to beach and was there alone again. I am thinking that the FAA, in addition to requiring registration of drones, may need to implement a sobriety requirement for flying Drones. I am not prepared to say that alcohol was a contributing factor to the crash buuuuttttttt... (no humans or drones were damaged in the crash)

Question: When was the first New Year celebrated?

Rouble plunges as latest oil decline heralds second year of recession – Pg. 1

- The rouble fell to its lowest level in more than a year yesterday as Russians faced the prospect of a second year of economic recession in 2016 amid continued oil price weakness
- The Russian economy is expected to contract 3.7% this year, hit by falling oil prices and western sanctions, ...
- Benchmark Brent crude oil fell more than 3% to \$36.64 a barrel yesterday as Saudi Arabia reiterated it would not cut production in response to lower oil prices after announcing a radical austerity programme this week
- ...rouble to more than 73 to the dollar ...

Puerto Rico to miss \$37m in payments on debt as cash runs out – Pg. 3

- Puerto Rico will default on a number of its obligations at the start of the new year, as the impoverished US territory runs out of cash
- The island, struggling under a burden of \$72bn, will be unable to pay some of the roughly \$1bn in claims due on January 1...

Forecasting the world in 2016 – Pg. 7

- Will Hillary Clinton win the US presidential election?
 - o Yes (Prof Note: They predicted this when she ran against Barack!)
 - o Mrs. Clinton will be pilloried by her Republican opponent, Ted Cruz, for her character flaws and weaknesses in the face of American’s enemies
 - o ...Mrs Clinton will win the electoral college by a landslide. Democrats will take back the Senate. But she will start her term in a very polarized Washington. There will be no honeymoon
- Will Britain leave the EU in the referendum expected in 2016?
 - o No. Britain will vote to stay in the EU
- Will Bashar al-Assad still be in power 12 months from now?

- Yes. Assad will remain nominally president of Syria in 2016
- Will the Bank of England finally raise interest rates next year?
 - No. The BoE will flirt with rate rises through much of 2016, it will tease, but in the end it will not put its money where its mouth is
- Will at least one member of the group of 20 leading economies require an IMF assistance programme in 2016?
 - Yes. Within the G20, no developed member will need a rescue. The only conceivable candidate is Italy, given its high public debt
- Will Angela Merkel still be German chandellor at the end of the year?
 - No
- Who will win the Euro 2016 football tournament?
 - Belgium
- Will Brazil's Dilma Rousseff be impeached before the Olympic Games begin in Rio?
 - No. but it will be a close-run thing
- Will China devalue the Renminbi significantly next year?
 - Yes. China has good reasons to want to keep the renminbi stable against the US dollar in 2016 – a strong merchandise trade surplus, massive foreign exchange reserves and a desire to show the world that the “redback” is a worthy reserve currency
 - The flagging Chinese economy is likely to need at least two interest rate cuts next year while the US dollar is supported by continued Fed tightening
- Will Russian athletes compete in the 2016 Olympics?
 - Yes
- Will Brent crude end the year over \$50?
 - Yes

Reinsurers hit by falling renewal prices – Pg. 12

- Reinsurers are facing further pressure after the December contract renewal season delivered another year of falling prices – the fourth in succession
- The price declines are partly driven by the primary insurers that buy reinsurance, who are facing falling rates themselves
- The falling prices, combined with low investment returns, are taking their toll on reinsurers' profitability

Answer: Over 4,000 years ago by the Babylonians.

Nevis News: Another beautiful day on Nevis. I took a walk down by the beach today, actually wanted to time the walk (30 minutes to the beach). I was there for 45 minutes before turning around. Not a single person on the beach the entire time. Of course the guests at the Four Seasons never leave the Four Seasons but, hey, for a fraction of the price I will bring them a drink! ☺

30 December 2015

Question: What is the Jewish New year called?

Saudi budget lifts prospect of prolonged oil market glut – Pg. 1

- The outlook for oil prices is under renewed pressure following signals from Saudi Arabia that it is preparing for a long period of low returns and expectations that Iran will further flood the market when sanctions are lifted
- Brent, the international oil marker, rose 2.5% to \$37.53 a barrel, while West Texas Intermediate, the US benchmark, added 2.4% to \$37.68

Tarnished gold: Buffett's anniversary marked by poor stock performance – Pg. 1

- ...shares in his conglomerate Berkshire Hathaway down 11.5% with two more trading days to go
- Berkshire has also been hit by bid declines in two of its largest stock market investments: American Express, down 25% this year, and IBM, down 13%
- The fall in Berkshire shares comes against a 3% return from the S&P500, including dividends

SEC focuses on ETP role in volatility – Pg. 13

- US regulators investigating the wild price moves that hit Wall Street on a day in August have taken a hard look at exchange traded products and market controls aimed at protecting investors against big swings
- The SEC found that ETPs experienced more severe volatility than the stocks of individual companies but that trading in individual ETPs varied widely

Answer: Rish Hashanah

Nevis News: Another beautiful day on Nevis. No news is Nevis news. 😊

29 December 2015

Question: if you are in Italy, what colour is your underwear on 1 January? (Hint: this is not a trick question...you are wearing underwear.)

Washington warns EU against upgrading Beijing's trade status – Pg. 1

- Washington has warned Brussels against granting China "market economy status", saying the long-sought concession could hamper efforts to prevent Chinese companies flooding the US and Europe with unfairly cheap goods
- Achieving MES at the World Trade Organization is one of China's core strategic goals. Among other benefits, it would make it far more difficult for the US and EU to impose steep tariffs on Chinese companies for unfairly dumping low-cost goods on their markets

Overhead alert – Pg. 11

- Americans told to register their drones (Prof Note: My drone is on Nevis never to be registered!)
- ...social media sites filled up with stories and videos of expensive toys crashing into trees, gardens, lakes and people – as owners discovered that it is hard to fly a drone for the first

time (Prof Note: No kidding! I approached flying my drone last year like learning to fly. I kept a flight log with notes. I also purchased all the safety gear with it and broke ALL the safety gear crashing. The drone was saved.)

Lessons from a nightmare day on Wall Street – Pg. 18

- From the onset, August 24 had loomed as a tough day on Wall Street, foreshadowed by a rout in Asia. It was also rooted in something clearly identifiable: the changing economic picture in China
- Within minutes of the start the DJIA plunged 1,000 points and behemoths such as JPMorgan had fallen 20% or more
- August 24 serves as a reminder that financial markets are inherently volatile and may become more so now the Federal Reserve has begun its tightening cycle

Answer: Red...brings luck in the rest of the year.

Nevis News: Be careful when traveling this holiday season. I saw tourists screwed right in front of me. I flew into St. Kitts and took the boat to Nevis. This involves a taxi to the harbor, then boat to Nevis. Well, the "game" is to separate the tourists at the airport and take them individually by boat thereby increasing the fees earned. Those of you that know me know I have no issue speaking up. When I was outside the airport I announced loudly, "Who is going to Nevis?" The uncertain tourists are all standing there and a family said, "we are." I said, "I am with them!" They immediately put me in my own cab (which was fine as I had so many bags I would not fit with the family) but I would not leave the family and insisted my cabbie keep pace with the other cab. At the boat we were loaded and went to Nevis. I paid my fractional share and they were charged full freight! It was outrageous! Never fearful of throwing a tantrum, I corrected the situation! My point, be careful this season. I cannot stand when people are 'taken'.

28 December 2015

Question: In ancient Rome, when did the New Year begin?

Economists expect no more QE for Europe in 2016 despite Draghi vow – Pg. 1

- Many economists doubt that the ECB will increase the size of its 1.46tn (euro) asset-purchase programme in 2016, despite assurances by ECB chief Mario Draghi that additional monetary stimulus is still on the table
- Latest ECB projections predict the eurozone, which has struggled to grow as strongly as the US or UK, will grow 1.7% in 2016 after 1.5% growth this year, as QE bolsters the economy
- The ECB's existing measures have already led to a 600bn (euro) expansion in its balance sheet to 2.8tn (euro). It will continue to buy 60bn (euro) of mostly government bonds each month through 2016, ...

US rate rise offers mixed blessings for Eurozone – Pg. 2

- Interest rate rises by the US Federal Reserve could provide mixed fortune for the Eurozone economy as an expected boost to the region's export and inflation risks being offset by increased global volatility and monetary tightening
- There is a consensus among economists that higher US borrowing costs will weaken the euro
- At the moment, the euro is worth \$1.09 down from about \$1.20 at the start of the year
- The ECB targets inflation of just below 2%, but has struggled to hit this level: inflation has been below 2% for more than two years and is now only 0.2%
- The Fed's shift towards the exit could also pose a threat to the financial health of the single currency area,...
- Some warned that higher US rates could raise the cost of longer-term borrowing in Europe by triggering a portfolio rebalancing by global investors

Energy mutual funds are the year's worst performers – Pg. 13

- One of the hottest categories of mutual funds in recent years inflicted the harshest losses on investors in 2015, the result of a toxic combination of sliding oil prices and rising interest rates
- ...energy limited partnership funds, which were sold as a high-yield investment that would not be as exposed to commodity prices as direct investors in energy producers
- The funds invest in master limited partnerships, stock market-listed companies that run oil and gas pipelines and other infrastructure businesses. MLPs are mandated to pay out most of their profits in dividends, making them popular with income investors

Answer: 1 March

I hope that everyone is enjoying Happy Holidays and will have a Merry Christmas!

Ho Ho Ho...

24 December 2015

Question: Who once stole Christmas?

US banks hit by cheap oil as Opec warns of long-term low – Pg. 1

- US banks face the prospect of tougher stress tests next year because of their exposure to oil, underlining how the falling price of crude is transforming the outlook not just for energy companies but the financial sector
- The OPEC yesterday lowered its long-term estimates for oil demand and said the price of crude would not return to the level it reached last year, \$100 a barrel, until 2014 at the earliest
- Crude oil's price on Tuesday hit an 11-year low of under \$36 a barrel, piling pressure on banks that have big loans to energy companies or significant exposure to oil on their trading books

- The US Federal Reserve subjects banks with at least \$50bn in assets – including the US arms of foreign banks – to an annual stress test that is designed to ensure they could keep trading through a deep recession and a big shock to the financial system
- Today's oil prices are about 55% below the level when the Fed set last year's stress test scenarios
- There were now five times as many oil and gas loans in danger of default as there were a year ago,...

Philanthropy – Pg. 5

- ...traditional model of US philanthropy, under which the foundations created by John D Rockefeller, Henry Ford and Andrew Mellon are still among the largest charities in the country almost seven decades after the last of the founders died, spending only the income from their endowments
- The name of Julius Rosenwald, founder of the retailer Sears, barely registers compared with a Rockefeller, but it is revered among the “giving while living” advocates since he was the first to say his fortune should be spent down, rather than used to endow an enduring organization. It ran out in 1948, 16 years after his death
- Family foundations, designed to pass to future generations, remain the mainstream US model, however, as it is one that has been exported successfully abroad
- Waiting till later makes sense only if you think money grows faster than problems...
- Charitable foundations have been the bedrock structure for conducting philanthropy at a scale in the US for more than a century. Some of the value of gifts to a personal foundation can be offset against other taxes, and in return, the government requires that the organizations disperse at least 5% of their assets each year and sets other rules, including a ban on political activity
- (Prof Note: While nowhere near the scale of those mentioned in this article, Stage Capital, LLC provides scholarships to middle school students on Nevis. Several years ago I approached a local high school in Maryland. I stated I wanted to donate money (this is an absolutely true story and I had my accountant with me as a witness). We had a meeting with the principal, vice principal, football coach, and a few others. I asked for suggestions of how I could donate. The football coach jumped in and said, “Sponsor a prep rally, yadda, yadda.” I said, “NOTHING athletic, MUST be academic! Next idea!” The basketball coach suggested I sponsor drinks or something like this. I said, “we are not communicating well. Nothing athletic. It must be academic, e.g. a science fair.” Then one of them said, “Well, we can place stickers inside the book covers with your company name.” Honestly, I am not even certain I responded to this. Finally, the Vice Principal said, “Mr. Staiger, it seems you want us to come up with some ideas for you. You want us to do the work?!” The meeting ended very shortly after that comment with no donation. Again, while I have no experience giving away the quantities of money mentioned in this article, my limited experience is that philanthropy is not easy.)

Answer: The Grinch

23 December 2015

Question: When was the first Christmas card sent? Who designed it?

Zimbabwe turns to Chinese currency in bid to revive its battered economy – Pg. 1

- Zimbabwe has found a new way to try to boost its embattled economy – and curry favour with one of its few international backers. It is encouraging people to pay for things, from groceries to souvenirs, with Chinese currency
- ...China had agreed to cancel \$40m of debt due this year,...
- The renminbi was added to a list of currencies that are legal tender in Zimbabwe early last year, but has been little used. More than 85% of transactions in the nation are estimated to be undertaken in US dollars while the rand, the currency of neighbouring South Africa, is also used widely

Spend, Spend, Spend – Pg. 5

- The overseas acquisition boom predates the 2013 arrival of Abenomics but has swollen under its influence. Prime Minister Shinzo Abe's new corporate governance code means companies are under intense pressure to raise their return on equity and justify their vast stockpiles of cash
- The overseas spending is strongly tipped to continue even as Japan battles a spendthrift reputation that has led some critics to quip that if it paid Y10tn for its various prizes, it probably overpaid by Y5tn. But if Japan Inc has overpaid in the past 12 months the motivation for doing so seems clear: business survival. More than a quarter of Japan's population is aged over 65 and its birth rate is among the lowest in the OECD
- ...the median premium paid by Japanese companies for overseas deals exceeded 35% this year, twice the figure paid by US buyers. However, when judged by enterprise value to earnings before interest, tax, depreciation and amortization Japanese and US buyers paid almost the same to secure their targets
- But for corporate Japan the threat from a rising China is the more daunting prospect. For more than a decade it has been clear that China's domestic market is large enough to propel the country's companies to the top three global payers in every sector from steel to banking
- The burst of outbound M&A has, in large part, been a response to that: to secure Japan's place at the top table before the ambition becomes impossible

Answer: 1843 by John Horsley

22 December 2015

Question: As the clock chimes midnight to ring in the New Year, a Spanish tradition involves eating twelve of what – one for each chime?

M&A breaks records but dealmakers fear for 2016 – Pg. 1

- Dealmakers are worried that bond market turmoil and global instability could hit mergers and acquisitions in 2016 after deals reached an all-time high this year, surpassing 2007's peak

- Hunger for growth in a weak economic environment, cheap financing and continued pressure from activist shareholders to boost returns drove many companies to combine
- A growing source of angst in the last part of the year has been the high-yield debt market, following concerns that some highly leveraged energy companies may have trouble servicing their debt

China pledges more flexible policies as growth set for 25-year low – Pg. 4

- China's economic planners pledged to adopt more "proactive" and "flexible" fiscal and monetary policies in the new year, ...as the country looks poised to post its slowest annual economic growth rate in 25 years
- The government will embrace more "accommodative" fiscal and monetary policies...
- China has struggled to reach its GDP growth target of "around 7%" and recently said it expected average annual growth to slip to 6.5% over the next five years
- While china's overall debt-to-GDP level has soared past 250% in recent years, largely due to excessive leverage in the corporate sector, the central government and local administrations can increase their borrowing to support the economy
- The Chinese government has, however, stopped short of embracing privatization, with recent state sector reforms instead focused on reorganizing existing state-owned enterprises

Azerbaijan currency hit by end of dollar peg – Pg. 4

- Azerbaijan's central bank has abandoned its dollar peg and allowed its currency to drop by almost a third, in the latest sign of how the oil price fall is hurting energy-dependent economies
- Azerbaijan's move – the second big devaluation of its currency this year – echoed Kazakhstan's shift to a free float of its currency in August, triggering a more than 40% fall in the following four months

JPMorgan pays \$150m to settle 'London Whale' case – Pg. 14

- In a mid-April call to analysts, Jamie Dimon, chairman and chief executive of the largest US bank by assets, dismissed concerns as "a tempest in a teapot"
- Less than a month later, he revealed losses of more than \$2bn from "egregious" trading activity and warned that the losses "could get worse"
- "Misleading investors with wrong or incomplete information is unacceptable and causes real damage", said Mike DeWine, Ohio's attorney-general, in a statement (Prof Note: Really??? Did Jamie Dimon lose his job? Was his salary cut? What was Jamie's downside to the untrue statement???)

Answer: Grapes

21 December 2015

Beijing Assistance Needed - Ok, probably more than you want to know about me but I love quilts. I was recently in Beijing and purchased 80 squares, see attached, to have my quilt woman make me a Beijing quilt. Well, even with my 20% contingency and measurements, I underestimated. As such, I need more

squares. Is anyone in Beijing now that is willing to go and purchase me more squares? I can tell you where to purchase, the type I need, and quantity. I will absolutely pay for the squares, postage and time. Please email me if you can assist. I am in quilt crisis! :) Thank you in advance.

Question: Who created Rudolph, the most popular reindeer of Santa Claus?

PBoC not fully focused on US dollar – Pg. 2

- Two weeks of gradual depreciation of the renminbi against the dollar by the PBoC suggests Beijing is measuring its currency's performance not against the US currency, but a broader range of peers
- China's central bank has "fixed" the renminbi at a lower rate against the dollar for each of the past 10 trading days, weakening its currency at a faster pace over that period than at any time since it first allowed it to appreciate in 2005, and it may do so again today. Over the past fortnight the renminbi has lost 1.5% against the US currency
- The renminbi's close dollar ties mean it is in fact one of the world's strongest performers against the surging US currency this year, having lost just 4.5% to date...
- Among China's trading partners, the euro has lost 10% against the dollar, 12% against the Austrian dollar and 7% against Korea's won

Congress ends foot-dragging on IMF reform – Pg. 4

- It was when Vladimir Putin chided Washington for failing to ratify reforms to the IMF that US officials realized their country's international standing had sunk to a new low
- At the G20 summit in Brisbane last year, the Russian president – virtually a pariah after his military incursions in Ukraine – won allies among fellow leaders when he rounded on President Barack Obama for failing to secure US congressional approval for an overhaul giving emerging economies a greater voice in the fund
- ...after a five-year wait, it finally gave its approval to reforms that will double the fund's firepower and give emerging economies a bigger quota and say in the fund's affairs
- The creating of the AIIB is seen as a challenge to the pre-eminence of US-backed institutions such as the IMF

Derivatives regulation spot nears transatlantic détente, regulator says – Pg. 13

- A transatlantic dispute that has left a glaring gap in global financial regulation is on course to be resolved in 2016 after the US signaled it was ready to end years of bickering and strike a compromise with Europe
- The US and EU have been locked in a spat that has left them without common standards for the \$553tn global derivatives market, a crucial piece of unfinished business mandated by world leaders after the last financial crisis
- Moves to tighten regulation over-the-counter derivatives were central to policymakers' response to the last financial crisis, when the contracts were lethal in spreading contagion that emerged from losses on risky US mortgages.

Answer: Robert L. May created Rudolph in 1939, when he wrote a Christmas-themed story-poem to attract customers in his department store.

19 December 2015

Question: Which Christmas food is it considered good luck to eat one of on each of the 12 days of Christmas?

Next Fed rate rise tipped for March – Pg. 1

- The Federal Reserve is expected to follow this week's historic first post-crisis rate rise by lifting US borrowing costs again in March, ...
- ...contrast with market expectations means Fed chair Janet Yellen faces fresh challenges next year, even though investors credited her with pulling off the rate move smoothly, without market tantrums many had feared
- Traders and investors now expect the Federal funds rate to remain below 1% into 2017. That implies a far shallower pace of increase than the median of the "dots – the individual projections of Fed policymakers – which point to the Fed funds rate reaching 1.375% by the end of 2016

No easy way for the Fed to reverse course – Pg. 2

- The chances of the US being hit by a shock that drove it into recession in any given year might be at least 10%, but there was nothing to make her particularly concerned about a setback now...
- Doing so is only sensible: central banks around the world ranging from the ECB to the BoJ and Swedish Riksbank have lifted rates in recent years, only to be forced to cut them back after their economies faltered
- The Fed on Wednesday kick-started what is likely to be the shallowest rate-raising cycle since the 1970s, as it cautiously reins in the economy stimulus it inaugurated during the financial crash
- Ms Yellen suggested on Wednesday that one of the reasons the Fed wanted to keep the stimulus from its swollen \$4.5tn balance sheet fully in place for some time to come was that this should give it greater scope to lift the federal funds rate, creating a bigger rate-cutting buffer if it needed to reverse course
- A more likely option would be doing more with the Fed's balance sheet, as well as forward guidance to assure markets rates will be kept low. An initial step might be to shift the composition of the Fed's portfolio towards longer-dated securities, in a re-run of the so-called operation twist....

Withdrawals storm batters US corporate bond market – Pg. 10

- Investment grade bond funds in the US have been hit with a record wave of redemptions, a week after two high-yield funds said they would close and another barred withdrawals as the credit market showed further cracks
- Yields on both investment grade and junk bonds hit their highest level since 2012 this week...
- Leverage has risen rapidly over the past five years as US companies issued debt to fund acquisitions, raise dividends and buy back stock. While banks have largely repaired their

balance sheets since the financial crisis, the US corporate debt burden has climbed to \$5.6tn, up 59% from December 2010, ...

- Corporate bond prices have been increasingly volatile, with investors warning of the difficulty to trade in and out of large positions without having a significant impact on prices

Oil falls 15% this month as US glut deepens – Pg. 13

- The Brent global crude benchmark edged 36 cents higher to \$37.42 a barrel yesterday afternoon, still hovering near levels last seen seven years ago
- The interest rate increase by the US Federal Reserve this week and the strengthening dollar added to oil woes, as dollar-priced resources became more expensive for holders of other currencies
- News that tight restrictions on US crude oil exports, which have been in place for 40 years, would be lifted as part of a budget deal agreed in Congress on Tuesday also weighed on prices
- Oil has fallen almost 70% since the June 2014 peak of \$115 a barrel
- Saudi Arabia – Opec’s de facto leader and largest producer – has said it will not sacrifice its own output and market share for the benefit of rivals
- Iran and Iraq, its peers in the cartel, and big producers outside the group such as Russia would have to participate in any cuts, Saudi Arabia has insisted

Answer: Mince Pies

18 December 2015

Question: Visions of which sweet foodstuff danced in children’s heads as they slept, according to Clement Clarke Moore’s poem: “Twas the Night before Christmas”?

Markets rally strongly to embrace Fed’s rate increase – Pg. 1

- Global markets embraced the end of the zero interest rate policy era in the US, sending international stocks higher and quelling fears that investors would recoil at the prospect of higher interest rates
- The dollar climbed sharply against most leading currencies after Wednesday’s US interest rate increase - ...

Fed harmony belies tricky path ahead of timing of next increase – Pg. 4

- Many Fed policymakers want to see much more solid evidence that US inflation is heading back towards the central bank’s target before signing up to another rate increase
- While the median Fed prediction is for 100bps of rate rises in each of the next two years, investors are predicting a slower pace of lift-off because they are betting inflation will fail to meet the central bank’s expectations
- There was still a “significant shortfall” of inflation compared with the Fed’s 2% target, ...

Lagarde faces trial over Tapie payment – Pg. 6

- A French court has ordered Christine Lagarde, head of the IMF, to face trial over her role in a disputed 400m (euro) payout made to business Bernard Tapie in 2008 (Prof Note: Sans the Sex, this has DSK written all over it!)

Buyside turns its sights on mortgages – Pg. 22

- Pension funds are investing an increasing portion of their money in “alternative” asset such as mortgages – a further indication that institutional investors are encroaching on territory previously dominated by banks
- The heavily regulated global banking industry has undergone a huge deleveraging since the crisis, creating opportunities for alternative and institutional investors as they chase higher returns at a time of low interest rates
- Asset managers could combine with mortgage originators – including new non-bank competitors, which are increasingly active in securitization funding – to provide returns on loans...

Answer: Sugar-plums

17 December 2015

Question: The red and white costume that Santa wears was, allegedly, first introduced by whom?

Historic gamble for Yellen as Fed makes quarter-point rise – Pg. 1

- The Federal Reserve has raised short-term interest rates for the first time in nearly a decade, calling an end to the near-zero borrowing costs that have prevailed since the US was struck by the worst financial crash in modern times
- Policymakers expect only “gradual” future increases in the federal funds rate after yesterday’s move, ...
- It added that given the current shortfall in inflation compared with its 2% target, it would “carefully monitor actual and expected progress” towards its inflation goal
- The two-year Treasury yield jumped above the 1% mark for the first time since 2010 after the decision
- The increase comes amid signs of a steady US recovery, with consumer spending growth holding firm and unemployment standing at just 5%, lower than the 5.3% rate that was prevailing when the Fed last kick-started an interest rate-raising cycle in 2004
- Median interest-rate projections from the Fed’s policymakers suggested rates could rise by another 100bps in 2016, a faster pace than predicted by financial markets. Their median estimate for the longer-term fed funds rate stayed unchanged at 3.5%
- The increase will be executed by raising the interest rate the Fed pays on excess reserves held by banks to 0.5%, effective on December 17, as well as the use of an overnight reverse repurchase programme

US steps closer to approving IMF reform – Pg. 2

- The 2010 reforms called for a doubling of the IMF’s quotas, or the capital countries contribute, and a reallocation to give countries such as China a greater say at the fund.

Under the reforms now expected to go ahead, China's voting share at the IMF would increase from 3.8% to 6% while the US would see its share shaved from 16.7% to 16.5% and preserve its veto. The big losers would be European economies, which would see their voting rights diminished

- The slow US approval of the 2010 reforms had given "considerable moral weight" to Beijing's pursuit of alternatives and helped it secure the backing of US allies in Europe and Asia for the AIIB

Married name ruling a blow to Japanese women's rights campaigners – Pg. 4

- Women's rights campaigners in Japan suffered a blow yesterday when the country's Supreme Court ruled that married couples must keep using the same surname
- It shows the continuing battle for gender equality in Japan, where traditional roles are deeply rooted and women often face discrimination at work
- In practice, more than 90% of women adopt their husband's name and some companies require staff to work under their legal name

Sweetened US 'non-prime' bonds sold – Pg. 20

- Two bonds backed by lower-quality US residential mortgages have been sold with investor protection, signaling the continued slow rebound in a market scarred by the financial crisis
- The bundling of lower-quality subprime home loans into mortgage-backed securities drew fierce criticism for its role in the financial crisis
- Under rules designated to make sure mortgages are not given to people who are unlikely to be able to repay, banks have tended to issue "qualified mortgages", which have clearly defined limits on debt-to-income ratio and other parameters
- In contrast so called "non-prime" mortgages have an average Fico credit score of 680, against less than 620 for the former subprime sector

Answer: Coca-Cola

16 December 2015

Question: When did the Federal Reserve last change rates and what has changed since then?

Fed ready to raise rates after almost a decade but markets made decision harder – Pg. 1

- ...the two key measures it is mandated to target – inflation and unemployment – have moved so as to give stronger justification for raising rates. But most of the market pressures that forced the Fed to delay a rate rise in September, including falling commodity prices, depreciating emerging market currencies, especially China, and stressed credit markets, have only intensified since then. Markets have made the decision far harder
- Since September 15, market inflation forecasts have actually fallen, with markets now predicting average inflation of 1.47% - below the Fed's target rate – over the next 10 years
- Emerging market currencies have depreciated a further 2.6%
- Despite all these measures, market opinion remained overwhelming that the long-awaited rate rise would at last arrive, with the Fed Funds futures market putting the chances to 76%

- The main reason for this is the economy. Unemployment has ticked down from 5.1 to 5.0% since September while core inflation last month rose to 2%. Wage inflation reached 2.5%, a post-crisis high

Manufacturers uneasy as Fed rate rise looms – Pg. 2

- In a recent survey by the National Association of Manufacturers, 55% of companies still considered the US economy too weak to raise rates before 2016. Less than a third thought the time was right
- Industrial production, new figures for which will be released today, has contracted in three of the past six months while the Institute of Supply Management's latest monthly survey of factory orders pointed to a US manufacturing contraction

Sovereign 'panda' bond five times subscribed – Pg. 22

- The first sovereign "panda" bond attracted bids for five times the paper on offer in a deal that marked another step in Beijing's efforts to internationalize the renminbi and broaden the pool of investment products
- Panda bonds are renminbi-denominated debt sold by foreigners into China's onshore bond markets, the third largest, after the US and Japan, with more than \$6tn of debt outstanding
- International borrowers have largely been limited to selling renminbi denominated bonds in the far smaller offshore "dim Sum" market

Money funds applaud end of near-zero rates – Pg. 24

- Rising yields on Treasury bills and other short-term debt securities mean good news for savers and money market funds as the era of near-zero returns draws to a close
- Prolonged low interest rates have stunted returns for money market mutual funds that invest in assets with a maturity of 12 months or less

Answer: 29 June 2006; CD music went to digital streaming; there were no iPhones in 2006

15 December 2015

Question: What is a very quick and dirty renminbi/USD conversion for personal holiday?

Bond investors' anxiety rises as Fed prepares to end era of cheap money – Pg. 1

- A sell-off in corporate debt deepened yesterday, highlighting growing anxiety in bond markets just two days before the US Federal Reserve is expected to declare a formal end to the era of cheap money
- After a rate rise, investors may shun the riskier assets favoured when rates were low

US tech groups riled by EU teenage data plans – Pg. 2

- European teenagers face having to secure parental permission to join the likes of Facebook, Instagram and Snapchat before the age of 16, under new EU data protection proposals that are riling US technology companies (Prof Note: At first glance, my uninformed opinion is that I support this!)

- The new regulations would make it illegal for companies to handle data from anyone 15 years or younger without the consent of parents, potentially blowing a hole in the business models of social media companies that have relied on teenage users for rapid growth
- Children have to be 13 to join most big social networks because of a US regulation that requires sites to obtain permission from their parents before collecting personal information
- The Children's Online Privacy Protection Act applies to all children under the age of 13 in the US and has become a standard worldwide. However, it does not protect children who lie about their age in order to access networks (Prof Note: Communicating online, as I do here, takes incredible maturity, something I continue to learn through feedback. It is as much how you say/write as what you say/write. It is recognition that once distributed the reader places inflection, occasionally not where intended by the author. I work hard at stating issues as opinions or fact checking if making a statement. I have heard awful stories from parents over dinners/lunches and learned the term "eCourage" for what causes children to write less than positive things. My point, I support these rules/restrictions. I am grateful to all of you for adding to my maturity...thank you!)

Set for lift-off: All eyes on Fed's signals as rate rise expected – Pg. 4

- Would a rise tomorrow be significant?
 - o Yes. The first increase in short-term interest rates in the US since 2006 will be a historic moment that will be a historic moment that will be a symbol of the extent of the US recovery since the Great Recession

Investment in emerging markets hits post-crisis low – Pg. 15

- Foreign investment in emerging markets has dropped to the lowest level since the financial crisis as investors are braced for the fallout of the first US interest rate rise in nearly a decade
- Prices in popular emerging market debt and equity benchmarks have already fallen, while net inflows from overseas investors have dropped from \$285bn in 2014 to \$66bn this year, ...
- Anxiety has been fanned by the build-up of corporate debt in emerging markets, which doubled between 2008 and 2014 and has been one of the fastest growing areas of the global bond market
- Benchmark oil prices dropped below \$40 a barrel last week, the lowest level in six years, ...
- Brazil's real has lost close to half of its value against the US dollar this year and the Russian rouble is at its weakest level against the dollar since the summer

PBoC shift renminbi to 4-year low – Pg. 22

- The renminbi slipped to a four-year low against the US dollar in its first day of onshore trading since the PBoC said it would measure the exchange rate against a broader basket of currencies

Answer: 6:1

14 December 2015

Question: Over the course of a 30-year mortgage, how much will a 25bp upperward adjustment cost the residential borrower?

Economists see up to 4 more Fed rises following Wednesday's expected move – Pg. 1

- Markets are bracing themselves for the first US rate rise in almost 10 years on Wednesday
- While the Fed's previous September forecasts pointed to four rises of a cumulative 100bps next year, markets have priced in a more gradual tightening process, because of doubts over the US economy's capacity to weather together monetary policy and potential turbulence abroad
- Fed chair Janet Yellen has suggested that moves will be gradual, but it is not clear whether there will be formal guidance to that effect in the Fed statement

ECB ready to act as Fed prepares to consider rate rise – Pg. 4

- Higher US interest rates can drive up the cost of borrowing elsewhere, as occurred in 2013 when the Fed's decision to taper, or slow, the pace of bond purchases sparked turmoil in the world financial markets, pushing up global yields, including for debt printed in the Eurozone
- The ECB cut interest rates by 50bps in 2013 to a then-record low of 0.25%. The central bank also strengthened its forward guidance, assuring markets and the public that rates in the single currency area would stay low for many years

Nervous emerging markets fear additional pressure on currencies – Pg. 4

- If as widely expected the US Federal Reserve tightens monetary policy this week, emerging markets are likely to feel the pain
- Much of the concern centres on China. Chinese officials and independent economists say a rise in US rates would probably bolster the dollar against the renimbi, leading to capital outflows from China and sucking emerging market currencies into new phase of turbulence
- China's heft as the world's largest trading nation endows the renminbi with considerable influence. The redback's 4% decline against the US dollar since its August devaluation has fed a down trend in emerging market currencies, with commodity exporters and Asian countries that supply Chinese manufacturers among the worst hit
- But in spite of the sharp depreciation in almost all emerging market currencies against the dollar over the past 18 months, emerging market exports have failed to recover, falling 12.5% year-on-year in October to mark the biggest collapse since the 2008-09 crisis,...
- Private sector debt (households and companies) now equals about 105% of GDP in emerging markets, a higher proportion than was seen in developed markets on the eve of the financial crisis

Low rates prompt differing reactions – Pg. 17

- While insurers in the UK and northern Europe see better opportunities in illiquid assets such as infrastructure and real estate, those in southern Europe are more likely to increase their allocation to equities.

- The two largest trends to emerge were a reduction in sovereign fixed income and increased in real estate, regional equities and alternatives such as hedge funds and private equities

Answer: \$25,000

12 December 2015

Question: What does a negative yield mean?

Fears for health of US corporate bond market as fund closure causes jitters – Pg. 1

- The liquidation of the biggest US mutual fund since 2008 has intensified concern for the health of the US corporate bond market ahead of the Federal Reserve's expected interest rate increase next week, deepening sell-off in riskier debt
- Some analysts and fund managers have begun to fret that a six-year rally in corporate debt is about to unravel, undone by rising indebtedness, depressed energy prices, rating downgrades, climbing defaults and expectations that the US central bank will finally begin to tighten monetary policy

Fifth of US adults live in or on edge of poverty – Pg. 2

- One in five adults lives in households either in poverty or on the cusp of poverty, with almost 5.7m having joined the country's lowest income ranks since the global financial crisis
- More than 45% of them – almost 2.5m adults – have joined the lowest income ranks since 2011, long after the post-crisis recession was ostensibly over
- "The old American dream was to own a home and two cars. The new American dream is to have a job." (Prof Note: This is upsetting but yet true!)
- But the country's lowest income group, defined by Pew for a three-person household as earning less than \$31,402 a year, has also grown at more than five times the rate of the middle class in the past seven years. There are 48.9m adults in this bracket in the US, up from 43.2m in 2008 and 21.6m in 1971
- ...\$62,804 median household income in the US last year and the \$41,869 to \$125,608 range Pew uses to define the US middle class
- (Prof Note: Perhaps the issue is that people are struggling to find a job. If you want true wealth, in general, you must work for yourself and build equity for yourself. If you work for someone else, you build equity for that person or shareholder(s), rather than yourself. This is why I love real estate and trades. Create your own opportunities!)

Investors fear new currency war after renminbi switch – Pg. 3

- China has paved the way for a further weakening of its currency by announcing changes in how it measures the value of the renminbi, raising investors' alarm at the prospect a new currency war just as the US prepares to raise interest rates
- ...the PBoC signaled it would measure the level of the renminbi against a basket of currencies rather than just the dollar
- Adopting such a basket would make it easier for the PBoC to guild the renimbi lower against the dollar, ...

- The offshore renminbi has dropped 1.3% over the week, driven by a sharp fall in China's foreign exchange reserves and the PBoC relaxing the reference rate that sets the trading band for the onshore currency to its lowest level in four years

Negative rates hit Swiss bond issuance – Pg. 13

- Foreign companies have shunned Swiss bond markets with issuance falling to a record low this year, despite Switzerland having some of the world's cheapest borrowing costs
- About 70% of outstanding Swiss franc bonds by volume, excluding government debt, trade with a negative yield,...

Questions remain ahead of rate-setting meeting – Pg. 13

- First of all, is an interest-rate increase next week a done deal?
 - o Pretty much. Interest rate futures indicate that investors see an 80% chance that the Fed's policymakers will vote to lift interest rates
- Is the actual interest rate lift-off going to be smooth?
- What impact will a rate increase have?
 - o ...chances are good that there will be no meltdown
- What is the Fed doing next year?
- Will the Fed have to retreat?
 - o Every central bank that has lifted interest rates since the financial crisis has had to beat a retreat

Answer: Principal is lost, i.e. you receive back less than what you put in...OUCH!

11 December 2015

Question: According to the World Bank, what was global GDP in 2014?

Older citizens play growing role in US economy – Pg. 3

- ...as older Americans become an increasingly important force in the economy, with many resisting retirement to earn – and spend – well into their golden years (Prof Note: Interpretation: Failed to plan for retirement!)
- The US middle class is already being reshaped by its ageing population, and older citizens are set to play a swelling role in the economy as their weight in the middle and upper income brackets mounts
- Americans aged 60 and over are forecast to drive half of all US spending growth between 2015 and 2030
- Older Americans are also playing a more important role in the workforce, amid lengthening lifespans and threadbare packages. New projections show...that the participation rate of the 65s and older will rise from 18.6% in 2014 to 21.7% in 2024 (Prof Note: What really concerns me is that if Older Americans are not leaving there is less opportunity for younger Americans. When you fail to plan for retirement you are NOT just harming yourself but the generation behind that will backfill. Personally, I do not think retirement planning comes

early enough. It needs to be discussed in grade school. How will your capital support you into perpetuity?!)

Swiss central bank keeps its powder dry on rates decision – Pg. 6

- Switzerland's central bank has decided against pushing interest rates even deeper into negative territory after monetary policy action last week by the ECB proved less aggressive than it feared
- Switzerland also remains gripped by deflation fears, with consumer prices falling at an annual rate of 1.4% in October

Volkswagen admits a rule-breaking 'mindset' led to emissions cheating – Pg. 13

- Volkswagen has admitted to a "mindset" in areas of the German carmakers that tolerated rule breaking, and a "chain of errors" behind its emissions cheating, as it unveiled preliminary results of the company's investigation into the scandal (Prof Note: ENOUGH! Who is going to jail! Who is going to get a lifetime ban from working in the industry? Enough of the "I'm sorry" and 'fines'. Who is going to jail?!)

Securitization of bad loans set to rise – Pg. 20

- The securitization of previously "bad" loans across Europe is set to rise next year as the continent's banks continue to deleverage and credit quality improves,...
- Non-performing loans (NPLs), where borrowers have stopped making payments, have crippled European balance sheets since the financial crisis, with governments forming so-called bad banks in Spain, Ireland and, most recently, Italy...
- Securitization is a process in which loans, ranging from mortgages to credit card debt, are repackaged into a special vehicle and sold on to investor as bond-like products
- (Prof Note: This was one of the topics at ICBC I was providing in Changchun, China)

Covered bond march beyond Europe – Pg. 20

- Prussia, for all its military might, scarcely expanded beyond continental Europe. The same has mostly held true for one of its enduring financial legacies
- Covered bonds, developed in the 18th century by the kingdom's financiers, enjoy a venerable reputation for safety. The bonds, an overwhelmingly European phenomenon, are backed by mortgages, and provide investors with recover to both the assets and the issuing bank
- The strongest case for the asset class is rooted in much more recent financial history. During the financial and Eurozone crisis, when many markets for bank funding seized up, European lenders were still able to issue covered bonds
- Covered bonds can also address risks associated with so-called "maturity transformation" where the short-term bank borrowing is "transformed" into long-term loans to its customers. Unsecured bank debt, another crucial source of funding for banks, often comes with shorter maturities than covered bonds
- ...the asset class is yet to crack the US, where securitization is the dominant method of funding mortgage lending (Prof Note: Read ad...securitization is largely non-recourse to the issuer, i.e. U.S. takes little to no responsibility for the issuance but takes the fee upfront!)

Answer: 77.9tn

10 December 2015

Question: According to the World Bank what were the top three countries in terms of GDP in 2014?

World Bank says China risks 'getting old before getting rich' – Pg. 6

- China's working-age population will fall more than 10% by 2040 in spite of a recent relaxation of its one-child policy...heightening the risk of the world's most populous country "getting old before getting rich"
- The number of potential workers in China – defined as people between the ages of 15 and 64 – fell in 2012 for the first time in decades, a tipping point that has profound consequences for everything from the cost of labour to pension burdens
- A further decline of 10% would equate to a net loss of 90m Chinese workers and is consistent with demographic pressures across east Asia
- As of 2010, almost 40% of people on the planet aged 65 or older – 211m individuals – lived in east Asia

Changing fortunes – Pg. 7

- The withering of the American middle class is shaping up to be one of the dominant themes in the presidential election campaign
- The American middle...has become a minority of the population for the first time in at least four decades, having shrunk to just shy of 50% of adults compared with 61% at the end of the 1960s
- The ranks of those who earn more than a middle class income, which for a three-person family is defined by Pew as \$42,000 to \$126,000 a year, have grown by millions in recent years, even as the size of the lowest tier of the population expands alongside them

Dollar falls amid resource bloc relief – Pg. 20

- Investors pushed back hard against the US dollar yesterday, providing relief for commodity currencies and enabling them to recover some of the ground lost in the wake of the dramatic fall in the price of oil this week
- The greenback fell against most of its partners, including the yen, sterling and the euro, which was heading towards \$1.10, as the volatility that hit commodity currencies in the first half of the week spread to other forex pairs

Treasury bill yields reach post-crisis highs – Pg. 22

- The US government's short-term borrowing costs have climbed to their highest level since the financial crisis as investors anticipate higher interest rates next week
- The US central bank is expected to shift the overnight range for its federal funds rate – a range of zero to 0.25% - higher next week, with 0.5% a likely new ceiling

Answer: U.S. (17.4tn), China (10.4tn), Japan (4.6tn), Germany (3.8tn), and UK (2.9tn)

9 December 2015

Question: What is the rule of 72?

Smog sparks Beijing's first 'red alert' – Pg. 1

- China is the world's biggest carbon emitter
- (Prof Note: I am just back from Beijing and I can honestly tell you the smog was beyond bad. It was so awful on several days that I could not see the tops of the buildings and most were walking with masks)

Trump defiant as Republican party condemns his call to bar Muslims – Pg. 1

- "What I'm doing is no different than FDR", Mr Trump said, referring to wartime president Franklin Roosevelt, who oversaw the detention of thousands of Japanese Americans. "We have no choice but to do this." (Prof Note: In my opinion, this is one of the more dark marks on our history and to use it as support is concerning. To discriminate based on ideology, in my opinion, is un-American and not the country I believe we are. We are a nation of values and acceptance, not prejudice and close-mindedness. I do not have a solution but will honestly state I am the most frightened by this country than I have ever been in my life.)

Fund manager ignored alerts over Madoff fraud, court told – Pg. 18

- A former fund manager who lost 2.3bn (euro) of client funds in Bernard Madoff's Ponzi scheme ignored "concrete alerts" about the legitimacy of the US investor, prosecutors told a Swiss court yesterday

Renminbi at 4-year low against the dollar – Pg. 24

- The renminbi closed at its softest level in more than four years against the dollar yesterday as investors continued to fret about capital outflows evident from currency reserve data published earlier in the week
- Yesterday's onshore daily "fix by the People's Bank of China set the renminbi at Rmb6.4078 to the dollar, 0.15% weaker than Monday, (Prof Note: Arrggggg...why could they not have weakened it last week when I was there spending! ☺)
- The renminbi's weakness was considered a sign that investors were testing how far and how fast China was prepared to let its currency decline as it manages a slowing economy

Answer: It addresses doubling. Divide 72 by your interest rate and it roughly states the amount of time it takes money to double. Divide 72 by how long you want it to take to double your money and it provides the necessary compounded rate over the period.

8 December 2015

Question: Is there such a thing as a CAPM without a risk-less asset?

Oil Slumps to near 7-year low amid Opec discord – Pg. 1

- ...highlighted the growing discord between Saudi Arabia and Iran, two of Opec's most powerful members...
- ...dropped 5% towards \$40 a barrel, its lowest level in almost seven years

Hedge funds wrongfooted by markets as they suffer worst year since 2008 – Pg. 15

- Wrongfooted by central banks and sudden bouts of market volatility, some of the world's best-known hedge fund managers such as Bill Ackman and David Einhorn have suffered stinging losses, ...
- These conditions have resulted in hedge funds as a whole reporting an overall loss for the first time since 2011, and posting their second worst year since the financial crisis in 2008, ...

China set to be world's largest movie market – Pg. 18

- China will overtake the US as the world's largest movie market within two years, ...

Euro selling restarts amid split outlook – Pg. 22

- Currency traders reverted to selling the euro yesterday after last week's rise, leaving analysts divided over the next move in the most heavily traded exchange rate
- The euro fell back to \$1.08. A market that had been heavily selling the single currency was thrown off course when the ECB did not ease monetary conditions as much as expected, driving the euro from below \$1.06 to \$1.10

Commodities' 16-year low drags London and Wall Street lower – Pg. 23

- A 16-year low in average commodity prices dragged on resource-linked stocks in Europe and the US, pulling Wall Street lower yesterday
- The world's reserve currency was stronger across the board, with the euro down 0.3% to \$1.0850 and the yen 0.1% weaker at Y123.25
- "Fed 'lift-off' looks all but a sure bet on December 16.
- Gold, which is typically sensitive to movements in US interest rates and the dollar, was 0.9% lower at \$1,076.95 an ounce

Answer: Yes, developed by Fisher Black, 1972, and referenced as zero-beta CAPM

25 November – 7 December 2015

Below is a summary of each day. I had not realized that China has restricted google and therefore I could not access my email during my week and a half there. I honestly never considered that google would be restricted which caused me an issue as I could not communicate but with my iPhone in text form with other iPhone users. I did have a temporary yahoo account set up but was unable to access any emails. I apologize to any/all for delays in my response time to emails. I am working today/tomorrow to respond to everyone.

I spoke for three days in Changchun at ICBC's training centre. The training was to their young executives and focused on Secondary Mortgage market, products and Freddie/Fannie. ICBC is looking to expand and develop this area further in China and is ensuring a complete understanding of the U.S. market, i.e.

what works, what does not work, the failures and successes. I will absolutely state that ICBC is dedicating considerable resources to understanding the market to ensure China's successful expansion into secondary markets.

7 December 2015

Question: When was the Temple of Heaven built in Beijing?

Central banks pushed on tightening – Pg. 1

- Central banks should press ahead with plans to tighten monetary policy and not let market volatility sway their judgment, the BIS has warned ahead of the expected first rate rise by the US Federal Reserve in nine years
- The warning comes amid signs of growing alarm at the riskier end of the US corporate bond market, with borrowing costs for the lowest-rated companies climbing to their highest level since the financial crisis
- The Fed resisted raising rates earlier this year in part because of market gyrations over the summer
- Concerns over the possible impact of a US interest rate rise on more vulnerable borrowers has been exacerbated by rising indebtedness and shrinking revenues among companies – especially in the stricken energy sector

San Bernardino killings divide US politics – Pg. 4

- The FBI has labelled the killing of 14 people in San Bernardino as an act of terrorism after one of the suspects posted a message on Facebook shortly before the attack in support of Isis
- (Prof Note: I do not know if it is my age and reflection but I am so sickened and saddened by what I consider senseless violence. The more I travel, the more I experience, the more I see, the more I realize the true wonder of the world and life. My prayers go out to the families and everyone. I also want to reiterate a dinner I had in Cairo in 2010. It was with the mother of a former student who was/is a professor of Islamic Culture. I wish everyone could experience the knowledge and understanding I received that night. Prior I really had no opinion but a fear created by the U.S. Media. Afterwards, a great respect for Islam.)

Fund manager to face trial over alleged role in Madoff Ponzi scheme – Pg. 16

- Almost seven years to the day after Bernard Madoff's \$17.5bn Ponzi scheme collapsed, the last fund manager to face criminal charges in the scandal will go on trial in a Swiss court today
- He faces charges of "aggravated mismanagement with the aim of self-enrichment". If convicted, he could receive up to five years in prison
- The stakes are also high for Santander, because a guilty verdict could prompt US authorities to take a fresh look at a \$235m settlement that they reached with the bank over Optimal's role in sending money to the scheme. Santander denies that Optimal acted negligently
-

Answer: 1420

5 December 2015

Question: When was the Summer Palace in Beijing built?

Jobs boost keeps Fed on course for interest rate increase – Pg. 2

- The US added jobs at a robust pace last month, removing a hurdle to the Federal Reserve's first increase in short-term interest rates for nearly a decade
- Non-farm payrolls rose by 211,000 last month and a blockbuster figure from October was revised even higher to 298,000 while the unemployment rate held at 5%
- The US economy has created 8.1m jobs over the past three years, the fastest pace since 2000
- Despite the gains in the jobs market Ms Yellen insisted earlier this week that the US remains below full employment, something that will mean the central bank treads cautiously following the initial rate rise with moves further down the line

Baby boomers land golf in the rough – Pg. 4

- Japan's golf courses, the obsessively sculpted symbols of the "bubble era", are closing at the rate of nearly one a week, the latest victim of the country's skewed demographics.
- Thousands of baby boomers, much to the dismay of the country's golf courses, have opted to retire from the sport shortly after retiring from work (Prof Note: Oh pulllezzzzz...the sport loses attraction when people must cut the checks themselves rather than expense to an employer.)
- Hence the inexorable slide in the number of regular golfers, which is approaching half the level of its early 1990s peak of 13.7m. Of that, the proportion over the age of 70, who tend to play on weekdays, has surged to more than 17%

US corporate downgrades soar past \$1tn as defaults gain pace – Pg. 12

- More than \$1tn in US corporate debt has been downgraded this year as defaults climb to post-crisis highs, underlining investor fears that the credit cycle has turned
- S&P has cut its ratings on US bonds totaling \$1.04tn in the first 11 months of the year, a 72% jump from the entirety of 2014. In contrast, upgrades have fallen to less than \$500bn, more than a third below last year's total
- Some 102 companies have defaults since the year's start, including 63 in the US. Only three companies in the country have managed to retain the coveted triple A rating: ExxonMobile, Johnson & Johnson and Microsoft, with the oil major on review for possible downgrade

Answer: 1750

4 December 2015

Question: When was the Forbidden City in Beijing started?

Market sell-off as fresh Draghi bid to boost growth disappoints – Pg. 1

- The ECB pledged to continue its 60bn (euro)-a-month bond buying programme for another six months until March 2017 “or beyond”. Policymakers also cut a key interest rate to a historic low of minus 0.3% and agreed to buy more assets with proceeds of its existing bond purchases
- ...disappointed investors who had hoped for deeper rate cuts and more monthly bond purchases
- The single currency surged 2.4% to \$1.086, with its rise reflecting concerns the measures have proved less aggressive than markets had expected

Markets welcome impeachment move [Brazil] – Pg. 3

- The indications are that if 2015 is a bad year, 2016 will be a little better. Barclays forecast a 3.8% contraction in the economy this year and a 2.8% contraction next year

Pistorius faces 15 years’ jail for murder – Pg. 3

- A South African appeals court yesterday ruled that Oscar Pistorius, the disgraced Paralympian star, was guilty of murder, overturning a previous conviction of culpable homicide for shooting his model girlfriend
- The decision means the double amputee could face a minimum of 15 years in prison (Prof Note: I do not often summarize humanistic stories but I want to point out the differences in legal systems globally. This would not have happened in the U.S. where double jeopardy applies. It bothers me when the American press criticizes other nation’s legal systems when we choose to visit other countries. We must understand and respect global legal differences. In this case, I say, my hat is off to South Africa for addressing what was, in my opinion, a gross miscarriage of justice with the earlier sentence)

Goldman files patent for ecurrency offering near-instant trade payments – Pg. 15

- Goldman Sachs has made a patent application for a cryptocurrency settlement system in a move that underlines bank hopes that the architecture behind bitcoin can revolutionize global payments
- The application for a new virtual currency, dubbed “SETLcoin” by the bank, said it would offer “nearly instantaneous execution and settlement” of trades involving assets including stocks and bonds

S&P downgrades 8 US lenders on support fears – Pg. 18

- Eight of the biggest US banks have been downgraded by S&P’s, as the credit rating agency judged that the likelihood of federal government support in a future crisis had dimmed
- Bank of American, JPMorgan Chase, Citigroup and Wells Fargo were among the banks affected by the decision, taken as the Federal Reserve sought to finalize rules next year governing the amounts and type of capital banks must hold to withstand a huge shock to the system
- In October, the Fed projected that the six largest banks faced a \$120bn capital shortfall under new rules that would require the institutions to hold big buffers of debt that could be converted into equity in a crisis

- Banks are expected to hold total loss absorbing capacity – TLAC – of at least 18% of their risk-weighted assets

Gold falls to 5-year low as US rate rise looms – Pg. 24

- Gold fell to its lowest level since early 2010 before rebounding as the euro strengthened against the dollar following pledges by the ECB to continue easing
- The spot price fell to \$1,046.60 a troy ounce...

Answer: 15th Century

3 December 2015

Question: When is the earliest the Great Wall of China can be traced?

Yellen signals US economy is strong enough for a rate rise – Pg. 1

- The US economy had “recovered substantially” from the post-crisis recession and was set for further growth and firmer inflation, Janet Yellen said, as she laid the groundwork for the first upward move in official interest rates since 2006
- A rate rise would testify to the progress the US has made in shrugging off the legacy of the crash, the Fed chair said, adding there were risks in waiting too long to start normalizing policy
- An upward move widely expected on December 16 at the Fed’s next meeting would put the US on a sharply divergent course from many other advanced nations
- The Fed’s last set of projections suggested increases at a pace of about 100bps a year in 2016 and 2017, which would still be quicker than the speed forecast by financial markets

US Congress set to raid Fed for roads funds – Pg. 2

- The US Congress is preparing to raid a Federal Reserve “piggy bank” to help fund \$305bn of much-needed highway maintenance despite the objections of the US central bank
- The grab for \$19bn of Fed capital is part of what is likely to be the US’s first long-term highway legislation in a decade, but the Fed has said the move could undermine its cherished independence
- But the raid of the Fed’s “surplus account” – a stock of retained earnings that serves as a rainy-day fund – underlines the struggle to squeeze more money out of the federal purse without increasing the budget deficit
- The Fed’s surplus fund contains \$29bn and the highway bill enables a one-off extraction of \$19bn. It also caps the fund at \$10bn so that any future excess would be redirected to the Treasury to be spent on highways or other needs
- Ben Bernanke, the former Fed chair, has said the move amounts to “budgetary slight-of-hand” by counting funds that were already designated for the Treasury as “new revenue”
- Congress has form when it comes to tapping the Fed’s surplus for extra revenue. It did so in 1997, 1998, and 2000, but the new measure is more draconian because it imposes a limit on the size of the surplus

- The root of the US's roads crisis is the role of a gasoline tax as a traditional source of highway funding.
- It has produced dwindling revenues as vehicles' fuel efficiency has been improved, but Congress has not been willing to raise it since 1993

Yellen comments about risks of waiting drive dollar to 12-year high – Pg. 21

- The dollar resumed its upward path against the euro and shorter-term Treasury yields neared five-years highs amid the growing prospect of increased policy divergence between the US and Eurozone
- Fed fund futures moved to price in a 79% probability of Fed "lift-off" in two weeks, up from 74% earlier in the day
- Before those moves a report from private US payroll processor ADP showed that 217,000 jobs had been created last month, while October's reading was revised up to 196,000
- By contrast expectations for further policy easing by the ECB were bolstered by news that the pace of Eurozone "core" inflation – which excludes food and energy prices – had fallen to 0.9% year on year in November from 1.1%
- The single currency was down 0.6% to \$1.0563, testing Monday's seven-month low
- Brent was down 2.7% at \$43.24 a barrel, the lowest since late August
- Gold was down \$15 at \$1,054 an ounce, and heading for its lowest close in more than five years

Answer: Third century B.C.

2 December 2015

Question: What is the largest bank in the U.S. by assets?

Brazil's record fall in GDP puts it on track for worst recession since 1930s – Pg. 1

- Brazil's GDP fell by a record 4.5% year-on-year in the third quarter, confirming fears that Latin America's largest country is on track for its worst recession since the 1930s
- Lower commodity prices, fiscal contraction and the fading of a consumer credit boom have battered what was once one of the world's fastest-growing economies
- Unemployment rose to 7.9% in September, up from 4.7% in October last year, inflation is running at more than 10% for the first time since 2002 and Brazil's government budget deficit is now 9.5% of GDP
- While Brazil's problems are largely of its own making, it is not the only big emerging economy to suffer from the end of the commodities supercycle and slowing growth in China. Russia is experiencing its first recession since 2009 amid low oil prices and western sanctions – although officials say the economy will return to growth next year

Brazil edges closer to deep recession – Pg. 4

- The slowing economy is undermining government tax revenues. Ms Rousseff's administration is running a deficit of about 9.5% of GDP. This is expected to push gross

public debt above 70% and could lead to further downgrades of its investment grade credit rating, ...

Swiss growth woes put pressure on central bank – Pg. 4

- Switzerland's economic growth has stalled following this year's sharp franc appreciation, piling pressure on its central bank to react swiftly to the ECB expected monetary loosening later this week
- Switzerland already has the world's lowest official interest rates – with the SNB imposing a negative rate of minus 0.75% on some banks' deposits

Puerto Rico avoids defaulting on debt – Pg. 22

- Puerto Rico has avoided defaulting on more than \$350m of its obligations, in the latest chapter of the island's struggle to deal with \$72bn in debts
- With cash dwindling, the development bank has embarked on extraordinary measures – including delaying tax returns – to keep its balance from turning negative. However, those action are no longer enough to keep Puerto Rico from falling into deficit this month

Answer: JP Morgan Chase with \$2.7tn in assets

1 December 2015

Question: What is the largest bank by assets in China and the world?

Markets bet on 'great divergence' – Pg. 1

- The dollar hit an eight-month peak against other leading currencies yesterday, intensifying pressure on emerging markets as investors raised their bet on a "great divergence" in international monetary policy this month
- The ECB is on Thursday expected to act on the promise by Mario Draghi, the bank's president, to "do what we must" to stimulate growth and drive inflation higher, potentially ramping up its quantitative easing programme
- ...investors also predict the Fed will begin tightening policy later in December for the first time since 2006. The looming divergence has encouraged investors to sell the euro against the dollar and buy Eurozone equities

Federal Reserve caps emergency lending powers – Pg. 5

- The Federal Reserve's authority to provide emergency loans to financial institutions during a crisis will be curbed following criticism from lawmakers who said its powers should be reined in
- The Fed board yesterday approved new limits in updated rules on emergency lending, a practice that sparked controversy during the panic of the last financial crisis when it was used to help institutions short of liquidity
- The new rules also say that to avoid helping insolvent institutions the Fed will not make loans to any borrowers that had failed to pay "undisputed debts" in the previous 90 days

- The Fed has stressed that all of its emergency loans – which reached an aggregate outstanding balance of \$1.5tn – were repaid in full

Boost for China as it joins IMF elite – Pg. 13

- The IMF yesterday gave a vote of confidence to China and its reform efforts, affording the renminbi greater weighting than the yen or pound as it included it in the elite basket of reserve currencies
- The vote by the board to make it the fifth currency in the basket used to value the IMF's own de facto currency followed months of deliberation at the fund and years of lobbying by a Beijing eager for the recognition
- The renminbi will become the third biggest currency in the "special drawing rights" basket when it takes effect on October 1
- For China, the move is a validation of efforts over the past few years to liberalize financial markets and free up flows of funds into and out of China's capital markets
- The US dollar will remain the biggest currency with a 41.73% weighting followed by the euro with 30.93%. but with a 10.92% share the renminbi will trump both the yen and sterling

Answer: ICBC with \$3.7tn in assets

30 November 2015

Question: What is the automobile capital of China?

Renminbi set for elite currency status – Pg. 2

- The IMF is expected to admit China's renminbi to its elite basket of reserve currencies today in what would be a vote of confidence in Beijing's economic reforms and its bid to internationalize its currency
- The move comes at a crucial time for China, which is managing a significant slowdown in growth and has suffered deep falls in financial markets as questions have mounted over the leadership in Beijing's response and commitment to reforms
- With China being the world's largest economy, measured by purchasing power parity, the fund would be open to accusations of lacking global legitimacy without giving a leading role to Beijing

Shenzhen property boom outstrips Hong Kong – Pg. 6

- Housing prices in Shenzhen have jumped by more than 30% in the year to date, making it the fastest-growing major property market in China, while asking prices for Hong Kong luxury flats have dropped by up to 5% in the past three months
- The two housing markets' deviating paths highlight the wider trends shaping the Chinese economy
- The city's Nanshan district, the heart of its emerging technology industry; generates the highest GDP per person of any Chinese region at \$48,000 per year, more than Hong Kong and not far behind Singapore

- Meanwhile, Hong Kong's more mature economy is feeling the effects of lower growth in the mainland...
- At the upscale Colourful Garden development in Shenzhen's Luohu district, where some apartments boast views of Hong Kong, 70% of the 550 units were sold in the first week of sales last month, with a typical 53 square metre, two-bedroom flat going for more than \$400,000

Answer: Changchun

28 November 2015

Question: Which is the largest city, by population, in China?

Bond investors jolted by tighter credit – Pg. 11

- Investors have been reminded of the inherent risks in corporate lending, with Volkswagen's emissions scandal, controversy over US pharma groups such as Valeant, and concerns over commodity companies' balance sheets in the face of falling global demand
- In the US, there have been many more corporate defaults this year, in large part thanks to the country's exposure to weak oil prices. Both Europe and the US are exposed to a range of global risks including China, emerging markets, commodities and monetary policy

Policy moves trump geopolitical risk – Pg. 11

- Investors, it seems, are as insensitive to military shocks as they were to the terrorist attacks in Paris 11 days earlier that claimed the lives of 129 people and led the French government to decree a state of emergency
- Notably, traditional havens that investors run to when afraid for the state of the world have yet to be flooded with money. The gold price still hovers near six-year lows, and while prices for German bonds are firmer this week, that generally reflects expectations that the ECB will announce an extension of its bond buying programme at its December 3 meeting

Answer: Shanghai (23,000,0000 people +)

27 November 2015

Question: How long is the flight from Beijing to Washington DC?

Bailout leaves China's 'national team' of investors with 6% of stock market – Pg. 1

- A group of Chinese state-owned financial institutions owns at least 6% of the mainland stock market as a result of the massive Beijing-sponsored rescue effort this year to prop up share prices following the summer equity market crash
- The intervention succeeded in shoring up prices, with the Shanghai Composite index now up 28% from its low point in late August
- The government cash infusion came after the Shanghai Composite index fell more than 40% from its seven-year high on June 12 by late August

German employers pessimistic about the chances of finding work for low-skilled refugees – Pg. 4

- Overwhelmingly, employers cited poor knowledge of German as the main obstacle. Other barriers cited included poor qualifications, employment rules and the German minimum wage
- Government figures show migrants fall into two camps in educational terms. The well educated are more likely to have a degree than the domestic population – 37% versus 21%. But poorly educated migrants are far more likely to have no professional qualifications – 34% versus 9% for Germans

Bonuses key to keeping to bank performers – Pg. 15

- While the average may rise 5%, “good people will be up 10 to 20%”, with equity businesses doing better than fixed income, ...
- This means that while European investment banking revenues are down 20-25% in US dollar terms, bonuses may not fall as sharply

Dollar stalls ahead of policy meetings – Pg. 20

- The dollar index, which measures the dollar against a basket of its peers and is heavily weighted towards the euro, was quoted at 99.77, yesterday having briefly risen above 100 earlier this week
- Bolstering the dollar are expectations of widening policy divergence between the US Federal Reserve and ECB, which both hold meetings next month
- Investors expect that the ECB will announce a further easing of policy, while the Fed is expected to shift borrowing costs higher for the first time in nearly a decade

Answer: 1 Hour (laughing....remember the time difference as Beijing is 13 hours ahead)

26 November 2015

Question: How long is the direct flight from Dulles to Beijing?

Housebuilders rally after homes target is doubled – Pg. 3

- George Osborne, chancellor, announced plans to double the country’s housing budget to almost 7bn (sterling) and said 400,000 homes would be built across England

Pay squeeze while 100,000 jobs will go – Pg. 3

- Public sector workers face a squeeze on pay and another 100,000 job losses over the next five years as the government’s austerity drive continues to reshape Britain’s labour market
- Still, the civil service has already shrunk to the smallest since the second world war, while public sector employees now account for just 17.2% of the total workforce, the lowest share since comparable records began in 1999
- Public sector workers are now set to fall well behind their private sector counterparts in terms of pay growth: the government has capped public sector pay rises at 1% for the next four years, while pay in the private sector is finally accelerating

- According to the Association of Teachers and Lecturers union, teachers' starting salaries have declined 10.6% in real terms since 2010
- ...in every region of the UK private sector jobs growth has more than made up for public sector job cuts

Ageing prisons to be sold for housing – Pg. 8

- Ageing, inadequate prisons will close and more court hearings will be conducted by video link as part of a package of cost-saving measures announced by the Ministry of Justice
- ...plans greater use of technology in criminal courts so there are more pretrial hearings of prisoners conducted by video link

ECB warns over China and growth in emerging markets – Pg. 16

- Waning growth in emerging market economies is “of particular concern” to the financial stability of the Eurozone, ...
- The rout in Chinese stock markets over the summer triggered a sharp drop in equity indices across the world driven by concerns over a slowdown in China
- Negativity would be likely to trigger a sell-off in riskier assets such as equities, highlighting concerns that the ECB has long held about an abrupt reversal of investors' willingness to take on more risk
- The Bundesbank further warned that German life insurers would also suffer as low rates would make it harder for them to meet their obligations to customers

Answer: 13 hours (approximately)

25 November 2015

Question: What is the population of Beijing?

Bad loans burden heavier in Europe than in US –Pg. 14

- Bad loans are twice as big a problem for European banks as they are for banks in the US, despite lenders' efforts to clean up balance sheets in Eurozone hotspots from Spain to Ireland to Greece
- Figures show that almost 6% of European banks' loan books are impaired, compared with 3% in the US
- Bad loans on the books in Europe's banks are almost as big as the GDP of Spain
- Bad loans look worse when lending to companies in the financial sector are stripped out: non-performing exposure then rises to 10%
- There is wide divergence in the bloc: Sweden's level is just above 1% while Cyprus's is 46%
- Banks in aggregate have improved their capital position, moving to an average ratio of common equity tier 1 of 12.8%, far better than the 11.1% ratio the same group of banks had in December 2013

Drive to cut repo risk via clearing solution – Pg. 20

- US bond dealers and investors have been urging policymakers to address dislocations within fixed income markets in private meetings this month
- The use of repo helps maintain orderly trading in the world's largest government bond market, but the imposition of expensive capital requirements on banks has made the business more costly
- Traders say dislocations between the bond and interest rate derivatives markets reflect the important financing role played by repo, which has shrunk in size by a quarter since the end of 2008

Shooting down of Russian jet by Turkey puts pressure on stocks – Pg. 21

- The Turkish Air Force shot down a Russia plane after it violated Turkish airspace....Moscow maintained the plane was over Syria for the whole flight and an angry Vladimir Putin said the incident would bring "serious consequences"
- Stock opened lower on Wall Street as geopolitical anxiety trumped a better than previously estimated US GDP report. GDP expanded at a 2.1% annualized pace, up from a first estimate of 1.5%, in the third quarter. The upward revision was fueled by improved consumer spending,

Answer: 20,000,000

24 November 2015

Question: When was the first Thanksgiving and how many attended?

Factory to turn out 1m cows a year as China raises stakes in cloning research – Pg. 1

- A Chinese-Korean joint venture plans to build the world's largest cloning factory in Tianjin, eventually producing 1m head of cloned cattle a year, as well as dogs and even endangered species
- In contrast, Europe, where the first cloned mammal, Dolly the Sheep, was born in Scotland in 1996, does not allow cloning of farm animals
- Animal cloning is legal in the US, where the leading company for cloning livestock and pets is ViaGen. ViaGen, which has a technology licensing agreement with Soom, says it "has successfully delivered thousands of healthy cloned animals to clients"

Growth pace for Eurozone business at 4 ½ year high – Pg. 3

- The continuing deflationary pressures are likely to reinforce expectations that the ECB will unveil further monetary stimulus at its next meeting on December 3 – which takes place just weeks before a Federal Reserve vote on where US policymakers are expected to raise interest rates

Dollar edges towards 12-year highs as investors assess policy outlook – Pg. 21

- Stocks moved higher in New York, holding last week's gains, while the US dollar inched towards 12-year highs as investors continued to assess the outlook for global monetary policy
- Brent crude was up 1.6% to \$45.39 a barrel
- The euro struggled, down 0.3% to \$1.0606, flirting with seven-month lows

Liquidity deteriorates for US Treasuries – Pg 22

- Trading in the world's biggest government bond market has become increasingly challenging as the large banks that support transactions focus on slimming down their balance sheets
- As dealers step back from facilitating the buying and selling of US Treasury debt, an important measure of market liquidity has deteriorated sharply and plumbed a level not seen since the bond rout of 2013, when investors anticipated that the Federal Reserve would start tapering its quantitative easing policy
- That relationship has been exacerbated by foreign central banks selling holdings of older Treasuries as they support their currencies against the dollar

Answer: Autumn 1621 and included 50 Pilgrims and 90 Wampanoag Indians and lasted three days.

23 November 2015

Question: Why is there so little financial news?

Euro corporate debt issuance on a high – Pg. 16

- Corporate investment grade bond issuance in euros is heading for the highest annual level since 2009 as companies scramble to sell debt ahead of the expected launch of a second round of quantitative easing by the ECB
- In the first half of the year, US companies were big issuers in euro debt – known as reverse Yankee bonds – as diverging monetary policy encouraged these US groups to lock in lower borrowing costs in Europe after the ECB's launch of QE in March. And the US M&A boom created a need for cheap funding
- The average duration of bonds issued by companies in euros has risen to more than five years. This is the longest average duration, which is similar to maturity, since the late 1990s, (Prof Note: NOT true...duration does not equal maturity but for zero coupon bonds...this time the FT is not correct (though I HIGHLY respect this publication))

Answer: The FT is dominated with Paris and other social issues. My prayers go out to the Parisians and everyone involved.

21 November 2015

Question: What is the 10-year Treasury rate?

Draghi signals Eurozone stimulus – Pg. 1

- The ECB president said yesterday that ECB policymakers would “do what we must to raise inflation as quickly as possible”.
- The ECB is widely expected to unleash a souped-up version of its 1.1tn (euro) quantitative easing package and consider cutting on of its benchmark rates deeper into negative territory

Starwood deal opens door to 1m rooms for Marriott – Pg. 11

- Marriott International surprised the hotel industry on Monday by announcing a \$12.2bn deal to acquire Starwood Hotels & Resorts, a move that will create the world’s largest hotel company by number of rooms
- Starwood had been on the market since conducting a strategic review in April, but Marriott had previously suggested it was not interested in a tie-up. Instead, Hyatt Intercontinental Hotel Group and Chinese bidders were linked with a deal
- The acquisition, which is set to complete in the middle of next year, will create a company with a portfolio of 1.1m rooms in more than 5,500 hotels around the world, including the upscale lifestyle brands for which Starwood is best known
- It is the most significant deal in the hotel sector since buyout group Blackstone struck a \$26bn deal to take Hilton Hotels private in 2007

Rouble’s rises as Russia’s standing grows – Pg. 13

- The rouble enjoyed a strong rally over the course of a week that saw a marked shift in Russia’s standing on the world stage, fueling debate about the country’s ability to overcome its longstanding political and economic problems
- While the rouble is down 17% since the start of the year, it is more than 10% off the Rbs71.6 mark it hit at the end of August, its second-lowest level of 2015
- One upshot of rouble weakness, he added, was that it lowered the number of barrels of oil that Russian producers needed to break even

Answer: 2.264%

20 November 2015

Question: What is the current spot price of gold (AU)?

ECB looked at further stimulus in October – Pg. 2

- Eurozone policymakers mooted ramping up their monetary stimulus as early as October, ...
- The ECB is expected to unleash an enhanced version of its 1.1tn (euro) quantitative easing package and will consider cutting one of its benchmark interest rates deeper into negative territory in its early December vote

BoJ monetary policy on hold despite technical recession – Pg. 2

- The Bank of Japan kept monetary policy on hold despite the economy entertaining a technical recession recession as it continued to ague the recovery is on track

- Japan's central bank said it will keep buying government bonds at a pace of ¥80tn a year in an effort to drive down long-term interest rates, even as it noted weakness in some measures of public inflation expectations

Brazilian inflation surge adds to economic and political crisis – Pg. 3

- Brazilian inflation has risen to its highest level in 12 years, adding to negative data and underlining the mounting challenges that face the government as it struggles to steer the country through a deepening economic and political crisis
- Inflation in the year to November 15 was 10.28%...
- The government's main problem is fiscal.
- With government spending out of control – and with more than 90% of public spending mandated by Brazil's constitution – the public accounts have sunk deep into the red
- Government debt, internal and external, is equal to 66% of GDP and rising

Stocks unfazed by Fed 'lift-off' chatter as the dollar eases back – Pg. 21

- European stocks rose and Wall Street held the bulk of previous session's strong gains even as expectations grew that the Federal Reserve would raise interest rates next month for the first time in nearly a decade
- The euro firmed even though the minutes of the ECB's latest policy meeting signaled that further policy easing was a strong possibility next month
- ...US equity benchmark about 2.4% short of the record intraday high of 2,134.72 reached in May, after a near-10% rally from the end of September

Saudi Arabia seeks to quell oil supply fears – Pg. 22

- Prices are languishing near \$40 a barrel and showing little sign of recovering, despite major oil companies slashing billions of dollar in investment already this year

Answer: \$1,080

19 November 2015

Question: Who once said all values are anticipations of the future?

Fed door open to December move if data improvement continues – Pg. 1

- Most members of the US central bank's rate-setting body said at their October meeting that conditions for an increase in short-term interest rates "could well be met" by December, as the central bank prepares for the possibility for the first upward move since 2006
- There are concerns that US companies have borrowed too aggressively in recent years to buy rivals or their own shares, and corporate debt has come under pressure as the Fed has moved closer to interest rate lift-off
- US corporate bond issuance has already smashed past last year's record and is close to surpassing \$1tn for the year...

- Interest rate futures imply that there is a 68% chance that the Fed will vote to tighten monetary policy when it meets in December....the two-year Treasury yield has climbed to 0.88% as investors begin to price that in. It was just 0.55% in mid-October

Woman's pay lags 10 years behind men's – Pg. 2

-more woman than men are enrolling in university in 97 countries, women make up the majority of skilled workers in only 68 countries and the majority of leaders – legislators, senior officials and managers – in only four

ECB ready to delve deeper into negative rates – Pg. 2

- The ECB is willing to break an earlier promise to delve deeper into the world of negative interest rates.
- A move deeper into negative territory, which would raise the cost imposed on lenders who leave their accounts at the eurozone's monetary guardian in the black, could come as soon as December 3
- A move is seen as one of the most effective means to weaken the euro against the dollar, as the US Federal Reserve is expected to raise its benchmark rate next month
- The concept of charging savers spooks people. But negative interest rates have long been a feature of economic theory
- Though negative nominal rates are still a novelty, real interest rates – which discount for inflation – have strayed below zero since the early years of the financial crisis when price pressures across economies were higher

Economists warn of budget cut threat to US jobs data – Pg. 3

- Senior economists from around the US have warned against further cuts to the budget of the country's labour statistics agency amid concerns about the impact of reductions on its ability to measure and track developments in the country's rapidly evolving jobs market

Germany sells debt at record low yield – Pg. 22

- Germany sold two-year government debt at a record low yield of minus 0.38% yesterday, reflecting expectations of further monetary easing for the Eurozone next month
- The policy-sensitive two-year bond offers a coupon of zero, meaning investors in effect pay to own it to maturity. About 10 eurozone countries have two-year debt at negative yields, and investors expect the ECB to cut the rate it pays on overnight deposits from minus 0.2% further into negative territory

Gold hits five-year low despite Paris tensions – Pg. 22

- The metal, which is traditionally bought during times of uncertainty, reached \$1,064.95 a troy ounce....it is down 6.5% this month
- Gold investors are more focused on prospects for a rise in US interest rates in December, seen as a negative influence for the metal as it provides no yield
- US inflation figures for October on Tuesday added to fears, showing a rise in consumer prices, reinforcing expectations of a U policy shift next month

Answer: Justice Oliver Wendall Holmes

18 November 2015

Question: What is the occupancy of the Four Seasons Nevis?

China lands \$15bn deal to finance and build two nuclear plants for Argentina – Pg. 1

- ...underlining Beijing's continued presence in Latin America despite its slowing economy
- The deal comes as China pushes to export homegrown atomic technology, often by offering cheap technology and generous financing
- The first plan will cost about \$6bn and use Canadian "Candu" nuclear technology. The second will use China's homegrown Hualong One reactor, which Beijing is promoting for export

Walmart warns of slowing US growth – Pg. 13

- Walmart expects US sales growth to slow to 1% in the fourth quarter, as the world's largest retailer warned yesterday that food price inflation would be low and the boost in demand from lower fuel prices would diminish
- Along with competitors such as Target, Walmart launched its holiday season promotions this month, ...
- Expectations for a slower fourth quarter come as Walmart said that its thirdquarter profit had dropped as it continued to invest in stores and staff, and as it was hurt by slower international markets and growth in online sales

Fall in battery costs offers hope for grids – Pg. 15

- The cost of batteries is falling to the point that they are becoming a viable option for uses such as supporting the stability of power grids, ...
- Electricity storage has been prohibitively expensive, but its emergence at an economically viable cost should ensure more use of wind and solar power, which are not always available
- New electricity storage added to the grid to support wind and solar power is likely to grow 60-fold from 196 megawatts of capacity this year to 12,700MW in 2025,...

Dollar rises in hawkish run-up to Fed minutes – Pg. 22

- The dollar pushed towards this year's peak yesterday, prompting analysts to entertain the prospect of further strength as the divergence between US and Eurozone interest rates and monetary policy dominated the currency market
- ...euro breached \$1.07 on Monday....

Answer: 45% and they have 196 rooms and 45 villas. The cheapest room today is \$600 with taxes/night and \$2500/night for villas. No private jets have been parked at the airport.

17 November 2015

Question: How much did I pay for 3 lbs of Mahi on Nevis?

ECB officials warn of economic fallout – Pg. 4

- Europe's fragile economy might struggle following the terrorist attack on Paris, ...fearing the shootings would "compound" the difficulties the Eurozone already faced
- The French stock market index, the CAC 40, was fractionally down having recovered from a 1% drop at its opening
- Most economists, however, thought the impact of the attacks would be limited and cited the 2004 and 2005 bomb attacks in Madrid and London as evidence that households were resilient in the face of an intensified security threat

Abe suffers blow as Japan falls back into recession – Pg. 6

- Japan is back in recession after its economy shrank at a worse than expected annualized rate of 0.8% in the third quarter
- Although there is little sign of the economy entering a downward spiral – Japan's declining population means it is always close to recession – the contraction does point to sluggish underlying demand
- Companies running down inventories, rather than building up stocks, knocked 2.1% off annualized growth. That more than offset a strong contribution of 1.2% from consumption and 0.4% from net exports

Fed confident stability risks are contained – Pg. 7

- With the US economy gathering momentum and joblessness heading below 5% - compared with its 10% crisis-era high – those financial stability questions are taking on greater prominence, even as the threat of inflation remains subdued
- Janet Yellen, the Fed Chair, cited financial stability in a key September speech, when she argued that continuing to hold short-term interest rates at zero well after the economy has returned to normal levels could encourage "excessive leverage and other forms of inappropriate risk-taking"
- Such concerns may have helped convince the Fed that a rate rise could be merited in December. But they have by no means swung in favour of a sharp tightening of monetary policy
- Exuberance has been rising in commercial property, where values have surged to record highs in some regions and sectors, with prices of apartment blocks leading the upward charge
- And in the realm of corporate lending, a joint report into major syndicated loans released this month by the Fed, the FDIC and the Office of the Comptroller of the Currency noted a "significant increase in leveraged lending volumes and continued loose underwriting, as evidenced by weak capital structures and provisions that limit the lenders' ability to manage risk"

Deeper in the red – Pg. 9

- By some estimates, \$7tn of QE dollars have flowed into emerging markets since the Fed began buying bonds in 2008

- The Fed has run four QE programmes, printing money under the last one at a rate of \$85bn a month. Western central banks have created about \$8tn since 2008
- There are two main routes by which QE money reached emerging markets. One involved the Fed buying US Treasury bonds from savers such as pension funds, which hold them as long-term super-safe investments with unexciting but reliable yields. By doing so, the Fed drove bond prices up and yields down, sending savers in search of higher yields – such as mutual funds buying corporate and emerging market debt
- Another route involved the Fed buying Treasuries from commercial banks, which – again, to replace the yield they lost by swapping Treasuries for cash – loaned the proceeds to hedge funds and other investors. Hedge funds and so-called leveraged funds often used these loans to buy money-market instruments in the Singapore dollar, Philippine peso or Brazilian real, ...
- Between 2009 and 2014, when the Fed generated some \$4tn in QE, credit provided overseas in US dollars through bank loans and bonds hit \$9tn, ...
- Enter the Shadow Banks
- Lending conditions worsen

Answer: \$11 USD

16 November 2015

Question: What unit of comparison could be used in valuing a golf course?

Boston Fed chief queries pace of rate rises – Pg. 5

- A senior US policymaker has raised concerns about the pace of growth in the commercial property sector and risk-taking in parts of corporate lending, saying that if trends in those markets were to continue unabated, they could become an argument for a somewhat quicker pace of interest rate increases
- The Fed has been sending strong signals that it is preparing to increase short-term rates next month
- As the US got closer to its goals on employment and inflation, the risks associated with a “reach for yield” and higher risk-taking by households and firms loom as a bigger consideration,...
- The “primary focus” for the Fed and central banks in many other advanced economies over the coming year should be to get rates away from zero, ...

China economy fears ease after capital inflows boost – Pg. 6

- Capital flowed into China last month for the first time since an unexpected currency devaluation in August shook investor confidence in the economy, easing fears over financial stability following an unprecedented bout of outflows
- Outflows accelerated following the central bank’s unexpected move in August to let the renminbi weaken and the main stock index fell more than 40% beginning in late June

How a little nudge can lead to better decisions – Pg. 12

- ...Chicago Booth professor, and one of the fathers of nudge theory, which describes how small interventions in the environment or incentives can encourage people to make better decisions
- Yet in those three words Professor Thaler encapsulates some of the biggest concerns of critics of nudge theory: that this area of behavioral economics, of which “nudging” is one element, can be used to manipulate people to their detriment as well as their benefit
- ...this discipline of behavioural economics, which brings together scholars from psychology and sociology as well as business and economics, is proving to be one of the hottest propositions in business education
- The most cited example of nudge in practice is arguably the UK workplace pensions scheme, or Nest, which automatically enrolls employees in a workplace pension yet gives them the opportunity to opt out. This result in a greater take-up than if employees were required to opt in, which takes more time and effort

Answer: Selling point of similar courses on a per hole basis and/or per acre basis.

14 November 2015

Question: If you see lightning and count less than 30 seconds between hearing the thunder, how close are you to the storm?

Oil inventories swell to record high – Pg. 1

- Oil inventories have swelled to the highest level on record as crude producers intensify the battle for market share, putting unprecedented strain on the world’s energy infrastructure
- Opec production is running above its formal ceiling of 30m b/d as Iraq and Saudi Arabia have raised output to near record levels. At the same time, Russia is pumping oil at post-Soviet era highs as it fights for customers in Europe and Asia
- The IEA said global oil supplies breached 97m b/d in October, 2m b/d more than a year ago, with two-thirds of the rise coming from Opec producers

Mortgage market set for shake-up as peer-to-peer lenders plan to move in – Pg. 1

- House-hunters will soon be arranging more mortgages through online peer-to-peer platforms as the new breed of marketplace lenders branches out from unsecured consumer credit into areas such as car and home loans
- ...marketplace lenders still only accounted for 1.1% of all new unsecured consumer credit in the US last year...

Slow Eurozone growth hits recovery hopes – Pg. 4

- The Eurozone economy grew by a lackluster 0.3% between the second and third quarters, dashing hopes of a stronger recovery and raising the prospect of more aggressive monetary easing from the ECB
- Growth in the largest economy, Germany, slowed between the second and third quarters on the back of weaker foreign trade, expanding 0.3%, in line with expectations but down from 0.4% in the previous quarter

Answer: You are within six miles of the storm.

13 November 2015

Question: If you hear thunder, how close are you to the storm?

Influential VW shareholder demands ousting of new leaders for outsiders – Pg. 1

- One of Germany's leading investors has called for Volkswagen to replace its new chief executive and chairman, saying only outside leadership can restore trust in the scandal-hit carmaker
- New chairman ...had been finance director for more than a decade
- VW shares have fallen 70% since US regulators accused the group of cheating on emissions tests

Gold touches 5-year low on Fed ride – Pg. 20

- Gold dropped to its lowest in five years yesterday in volatile trading before rebounding sharply, as the market eyes a rate rise by the US Federal Reserve
- Spot gold hit \$1,074.26 a troy ounce in early afternoon trading....
- Strong US jobs data last week increased the certainty that the Fed would indeed raise interest rates this year, which is likely to be bad for gold
- Retail investors had driven a surge in demand for gold bars and coins in the third quarter, ...

Oil falls below \$45 as crisis glut is exceeded – Pg. 22

- Oil fell below \$45 a barrel for the first time in three months after Opec said the oil overhang had grown even bigger than during the financial crisis

Answer: 10 miles from storm and can be struck by lightning

12 November 2015

Question: What causes Thunder?

Class Apart: Big tech takes over as MBA graduates shun banking careers – Pg. 1

- Graduates from the world's top 10 business schools are 40% less likely to choose a career in banking than they were before the multibillion-dollar losses, trading scandals and shrinking pay packets of the past few years
- Wall Street's biggest banks, including Goldman Sachs and JPMorgan, have been displaced by tech companies such as Amazon and Google as graduates shun the insecurity and long hours of finance in favour of more entrepreneurial professions, or employers such as the consultancy McKinsey
- The fall in the popularity of banking has also outstripped that of the overall financial sector, which includes insurance and fund management, whose appeal has fallen by 23%

China's shoppers take up slack as pain deepens for old economy – Pg. 2

- China's consumers are gradually picking up the baton from the traditional economic engines of manufacturing and real estate, ...
- The slowdown of factory activity and construction pushed Chinese GDP to its lowest annual pace since 2009 in the third quarter at 6.9%, ...
- Urban fixed-asset investment grew at an annual rate of 10.2% in the first 10 months of the year, the slowest pace since 2000 and the 17th straight month of declines,...
- Property was the biggest drag on fixed-asset investment, with real investment dipping to 2%, the slowest pace since data began in 2004. Home sales and prices have crept higher in recent months following a year of declines, but developers are delaying new construction in the face of unsold inventory gluts

ECB renews drive to harmonise bank rules – Pg. 4

- The ECB has made a fresh push to level the playing field for lenders in the single currency area, unveiling a proposal to hammer out big differences in banking rules across the region's 19 member states
- One of the ECB's biggest focuses will be capital requirement. At present, there are about 150 national variances across the Eurozone in how the safest quality of capital is defined.
- The new proposal targets one of the most controversial aspects of banking regulation in Europe: the inclusion in some member states of deferred tax assets in the basket of instruments that can count as capital
- DTAs are created when banks make losses they can later offset against tax
- Under new international standards, known as Basel III, banks must hold capital with a value of 7% of their riskier assets from 2019 to protect them from collapse during periods of financial turmoil

Singles Day in China racks up \$14.3bn sales – Pg. 14

- Singles Day is the biggest shopping frenzy in the global calendar
- The \$5bn of sales recorded in the first 90 minutes yesterday by Chinese ecommerce group Alibaba...

Fixed-income employees set to earn 4% less than last year – Pg. 17

- Bond traders are set to miss out on a general trend of modest pay rises for bankers this year, ...
- In cash equities, however, total pay is set to rise by 7%, while equity derivatives staff are set to pick up 11% more than last year. In investment banking and wealth management, too, average pay is set to rise by 5% and 6%, respectively

US corporate yields close to 2013 peak – Pg. 20

- Yields on lower-quality US investment-grade corporate debt have risen to their highest level since the market rout of 2013, as investors demand a higher premium for owning bonds sold by companies
- Ahead of the Federal Reserve shifting borrowing costs higher as early as next month, investors are increasingly discerning about companies with lower investment-grade ratings

- Companies have issued record amounts of debt across US capital markets this year, with the expectation of further deals ahead of the Fed's policy meeting next month

Answer: Rapid expansion of heated air.

11 November 2015

Question: Is it legal for a business or anyone to provide an incentive to vote in the U.S.?

Warren attacks Dodd-Frank rollback – Pg. 4

- The repeal of part of the Dodd-Frank financial reforms has left big US banks holding \$10tn of “risky” derivatives trades on their books, ...
- The rollback of the relevant rule, which followed almost no congressional debate, prompted stringing criticism of Wall Street and of the perceived influence of bank lobbyists on Capital Hill
- The rule would have required banks to “push out” swaps trades to entities not insured with taxpayer funds
- The furore over the repeal ensured that Wall Street regulation would feature in the 2016 presidential race, with Hillary Clinton and Bernie Sanders, ...jousting over how to rein in banks' risk taking
- Swaps trades enable institutions to exchange streams of payments, typically to reduce their interest rate or currency risks
- Banks want to keep the trades on their books because their margins are higher that way, ...noting that counterparties would demand more collateral from a non-insured affiliate

Deutsche Bank's riskiest bonds near lows as investors fear payout deferrals – Pg. 13

- DB's riskiest bonds have traded substantially below their issuance price over recent weeks, as investors focus on the possibility of coupon payments being missed
- Weakness in additional tier 1 debt, which converts to equity when banks run into trouble, has highlighted the complex challenges facing investors in a growing global market for bank capital
- Banks have been issuing the debt over recent years to meet regulatory requirements. As well as conversion, AT1 bonds allow the issuer to defer the coupon payments, which can also be halted by authorities if a bank is struggling

Dealers withdraw long bond support – Pg. 20

- Wall Street dealers' net positions of corporate debt with a maturity beyond 12 months have turned negative for the first time on record, as companies lock in borrowing costs before a looming shift in US central bank policy
- Corporate bond inventories among US primary dealers – institutions responsible for underwriting the government's debt – have been declining for some time, and have entered the red, ...
- Dealers operating under higher balance sheet constraints have become far less willing to warehouse bonds, and are matching buyers and sellers rather than taking on principal risk

- While the largest US banks continue to hold positive notional amounts of shorter-dated investment-grade debt, those figures have dwindled too – down 62% since the first week of 2015
- Companies have flooded the market with debt, seeking to lock in a low cost of funding for years to come

Answer: No

10 November 2015

Question: How many in a baker's dozen?

Saudis eye first global debt raising as oil dip takes toll – Pg. 1

- Saudi Arabia has decided to tap international bond markets for the first time, in a sign of the damage lower oil prices are inflicting on its public finances
- Saudi officials say the kingdom could increase debt levels to as much as 50% of GDP within five years, up from 6.7% this year and 17.3% in 2016
- S&P's last month reduced Saudi Arabia's ratings from "AA-/A-1+" to "A+/A-1", saying it could lower them again "if the government did not achieve a sizeable and sustained reduction in the general government deficit"

OECD cuts global growth forecasts as shifts in China hit trade – Pg. 2

- A dramatic slowdown in world trade, prompted by shifts in China and other emerging markets, risks weighing down the global recovery, ...
- ...predicting the world economy will expand by 2.9% this year and by 3.3% in 2016. This compares with earlier projections of 3% and 3.6%, respectively
- ...OECD still expects China to grow by 6.8% in 2015, 0.1% faster than predicted two months ago
- The economic outlook expects the euro area to grow by 1.5% this year and 1.8% in 2016, marginally lower than expected in September

Bridging the gap - Pg. 8

- The World Economic forum estimates a global need for \$3.7tn in infrastructure investment each year, while only \$2.7tn is invested, mostly by governments
- In the US, the American Society of Civil Engineers estimates that ageing and inadequate infrastructure – from power problems to hours lost in traffic jams – will have cost every American family \$28,000 in income by 2010 if investment trends stay the same

US investors hope revenue growth lies in store – Pg. 22

- With nearly all S&P 500 companies having reported results for the third quarter, revenues for those in the index fell 3.7% year-on-year, marking the third consecutive decline...
- Revenue, or top-line growth, has been elusive against the backdrop of a US economy experiencing a generally lackluster recovery

- Now with investors expecting that the Federal Reserve will raise official borrowing costs from near zero next month, US companies stand to incur further pressure on their foreign-based revenues as the value of the dollar is likely to continue appreciating

Answer: 13

9 November 2015

Question: If rates are raised at the December meeting with the Federal Reserve, what will a 25bp rate increase cost for a family with a \$450,000 loan over 30 years, i.e. loan rate from 4.25% to 4.50%?

Saudis vow to keep pumping oil despite domestic financial pain – Pg. 1

- Saudi Arabia is determined to stick to its policy of pumping enough oil to protect its global market share despite the financial pain inflicted on its economy
- Saudi Arabia rocked oil markets last November when Opec decided against production cuts, making clear that the kingdom was abandoning its traditional policy of reducing supplies to stabilize prices. Since then, oil price has collapsed from a high of \$115 a barrel last year to about \$50 a barrel
- Opec, led by Saudi Arabia, plans to pump as much as it can to meet global oil demand, leaving higher cost producers to make up the remainder
- Falling oil prices have pushed Saudi Arabia into a fiscal crunch. This year's budget deficit is 20% of GDP

Brazil stares at budget black hole as deficit estimates grow – Pg. 3

- As government debt grows so does the burden of serving it, eating up the budget in a country that has among the highest interest rates in the world, with the central bank's benchmark lending rate running at 14.25%
- The deterioration in Brazil's public finances follows the onset of what is expected to be the country's worst recession since the 1930s, with the economy on track to contract 3% this year and 1% in 2016
- Much of that is down to a slowdown in China which has weakened demand for Brazil's commodities exports and lessened tax revenues

To err is human, but can bring catastrophe – Pg. 1 (supplemental)

- At the root of most of the growing list of corporate disasters in recent years lies a common factor – people
- People risk can range from simple mistakes, such as staff clicking on a virus-infecting email, to lack of vital skills, poor succession planning, strategic miscalculations, lax safety rules and deliberate acts of sabotage or fraud
- "In almost every case, quite serious people within the organization knew the vulnerabilities they were facing or that they had already been holed below the waterline. Either it didn't get to the board or it got ignored"
- Individual failures seem inextricably bound up with a company's culture and the quality of leadership

- There is now a global standard for risk management, ISO 31000, providing principles and generic guidelines. Many companies have adopted systems of “enterprise risk management”, or ERM, which offers a framework for identifying, analyzing, responding to and reducing risks

Embarrassment awaits when top talent becomes the problem – Pg. 2 (supplemental)

- (Prof Note: When will Georgetown acknowledge Dean Otter’s destruction of the Real Estate programme? It is a bitter pill, but one that must be swallowed. A Dean cannot be allowed to misrepresent programmes to students, promise and then deny (harming student’s education), and then fabricate false statements, in writing, to justify the harm. I still am amazed when I learned of a transcript from a Georgetown meeting which was between students/alumni, the chief of staff and Assistant provost when students’ concerns were dismissed and the Assistant provost wanted to discuss additional professional development programmes, i.e. other revenue generating ideas, rather than fix the ailing real estate programme.)

Answer: Interest at 4.25% is f clx, 450000 chs pv, 4.25 g l, 30 g n, pmt...2,214 (rounding); interest at 4.50% is f clx, 450000 chs pv, 4.50 g l, 30 g n, pmt...2,280 (rounding). Total interest paid at 4.25%: 2214 Enter, 12 X, 30 X, 450000 - ... 347,040 and total interest paid at 4.50%: 2280 enter, 12 X, 30X, 450000 - ...370800...Enter 347040 - ...23,760

7 November 2015

Question: What is the relationship between price and yield with regard to bonds?

US job surge paves way for rate rise – Pg. 1

- ...payrolls expanded by 271,000
- The jobless rate fell to 5%, half the level it reached during the worst days of the recession, as the number of unemployed people dropped by 1.1m compared with this time last year
- Wages rose at their strongest clip since 2009, with average hourly earnings rising 2.5% over the year
- ...the two-year Treasury yield jumping to a five-and-a-half year high as traders priced in a Fed rate increase next month. The dollar also shot up, with the euro 1.4% lower against the US currency at \$1.0736 and sterling down 0.9% at \$1.5076
- Gold fell 1.6% to \$1,086.78
- The figure means the pace of job growth in the past three months has averaged 187,000 per month, slower than the 210,000 pace in the first half of the year but still strong progress by any measure

Carson admits lying about being offered West Point scholarship – Pg. 2

- In the book, he claims to have been offered a full scholarship to West Point, but wrote that he turned down the offer to pursue his dream of becoming a doctor. Yesterday, his campaign admitted that he had not even applied to the college (Prof Note: When is society going to hold liars accountable? Is it ok to lie if you are not caught? Does this not cause

immediate credibility loss? Look at how Dean Otter lied to the students at Georgetown harming their educations and yet is not held accountable? Dean Otter claims fiscal issues for canceling promised programmes to the students and yet pays certain instructors \$28,000 per class and offers to pay out large severances. (I have the contracts and documents!) Why not do what is right for the students?! Let us study this in “Ethics” classes!)

Dovish BoE keeps pound under pressure – Pg. 15

- Sterling took a dive yesterday after robust US jobs data crowned this week’s dovish guidance from the BoE that suggests the UK central bank will lag behind the Federal Reserve in raising borrowing costs

Mixed signals on rates send investors off track – Pg. 15

- For investors waiting on movement in central bank policy, recent announcements from the three conductors in charge of US, European and UK interest rates have only compounded confusion about the journey ahead
- ...Fed fears of the wealth effect of financial market contagion on US growth have partly eased as markets settled, whereas the BoE “has to take more seriously” stronger signs of the slowdown in emerging markets

Gold at 3-month low after strong US jobs data – Pg. 15

- Gold at a three-month low yesterday after a strong US jobs number boosted the chances of the Federal Reserve raising interest rates for the first time since 2006 at its next meeting in December
- An increase in US rates is bad news for bullion because it raises the opportunity cost of holding gold, which offers no yield to investors. A stronger US currency – the dollar index hit its highest level since March yesterday – also makes the metal more expensive for the holders of other currencies
- Wages also rose at their strongest clip since 2009, with average hourly earnings up 2.5% over the year

Answer: Inverse, if price goes up, yield will decrease. The coupons and face value are fixed, the only real variable in a bond is the price. Yield is the resultant.

In response to my question, “How many cubic yards of concrete truck hold?”, I received many comments. The most complete is below. Please note the author does state that his weight limits may be dated.

Roger...NOT It all depends on the volume of the drum. For example: there is a 60,000 pound weight limit on a conventional three axle concrete truck in Virginia (varies in other states), Suppose the truck weighs about 27,000 so you can haul a 42,000 pound payload. Concrete weights roughly 4,100 pounds a cubic yard but varies depending on density of material, but a good rough calculation. This would permit a legal eight yard load of concrete. In order to make the mixing efficient, the drums are designed larger, usually nine or ten yards. In the old days when we were putting out a half million yards a year, it was common to take a chance on avoiding

the 'White Boys' (The white van used by VDOT to do spot checks of weight limits, measured by the weight per axle) and tell the dispatcher to 'ship the whole nine yards' and that's where to old saying came from. In current times, companies are adding 'tag axles' that allow increasing the pay load and getting it up to ten yards. In Illinois and other states, due to the heavier design of roads or loose regulations, they can haul up to twelve yards legally on multiple axle trucks.

6 November 2015

Question: What two rates does the Federal Reserve set?

Britain takes dovish path on raising interest rates – Pg. 1

- The BoE became the latest central bank to use monetary policy to add more stimulus to the economy, with its forecasts showing it is no longer likely to raise interest rates anytime soon
- The BoE's move leaves the Federal Reserve as the only large central bank considering rate rises in the near future
- The bank's dovishness sent the pound 1% lower against both the dollar and the euro
- The BoE's key judgment is that the world economy will struggle to grow at its average rates of recent years, but this would be offset by robust UK household and corporate spending, encouraged by lower interest rates for longer

Japan places bet on Las Vegas-themed daycare to offset price of ageing crisis – Pg. 1

- As Japan's demographic crisis has deepened, the number of daycare facilities has doubled since 2010 to about 40,000. But the majority, ...offer activities that "are too childish, patronizing even. These are adults and they want serious activities"

Goldman sweetens pill for junior staff – Pg. 14

- Goldman Sachs is promising junior investment bankers faster promotions more diverse experiences and less menial work as part of Wall Street's latest attempt to lure new talent in the face of tough competition
- Goldman is trying to respond to the changes that have taken place in the industry since the early 1980s,...then, bankers, worked long hours, but it was ok to leave the office in the evening and pickup voicemails the next morning...
- Now, "if someone sends you a message and you don't respond in an hour, they...wonder if you've been hit by a car"

Yields gap widens as dollar powers ahead – Pg. 22

- With the US two-year Treasury note yielding 0.85%, the benchmark now sits 117 basis points above the German yield of minus 0.32%. The gap has grown since the start of 2014, with momentum accelerating in recent weeks
- The interest rate differential in favour of the US reflects the policy divergence between the Fed, looking to tighten, and the ECB, which is expected to announce additional easing measures.
- The only things that could derail a December rise were a deterioration in data or notable market volatility...

Answer: Federal Funds Rate and Discount Rate

5 November 2015

Question: Will raising rates strengthen or weaken the dollar?

Bullish Yellen signals possible rate increase – Pg. 4

- The “downside risks” to the US economy from global economic and financial developments have diminished since September, ...
- Ms Yellen added that spare capacity in the jobs market had fallen “significantly” since earlier in the year, even if there had been a recent slowdown in the pace of job gains
- One of the key numbers will be labour market indicators, with payrolls data due tomorrow morning

Insurers prepare for loss-absorbing bonds – Pg. 20

- Financial engineers are working on a kind of loss-absorbing bond to be issued by insurance companies, in the latest instance of evolving regulatory frameworks spawning new asset classes
- “Restricted tier one” bonds will count towards an insurer’s capital and can be converted to shares or written down when its solvency ratio falls below a certain level
- Convertible “additional tier one” bank bonds are already issued in huge volumes, driven by fast-evolving regulatory standards in the banking industry
- Convertible bonds, which pay a higher, fixed coupon but entail equity-like downside risk, blur the boundaries between bonds and shares. The coupons on bonds are typically paid out of pre-tax profits, whereas dividend payments come out of post-tax profits
- Authorities in the UK are close to accepting convertible tier one insurance bond coupons as tax deductible, paving the way for more cost-efficient issuance

Treasuries retreat after Yellen comments bolster the dollar – Pg. 21

- The Fed chair said the US economy was “performing well” and was expected to continue to grow at a pace that would “return inflation to our target over the medium term”

Answer: Most likely strengthen, harming export.

4 November 2015

Question: How many cubic yards of concrete does a concrete truck hold?

Banks face capital call for commodity disaster costs – Pg. 1

- US banks that handle physical commodities will be forced to hold large capital cushions under Federal Reserve plans to hedge against costly disasters such as tanker spill or gas pipeline explosions
- The Fed wants to use capital charges to discourage banks from risky activities involving hazardous materials that could threaten their survival in the event of a catastrophe, ...

- Market risk rules already require banks to hold capital to protect against swings in commodity prices but they do not cover “operational risks” that could lead to lawsuits or penalties that far exceed the value of assets involved
- Goldman Sachs and Morgan Stanley began bulking up in commodities trading in the 1980s while Citi received Fed permission to handle commodities in 2003

Death rate surges among middle-aged US whites – Pg. 5

- Drug and alcohol abuse and mental health issues have contributed to an alarming surge in deaths among white middle-aged Americans since the late 1990s, in a trend that has reversed decades of progress and is not being seen in other advanced economies
- ...rising mortality among white men and women aged 45 – 54 caused not by factors such as heart disease or diabetes but by suicides and overdoses of prescription drugs and alcohol-related diseases
- ...huge problem because patients who had once been prescribed OxyContin, an addictive painkiller, had switched to heroin, which is cheaper and easier to obtain
- Between 1978 and 1998 the mortality rate among US whites aged 45-54 fell 2% a year on average, approximately matching six other countries – France, Germany, the UK, Canada, Australia and Sweden
- But while in other rich countries the mortality rate had continued to fall after 1998, in the US it had reversed, with gains of half a per cent a year, ...
- “Although all education groups saw increases in mortality from suicide and poisonings, and an overall increase in external cause mortality, those with less education saw the most marked increases”...
- The US Food and Drug Administration has declared opioid abuse a national epidemic, claiming an average of 45 lives through overdose each day

Disparities in US jobs data fuel debate – Pg. 6

- While joblessness has improved dramatically since the recession, the labour force participation rate has been dropping remorselessly
- The September jobs figure showed the participation rate of those aged 16 and over had dropped by half a percentage point since the start of the year to 62.4% - the lowest since 1977
- A chunk of this phenomenon is down to predictable long-term factors, such as baby boomers retiring as the workforce ages, as well as increases in the number in full-time education – trends that central bankers can do little to influence
- ...big falls since May in the 25 – 34 age group, as well as for 45 to 54-year-olds

Answer: 10

3 November 2015

Question: A REIT (Real Estate Investment Trust) must distribute what percentage of its income?

US investors trail rivals as Cuba opens up – Pg. 3

- Chinese and British developers are building luxury golf resorts. Mexico and other countries are investing in a development zone. And Vietnam has inked a deal to build a hotel, following the path of Canadian and Spanish hoteliers
- When John Kerry, US Secretary of state, opened a US embassy in Havana in July, it was a milestone in bringing US investment into the communist country
- Few experts expect Congress to lift the embargo soon, ...
- So for now, US businesses are targeting areas that are not covered by the embargo. Farming states have been pushing hard for an easing of barriers given the US already has substantial agricultural exports to Cuba
- one key barrier the agriculture sector complains of is a prohibition on the provision of credit and financing for US exports
- among US multinationals watching developments is Coca-Cola. It made Cuba one of the first nations outside the US to have a bottling plant but left in 1960 after the Castro government started seizing assets
- In 2014, the Cuban economy was only \$77bn...

HSBC puts brakes on shifting assets to Asia with plan to return excess capital – Pg. 13

- HSBC unveiled a “pivot to Asia” strategy in June, designed to boost its flagging performance. It planned to slash underperforming operations in Europe and the Americas and shift up to one-eighth of its capital to more promising markets, notably in China
- ...said yesterday HSBC had hit the brakes on this redeployment because of the slowdown in Asian economies

Beijing lifts renminbi fix by most in a decade – Pg. 20

- China’s currency fell against the dollar yesterday despite the sharpest rise in the daily renminbi fix in a decade
- The PBoC bolstered the midpoint of the range within which the currency is permitted to trade by 0.54% - the most the fix has been reinforced since 2005, when the renminbi was unpegged from the US dollar

Answer: 90%

2 November 2015

Question: Does the Accredited Investor definition exclude one’s primary home and is income and net worth an “or” or an “and” in the definition? (thank you for the clarifications AND source siting. ☺)

Beijing comes to aid of Eurozone QE drive with sales of German bonds – Pg. 1

- Eurozone central bankers, struggling to boost a flagging recovery, have received help from Beijing for their 1.1tn (euro) quantitative easing plan thanks to sales of German government debt by the PBoC
- The Bundesbank has scoured the world for sellers, ...under pressure to make a return on its reserves portfolio, Safe has agreed to take advantage of the high prices on offer for low-yielding German bonds

MBA by numbers Jobs in finance lose allure – Pg. 11

- For the first time since the rankings began in 1999, fewer graduates from the elite business schools go on to work in finance and banking than did so before they began their MBA. In fact, the proportion of top 10 MBA graduates in finance and banking dropped by 5% in the 2015 ranking, from 33% for the pre-MBA class to 28% three years after graduation
- The financial crisis in 2008 is one obvious factor behind this drop. The salary premiums attached to finance jobs, while still attractive, are not nearly as good as they used to be
- MBA graduates surveyed for the 2008 ranking who switched to finance after their MBA saw their salary increase by 170% on average, from pre-MBA salaries of \$60,000 to \$161,000 three years after graduation. Those surveyed in 2014 merely doubled their salaries to \$139,000
- Another factor is that jobs in the IT and telecoms sector are becoming more attractive
- ...the elite graduates from the 2015 top 10 MBA programmes lead the way: a quarter of them who left finance went into IT and telecoms, compared to only 14% of graduates from other programmes
- (Prof Note: I continue to be concerned that Universities are teaching the wrong things or rather not stressing what is truly important. Think of the above, Universities, in my opinion, focus on better and better jobs, i.e. increasing income. However, I think wealth has two requirements: (1) Income and (2) Capital. Capital is achieved, in my opinion, through transactions, i.e. one's own deals, rather than salaried positions where one is building equity (capital) for someone else. Is not a significant capital base required to develop one's own income, i.e. passive income? It is the chicken and egg conundrum BUT you need both and without one you will not be financially independent, i.e off grid. I was/am happy to learn that Hopkins is bringing back the Wealth Management course. Let us lecture as much on how to manage one's own salary as manage someone else's business!)

Answer: The definition states that net worth does exclude one's primary home (this I thought). However, the income requirement, i.e. \$200,000/year for the past two years or \$300,000/year for couples, is an "or", i.e. to be an Accredited Investor one must have EITHER net worth exceeding \$1.0m (excluding primary home) or meet the income requirement.

31 October 2015

Question: What is a Accredited investor?

Central bank moves drive equities – Pg. 1

- Global markets clawed their way back to near record highs in October as central banks' efforts to stem rising concerns over the health of the international economy sent investors flocking back to equities
- US corporate revenues have been falling and commodity prices remain in the doldrums, keeping deflation concerns alive, but central banks have swung into action to help reinvigorate markets

Eurozone's small rise in prices misses ECB inflation target – Pg. 4

- Prices ticked up across the Eurozone this month, although they remain well short of the ECB's 2% inflation target needed to bolster the region's economic recovery
- Overall, prices in the Eurozone were unchanged in the year to October, ...
- A stronger QE programme could involve extending bond buying beyond September 2016, increasing monthly purchases from the current 60bn (euro), or expensing the range of assets included under the programme
- The central bank could also consider cutting its deposit rate from the current level of minus 0.2%. A rate cut will almost certainly weaken the euro, raising inflation on imports
- Eurozone unemployment also hit an almost four-year low of 10.8% in September 2015

SEC eases crowdfunding rules as fears rise over investor risks – Pg. 10

- US regulators yesterday approved rules that would let all Americans invest in the equity of start-up companies raised through online crowdfunding, expanding the scope of the industry but also potentially bringing new risks
- Crowdfunding sites in the US, such as the Kickstarter platform, have been limited to raising money for donations or for advanced purchases of goods to back new ventures. Buying equity through crowdfunding has been restricted to accredited investors who have certain asset and income levels
- Under the rules, companies can raise up to \$1m in 12 months while sales to individuals are capped at \$100,000 in the same period, with other limits based on income and net worth
- Companies are relieved of the full burden of disclosure requirements in traditional public stock offerings (Prof Note: As I state publicly, I think this is a bad idea. Already John/Jane mainstreet do not understand the capital markets. Is there an education requirement for those receiving the funds? Not a question?!)

Doom-mongers display Halloween spirit – Pg. 13

- Global debt levels continue to rise, deflation fears fester and extraordinary action from central banks has failed to buttress the economy recovery. The IMF recently sliced its growth forecast for this year to 3.1%, which, aside from the financial crisis, would be the lowest since 2002
- Corporate revenues are stagnating or falling; Europe remains weak, politically fraught and vulnerable; the US recovery has hit the skids; and some fear another recession is in the pipeline (Prof Note: Count me in this group!)

Answer: Having an income in the past two years exceeding \$200,000 (\$300,000 jointing with spouse) and a net worth exceeding \$1.0m (I thought this was excluding one's primary residence but cannot confirm my understanding)

30 October 2015

Question: What is crowdfunding?

Beijing finally gives up on one-child rule – Pg. 1

- China has said it will abandon its much resented one-child policy, introduced in 1979 when the communist party feared runaway population growth
- Beijing has been under rising pressure domestically to end the policy because it has exacerbated the ageing of China's society and led to a shortage of workers at a time when China is experiencing an economic slowdown

Deutsche Bank shake-up to cut 9,000 staff and quit 10 countries – Pg. 1

- Deutsche Bank is to withdraw from 10 countries and cut 9,000 jobs as part of a sweeping strategic overhaul designed to help restore the German lender's flagging fortunes
- The move comes after a torrid few months for Germany's biggest bank, which was hit by a \$2.5bn fine for its involvement in the Libor scandal in April; lost one of its co-chief executives, in July; and is now embroiled in a burgeoning scandal over its Russian business

Bush donors waver after poor debate performance raises campaign fears – Pg. 1

- The son and brother of two former presidents started 2015 as the frontrunner. He has raised record funds but this poll numbers have tumbled as outsider candidates have won over the party base (Prof Note: My "vote" is anyone but 'Clinton' or 'Bush'. In my opinion we have a presidency NOT a crown to pass.)

US growth slows despite spending spree – Pg. 4

- Growth in the US economy slowed sharply in the third quarter, but US consumers continued to spend at a robust pace, suggesting the expansion remains on track
- Real GDP rose at a 1.5% annualized pace in the July to September period, well below the 3.9% for the second quarter but in line with Wall Street estimates
- The main reason for the deceleration was a slowdown in inventory accumulation by companies, ...
- Discouragingly, the rate of inflation in the report showed a sharp slowdown, as the price index for personal spending, excluding food and energy, grew at 1.3% compared with 1.9%

Fed speaks plainer English on rates – Pg. 4

- In dropping language warning of risks to US growth and inflation from skittish financial markets and a sluggish global economy, the Fed eased a big barrier to an upward move in rates, even if it insisted that it was still monitoring overseas developments
- Among the possibly implications is that the Fed sees easing moves by the ECB and the PBoC as net positive for the US, because they help global growth

Fears bank loans will break liquidity rules – Pg. 20

- Investors fear loans made by banks to companies could breach US liquidity rules that aim to guard against the risk of funds being unable to pay out when faced with redemptions, due to their long settlement period
- Under the proposal, open-end funds, such as mutual funds and exchange traded funds, must grade assets based on how long it would take to convert them to cash, ranging from one business day to more than 30 calendar days

- Funds will also have to set their own minimum percentage of assets that can be converted into cash within three days, without materially affecting the asset's price
- If funds are forced to hold more liquid, lower yielding, assets, it could impact on performance

Treasury yields climb as Fed adopts a more hawkish tone – Pg. 21

- The 10-year US yield was up another 7bp at a one-month high of 2.16%, while the equivalent maturity German Bund yield rose 8bp to 0.53% as it continued to bounce off a six-month low hit on Wednesday
- The euro was up 0.4% versus the dollar to \$1.0964, ...

Answer: The act of raising large amounts of money from a large investor base.

29 October 2015

Question: What is the current short-term rate set by the Fed, i.e. the rate?

Door open for December rate rise as Fed wrongfoots investors – Pg. 1

- The Federal Reserve dropped previous warnings about the global financial and economic risks posed to the US economy as it signaled that an increase in short-term rates may be on the table in its December meeting
- Investors were wrongfooted by the unexpectedly hawkish statement that accompanied the Fed's decision, after many analysts predicted that the US central bank would continue to strike a cautious note on the US and global economy
- The Fed, which has not lifted rates since 2006, kept its target range at historic lows of 0-0.25% at its meeting, ...

Hyatt holds talks to buy Starwood – Pg. 13

- Hyatt is in late-stage negotiations to acquire its larger rival Starwood Hotels and Resorts in a deal that would bring together some of the world's biggest hotel brands including the Sheraton, St Regis and W chains
- If successful, the takeover would create a company with a portfolio of more than 500,000 rooms, allowing it to take on faster-expanding rivals such as Hilton and Marriott, who account for more than half of all new hotels under construction in the US
- Starwood has come under pressure from hedge fund investors to break up or sell the company following a poor performance in emerging markets where it is heavily exposed

VW plunges to first net loss in 15 years – Pg. 14

- Volkswagen slumped to its first net loss in at least 15 years in the third quarter and warned that full-year operating profit would fall "significantly" owing to costs related to the diesel emissions scandal
- Although VW admits that its employees were to blame for the emissions cheating, it said the provisions for repairs are tax deductible under accountancy rules which management said

was “very legitimate and right”. The tax treatment of any fines or penalties would be “probably very different”, ...

- Europe’s biggest carmaker by sales has admitted that up to 11m vehicles worldwide contain engine-management software that can understate nitrogen oxide emissions under the conditions of laboratory tests

Goldman fined \$50m over NY Fed information – Pg. 17

- New York’s state banking regulator has slapped a \$50m fine on Goldman Sachs and ordered it to suspend consulting activities for three years after an employee stole secret supervisory information from the New York Federal Reserve
- ...accept a three-year “voluntary abstention” from new consulting engagements

Puerto Rico approaches precipice of default – Pg. 20

- Puerto Rico faces significant payments on its debt over the next two and a half months and there is growing unease that the US territory will default on some of its most senior paper
- The Caribbean island is struggling with a \$72bn debt mountain that its governor has characterized as “unpayable”
- It has defaulted this year on a bond issued by the Public Finance Corporation
- Jack Lew, US Treasury secretary, has warned that a disorderly resolution to the crisis could hit small retail investors – many of whom hold bonds passively through US municipal bond mutual funds. Nearly half of these muni funds hold Puerto Rican debt, which was attractive for its tax-exempt status
- ...\$3.6tn muni market

Answer: 0 – 0.25%

28 October 2015

Question: What is the definition of risk?

Italy is latest entrant to elite negative yield club as stimulus talk fires bonds – Pg. 1

- Italy sold two-year debt at a negative yield for the first time yesterday, as concerns over the health of the global economy and expectations of further central bank stimulus reignited a rally in bond markets
- The sale gains Italy entry to a select group of countries – including Germany, France and Switzerland – whose borrowing rates have turned negative as investors prove willing to buy their debt at any price
- The negative yield for Italian debt means investors are now paying to lend to a country which as one of the highest debt to GDP ratios in the world and has long been a byword for fiscal profligacy
- The ECB became the first major central bank to experiment with negative rates when it reduced the deposit rate to minus 0.1% last summer. It now stands at minus 0.2%

US debt ceiling deal set to avert threat of default – Pg. 2

- In an unexpectedly broad deal, lawmakers and the Obama administration has agreed to measures that would avert a looming US debt default and allow modest increases in budget spending for the next two years
- The deal, which was posted online as a “discussion draft” late on Monday would pay for an \$80bn increase in spending over two years with measures including piecemeal entitlement reforms and a sale of national oil reserves
- It also suspends the US’s \$18.1tn debt ceiling until 2017, removing the threat of default on November 3 when the country was set to run out of ways to stay within its borrowing limits

Risk-averse sentiment resurfaces ahead of Fed and BoJ meetings – Pg. 21

- Caution ahead of central bank policy meetings this week and some disappointing corporate earnings and economic data combined to keep global equity markets on the back foot
- A further plank of support for stock markets this month has come from expectations that central banks across the globe will keep their policy accommodation in place
- The yield on the policy-sensitive two-year US government bond – which moves inversely to its price – was down 2bps at 0.62% while the 10-year Treasury yield was 4bp lower at 2.02%

Answer: The deviation from an expected return.

27 October 2015

Question: What did I discover about the iPhone 6 S Plus today?

UK prisons – Pg. 6

- In 2015, the number of over-60s in jail topped 4,000 for the first time on record, more than double the figure 10 years ago. It is the fastest growing age group in custody
- ...ethical dilemmas for society: whether it is right to enforce punitive regimes on the terminally ill; how to rehabilitate those who will never be released; and whether there is any point in incarcerating those who are so old or so demented that they do not even know they are in prison
- Nearly one in five of the inmates is aged over 60; about 40% are over 50
- The contrast between the prisoners’ age and their threat to society presents one of the most vexing problems for the penal system. As category B inmates – meaning they do not require maximum security but are still considered escape risks – the Rye Hill prisoners must be double-cuffed while in transit, even if they are ill or en route to hospital
- At a time when many British pensioners are struggling to pay for nursing home costs and the government has cut its social care budget, it is striking that the public sector is taking on much greater caring responsibilities by incarcerating more older people
- Under new legislation that came into force this year, local authorities now have social care responsibilities for prisoners before they are released from custody

iPhone at risk of fall to earth after growth spurt – Pg. 15

- Apple's smartphone has become one of the most profitable products the technology industry has ever produced. In the three months to December last year, so lucrative was the iPhone that Apple reported the most profitable quarter of any US company on record
- But Apple stock climbed 3% on Friday after Morgan Stanley note predicted a more robust 7% iPhone growth rate for the coming year, citing demand surveys in the US and China
- (Prof Note: I witnessed a car crash today and tried to call 911 on my iPhone. I could not get 911 to work on my iPhone!)

Asian stocks extend dominance of EM index – Pg. 20

- The region accounts for a record 69.5% of the index, up from 63.1% a year ago and a little over 40% in 2000
- As a result, the weighting of the (eastern) Europe, Middle East and Africa region has fallen to 17.6% and that of Latin American region has fallen to a record low of just 12.9%, less than half its weight in 2000
- The Asian surge has been led by China, which has gone from a weighting of 0.4% in 2000 to 23.8%

Answer: 911 does not work! (I am fine...was related to an accident I witnessed and was trying to call for help)

26 October 2015

Question: What is the relationship between price and yield for a bond?

Fed expected to keep rates on hold – Pg. 2

- The Federal Reserve is likely to leave interest rates unchanged this week while keeping its options open for its pivotal December meeting as it assesses signs of more muted growth in the US economy
- The majority of Fed policymakers, including chair Janet Yellen, have said they expect the first upward move in the federal funds rate to happen this year, but the picture has become of slower hiring and a high-level policy split among the Fed governors
- Further complicating Fed calculations is the prospect of further stimulus by foreign central banks including the ECB – something that could put added upward pressure on the dollar but also help global demand
- More encouraging developments in markets recently may help the case of those who argue for higher rates. Equities have rallied in part because of better economic numbers in China, as well as suggestions from ECB president that he may further ease policy in December

Big Swiss lenders warned over expansion – Pg. 16

- Switzerland would toughen further the capital requirements for its two biggest banks if they expanded significantly, the country's financial regulator has warned.
- But the rules would be tightened if the banks expanded their global size or domestic market share – for instance via acquisitions

- Switzerland also broke new ground in global bank regulation last week by setting minimum requirements for “loss-absorbing capital” which would be used instead of taxpayers’ funds to bail out banks if they hit severe difficulties and could not continue normal operations. Switzerland will in future require a 10% “total loss absorbing capacity” leverage ratio

Answer: Inversely related, i.e. when price goes up yield goes down and vice versa.

24 October 2015

Question: What does a negative yield mean?

Beijing furthers efforts to halt slowdown – Pg. 1

- China’s central bank cut benchmark interest rates for the sixth time this year in a bid to support an economy that is forecast to grow at its slowest annual rate in 25 years
- Expectations for global growth have already been revised down to 3.1% in 2015, the lowest IMF forecast since 2009, ...
- The PBoC said it was lowering the one-year benchmark bank lending rate by 25bps to 4.35% and the one-year benchmark deposit rate to 1.5%, from 1.75%

Student protestors force Zuma into climbdown on tuition fees – Pg. 4

- Economic growth is tepid, while rampant unemployment – particularly among the young – and widespread poverty blight one of the world’s most unequal societies
- Demonstrations erupted at the University of the Witwatersrand in Johannesburg last week in protest at a proposed rise in tuition fees of up to 11.5% and spread across the country, forcing top universities to close (Prof Note: Did not Dean Otter, Georgetown, raise tuition by 10.0% after stating tuition would only increase 3.0%?!))

Investors embrace the return of ECB largesse – Pg. 11

- The main surprise was the ECB reneging on a previous pledge not to cut the deposit rate, seen by many as reflecting a realization that boosting the firepower of QE would not be enough
- Much therefore depends on the euro weakening further, a prospect clouded in part by doubts as to whether the US Federal Reserve will tighten policy this year, underpinning a stronger dollar

Answer: You receive less than what you paid, i.e. you are paying to deposit money.

23 October 2015

Question: How long did it take Roger to purchase and set-up his iPhone 6 S Plus?

US vies with Hong Kong as HSBC ponders moving base from Britain – Pg. 1

- The US is emerging as a serious alternative to Hong Kong as the possible headquarters for HSBC, as Europe’s biggest bank by assets considers shifting its base from the UK

- Hong Kong has long been considered the most likely destination for HSBC if it does decide to move, as the bank was based there for more than 100 years
- Advisers to HSBC say the US is one of the few countries with an economy big enough to be able to comfortably welcome a bank of its size. Bankers also view US regulation as more accommodating of large universal banks

Puerto Rico at risk of 'humanitarian crisis' – Pg. 4

- Puerto Rico's fiscal meltdown could escalate into a humanitarian crisis if Congress does not act, ...
- The US territory, which defaulted on some of its debts in August, is expected to exhaust its available cash before year end even as it takes emergency measures to maintain a liquid position
- The situation could put at risk services including police and fire protection, medical services, and social support, ...

Gender gap drives income inequality, says IMF – Pg. 4

- After the financial crisis, much of the discussion on the cause of growing income inequality and the rise of the "1 per cent" has focused on wealth and investment income or a "skills gap" and access on higher education
- ...more potent driver of inequality: exclusion of women from the workforce in large parts of the world and their lower pay in those countries where they do work

US 2-year sale delayed on ceiling fear – Pg. 20

- The US Treasury is postponing a government note auction because of the looming debt ceiling, underscoring the dangers of an accidental financial and economic disaster as Congress stalls on approving a rise to the \$18tn limit
- Short-term Treasury bills have already registered a ripple of nervousness over the political stand-off, which is leading to dislocations in the US financial system
- To stay below the debt ceiling, the government has already had to curtail debt issuance. Its cash balance had fallen "well below" the \$150bn minimum level needed to cover a week of outflows – let alone any unexpected shocks, similar to Hurricane Sandy or the 9/11 terrorist attacks...
- Authorities have previously estimated that they will have less than a day's expenditure to hand in cash by November 3

Answer: Six hours! No joke! Michael C. went with me and finally understood why nothing is simple for me. It took over two hours to simply purchase the unlocked version. AND....no it was not due to technical incompetence. By the way, HOLY COW...The iPhone has replaced four 'devices' already, e.g. HotSpot, iPod, Phone, and glasses (bigger screen I can now read). It may MAY even replace my Franklin Planner. Last week Alan W and I made fire (literally) and this week the iPhone. I cannot keep up with the pace of technology in my life. So far, I am lov'n the iPhone. Oh, so, it was 3:00pm on a Thursday in Columbia Mall, Maryland. The Apple store was packed, we had to wait 20 minutes for a representative, and people were purchasing. In total the iPhone was \$1,000 and my AT&T plan \$150/mo. Apple was literally printing money at 3:00pm on a Thursday, i.e. workday. Amazing!

22 October 2015

Question: What is the world's largest company by market capitalization?

US regulator signals first moves to rein in risks of high-speed trading – Pg. 1

- Such so-called “flash events” have become linked with the growing popularity of high-speed, computerized trading, which has been criticized by institutional investors for fueling volatility
- A July report by the US Treasury and regulators into the “flash event” found the growth of rapid electronic trading had played a central role in the abrupt price and yield swings
- Automated traders account for about 67% of 10-year Treasury futures listed on the CBoT, ...

Bonds jittery ahead of US debt default – Pg. 2

- The US is set to hit its \$18.1tn debt ceiling on November 3 and can only avert a default, which was only just avoided in 2011 and 2013, if Congress raises or suspends the debt limit
- Jack Lew, the US Treasury secretary, who has warned that on November 3 the US will exhaust the extraordinary measures it has used to avert a default, ...

Threat to Eurozone prompts QE rethink – Pg. 2

- ...signs of a slowdown in the Chinese economy and worries about weakening emerging markets are posing a renewed threat to the currency area, ...
- ...inflation in the Eurozone has fallen back into negative territory and looks set to elude the central bank's target of below but close to 2% for longer than hoped

IMF presses Riyadh over ballooning fiscal deficit – Pg. 3

- ...warning that the biggest oil producer might deplete its financial reserves within five years unless it builds on efforts to balance its budget
- ...fiscal deficit hovering around 20% this year and next
- Saudi Arabia has increased spending on wages and special projects. It has spent heavily on the war in Yemen
- The price at which Saudi Arabia can balance its budget is \$105.6 a barrel this year, falling to \$95.8 a barrel next year
- The IMF forecast that Saudi Arabia's gross government debt, at 1.6% of GDP last year, would rise to 6.7% this year and 17.3% next as its sovereign bond programme progressed

India's bad loans much higher than official data, report warns – Pg. 16

- ...estimates that 17% of loans held by Indian banks were stressed, compared with Reserve Bank of India figures of 11%
- India's economy faces a severe debt crunch, with a host of large companies in sectors such as infrastructure and steel struggling to repay debts following postponements to large investment projects, ...
- India's official rate of gross non-performing bank assets is already the highest of any big Asian economy

Answer: Apple

21 October 2015

Question: What is Apple's, TIC: AAPL, market capitalization?

Rise in business loans points to slow thaw for Europe's frozen credit lines – Pg. 1

- A lack of lending has been one of the most pressing problems for the Eurozone. Fresh signs that the problem is easing will buoy the region's monetary policymakers ahead of an important vote in Malta later this week
- Companies and households across the Eurozone demanded more loans in the third quarter of 2015 compared with the previous three months

VW comes back with securitization deal – Pg. 20

- Volkswagen has announced its first securitization deal since its emissions scandal as rating agencies step up scrutiny of the risks investors in the carmaker's securities could face
- VW packages car loans and leases into a special vehicle, which then sells asset-backed securities – fixed-income products – to investors. ABS are typically viewed by investors as a low-risk or cash-equivalent product. Such financing underpins the car industry
- VW's ABS are yielding about 60bps over Euribor, ...
- Certain auto ABS transactions depend on the car being resold at the end of the contract to repay investors fully, which means the securities stand to be affected by any sharp fall in the price of second-hand cars
- Moody's is also investigating whether VW's ABS would face difficulties if customers reneged on their leases and loans for cars, which provide the cash flow for ABS investors. If customers return cars early, the asset may need to be sold to repay investors
- Uncertainty over continued payment of loans and leases presents a risk to securitization structures that are otherwise free from residual value risk – what the rating agency calls "second order" RVR
- ABS investors will be focusing closely on the recall of up to 11m VW vehicles worldwide as a result of the scandal

Answer: \$676.0bn

20 October 2015

Question: The SDR (Special Drawing Rights) is the currency of the IMF. It is a basket of what four currencies?

Growth data buoy China at pivotal moment' in economic rebalancing – Pg. 2

- GDP grew 6.9% in the third quarter, down from 7% in the first and second but still within range of the official full-year target of "around 7%"

- More importantly, the composition of growth continued to shift in the desired direction of policymakers: towards consumption and services and away from manufacturing and investment
- Consumption accounted for 58% of that growth, or 4 percentage points. Investment, which includes construction of new houses and factories, contributed only 43%, or 3 percentage points. Services, whose share of overall output passed 50% this year, grew 8.6%, well ahead of the 5.8% expansion in the struggling industrial sector
- Fixed-asset investment, which includes housing, expansion of factory capacity and infrastructure, grew at 10.3% in the year to September, the slowest pace since 2000
- Stimulus policies are already in the pipeline. Bank lending to the real economy accelerated sharply in September, and economists forecast another interest rate cut before the end of the year

Morgan Stanley profits fall 40% after rocky quarter – Pg. 13

- Morgan Stanley chief James Gorman promised an “intense focus” on under-performing parts of the Wall Street bank, after weaker bond trading and a collapse in investment management revenues lowered third-quarter profits by 40%
- Net revenues were down 13% from a year earlier to \$7.77bn...

Treasury debt defies higher yield call – Pg. 20

- The US Federal Reserve has now held interest rates steady at zero for 81 months, even longer than during the post-Depression, second world war era. Bond market investors are betting that this unwelcome record will be extended significantly
- By the end of 2017 the Fed Funds rate should be about 2.5%,
- Several, including chair Janet Yellen, have recently reiterated that the primary scenario involves lifting rates this year
- Fed funds futures are pricing in only a third of a chance that the US central bank tightens monetary policy this year, and a higher than 50% chance that it waits beyond the March 2016 meeting. Indeed, markets indicate there is a 10% chance that the Fed will stay on hold until 2017
- The average forecast for the 10-year yield is now 2.32% at the end of December, 2.62% by next summer and 2.87% at the end of 2016
- Core inflation unexpectedly edged higher last month, lifting yields modestly again. With the employment part of the Fed’s dual mandate essentially met, any signs that disinflationary pressures are easing could have a bigger impact than in the past

Answer: Sterling, U.S. Dollar, Euro, and Yen (China is lobbying to have the renminbi included)

19 October 2015

Question: What is the current debt ceiling in the U.S.?

Top executives facing cull in Deutsche Bank overhaul – Pg. 1

- Deutsche said yesterday that two of its divisional heads...heads the investment bank and ...runs the asset and wealth management arm – would depart
- The exodus of top executives, many of whom came to prominence under Mr Jain, will be accompanied by a reshaping of Deutsche's structure
- The new structure is designed to simplify the bank, which is scrambling to deal with investigations by regulators across the world into a range of alleged wrongdoing from breaking US sanctions against Iran to the rigging of the Libor interest rate and foreign exchange markets, to money laundering in Russia

Concerns mount over China forex reserves – Pg. 2

- Now investors are wondering how long China's dwindling forex reserves – down to \$3.5tn from a peak of \$4tn in June 2014 – can hold out. Capital is flowing out of China at a record pace and the central bank is drawing down reserves to support the renminbi after its recent dramatic fall
- ...China's massive forex pile – the world's largest – as the ultimate guarantor of financial stability
- Another source of mystery is China's offshore intervention.

Debt limit stand-off looms in Congress – Pg. 3

- The US is two weeks from hitting its debt limit, raising the spectre of the third time in four years of what Jack Lew, Treasury Secretary, has warned would be "catastrophic" debt default. When Congress flirted with the issue in 2011, it resulted in the US losing its prized triple-A credit rating (Prof Note: This is ridiculous! The government shuts down, government workers receive a paid holiday, Congress "talks", the private sector gasps (less and less each time), and the ceiling is increased. I grow tired of the immaturity of our Congress!)
- ...\$18.1tn borrowing cap...
- In addition to the downgrade, the brinkmanship in 2011 hit financial markets. The Monday after S&P's downgraded the US, the DJIA lost 636 points. Annualized economic growth slowed sharply in the third quarter to 0.8%, although the expansion regained its footing in the fourth quarter, with the economy expanding 4.6%

Economists expect Fed rate rise this year – Pg. 13

- Nearly two-thirds of economists expect the Federal Reserve to raise US interest rates before the end of the year, even though several banks have warned that weakening economic data put the central bank's inflation target in doubt
- The view is in contrast to market expectations, which have played down the chance of tighter monetary policy before next year

Answer: \$18.1tn

17 October 2015

Question: What day did the S&P downgrade the U.S. causing the U.S. to lose the coveted AAA rating?

Super rich displace artists, surfers and blue-collar workers on Silicon Beach – Pg. 4

- The expansion of the tech scene and increase of foreign investment in Southern California real estate are expelling middle and lower-income families from the coast, which is beginning to resemble areas dominated by global elites in New York, London or San Francisco
- Chinese companies have been active on big developments.
- According to the S&P/Case-Shiller, home prices in Los Angeles have risen faster since 2000 than in any of the 20 big US cities tracked, by 138%, compared with 80% in New York and 116% in San Francisco

Investors cast shadow over new listings – Pg. 13

- A string of pulled deals and investors demanding better terms has cast a shadow over the equity-listings market
- Investors who have bought IPOs this year have fared worse than the broader market. On average, 2015 listings are trading down 4%, ...
- The shift in sentiment comes after a record run for US equities until May this year helped fuel interest in IPOs, with the market accommodating a broad range of companies including countless biotech start-ups and the biggest deal of all time – Alibaba's \$25bn listing

Global eyes on Chinese numbers game – Pg. 13

- The country's rate of growth is equivalent to adding an economy of Italy's to the world each year, and signs of a slowdown have transfixed central bankers, businesses and investors
- Economists expect the rate of GDP growth to dip to 6.7% in the third quarter, which would be the slowest since the depths of the financial crisis
- As tumbling prices for raw materials suggested China's need for commodities was diminishing, the central bank spent more than \$200bn defending the currency
- China has attempted to stimulate the economy by cutting interest rates and reducing the amount of capital that banks are required to hold, to encourage lending. There have also been spending programmes, with many expecting further stimulus from the government

Answer: 5 August 2011

16 October 2015

Question: What is the current account?

Goldman profits hit by 40% fall – Pg. 1

- ...wrongfooted by "challenging" conditions in emerging markets and "limited" client activity, as it missed profit estimates for the first time in four years
- The fall in revenues at the core fixed-income, currencies and commodities trading division was wider than the most bearish external forecasts, ...

Japan grocery index challenges gloom – Pg. 5

- A Japanese price index is showing a surge in inflation amid renewed gloom about the country's economic prospects – but its creator still thinks the Bank of Japan will have to expand its record-breaking monetary stimulus
- The daily price index was recording year-on-year deflation of about 0.5% for most of 2014 and into 2015, but from the spring it started to accelerate sharply and is now showing year-on-year inflation of about 1.4%

NY Fed head's appraisal adds to doubts of 2015 rate rise – Pg. 13

- Investors have reined back bets on when the US central bank will finally begin to tighten monetary policy, as a top Federal Reserve policymaker conceded yesterday that the US economy may be slowing
- Interest rate futures now indicate that most traders do not see any rate increases this year, and about half think the central bank may have to wait beyond March next year. Fed Funds futures signal that there is about a 10% chance that policymakers will sit on their hands until 2017. As a result, the 10-year Treasury yield is back at the 2% mark, confounding predictions of a gentle rise this year
- The “core” US consumer price index, which excludes food and energy costs, rose 1.9% annually in September – the strongest gain in over a year

Oil price losses extend to near 10% for week – Pg. 20

- Oil prices extended losses to almost 10% for the week yesterday...
- Brent crude, the international oil benchmark, fell 69 cents to \$48.46 a barrel, ...
- US benchmark WTI fell \$1.14 a barrel to \$45.50, ...
- The Opec oil producers' cartel has pumped as much as 2m barrels a day more than needed in 2015 as its members compete for market share and try to squeeze out higher cost output

Answer: All international economic transactions with income or payment flows occurring within one year

15 October 2015

Question: What two rates does the Federal Reserve set?

Fed accused of 'inflaming' markets as concern grows over splits on rate rise – Pg. 1

- Market concerns are rising over divisions at the top of the Federal Reserve on when to lift interest rates, casting fresh uncertainty over the US central bank's strategy for withdrawing its monetary stimulus
- ...two Fed board members signaled that they oppose a near-term increase in interest rates, questioning the approach adopted by chair Janet Yellen amid divisions over the outlook for inflation
- Both policymakers appeared to raise doubts about an assumption underpinning Ms Yellen's policymaking approach – namely that, as the US approached full employment, inflation will accelerate

- Interest rate futures now imply that investors see an even chance that the Fed, having left rates unchanged at its September meeting, will hold rates until March,...

US biggest banks see subdued revenue – Pg. 16

- America's three biggest banks have posted subdued quarterly revenues, as tepid demand and continued inaction from the US Federal Reserve is intensifying pressure to cut costs
- But growth in core revenues – and thus profits – remains hard to come by. Retail divisions are facing patchy demand amid a fragile economic recovery
- The low interest-rate environment is the main reason behind the revenue squeeze
- ...BofA is doubling down on wealth management, both for “mass affluent” customers and more wealthy clients in its private bank

BlackRock warns of volatility until Fed clarifies rates policy – Pg. 19

- BlackRock's assets under management at the end of last month were \$4.5tn, down from \$4.7tn at the end of June, despite \$50bn of inflows
- Global stock markets fell 9% between June and September, partly on concern that a slowdown in China might drag the world into recession, something the Fed alluded to in its September decision to keep US rates at zero

Dutch pension funds turn mortgage lenders – Pg. 22

- If you need a mortgage in the Netherlands, you might not be borrowing from a bank. It might be a private fund, acting on behalf of institutional investors, that lends you money for 25 years
- So-called regiepartijen – funds that originate loans on behalf of institutional investors – are rapidly expanding
- In the Netherlands large insurance companies as well as banks have historically originated mortgages. But the new funds, and their growing size, are giving insurers and pension funds the opportunity to increase their role in a market for outstanding mortgages that was worth 634bn in 2014
- After a tremendous fall in house prices, the Dutch mortgage market is growing
- The mortgage funds are able to collect funding from institutions and rapidly transfer it to consumers through a huge network of brokers – a quirk of a market that is responsible for about 60% of total loan origination
- MBS are typically issued by banks, which use them as a way to fund mortgage origination. In effect, regiepartijen bypasses this process, allowing vast sums to reach borrowers more directly

Gold climbs as slow US growth dents rate case – Pg. 22

- The price of gold has risen to its highest for three-and-a-half months as signs that slower US growth than expected is weakening case for a rate rise by the Federal Reserve this year
- ...rose to \$1,178.30 a troy ounce – the highest level since June

Answer: (1) Federal Funds Rate and (2) Discount Rate

14 October 2015

Question: In terms of banking, the acronym “CAMELS” represents?

China set to choose London for its first overseas renminbi sovereign debt issue – Pg. 1

- China is set to issue government debt in renminbi in London, picking the city as the first overseas financial centre in which to open a sovereign debt market as it strives to popularize its currency
- The plan is to issue Chinese treasury bonds in renminbi after laying the foundations with earlier launches of short-term debt of the People’s Bank of China (PBoC), the central bank,...
- China is keen to promote the renminbi as an international currency that is representative of Beijing’s growing economic and diplomatic clout. It wants the currency to be used not only as means of payment but also as an investment currency, allowing its government and corporations smooth access to raise funds overseas
- Beijing is planning a second tranche of renminbi bonds issued in London by the China Development Bank, the country’s leading source of finance for overseas investment projects

Fall in imports heightens fears over Chinese economy – Pg. 6

- China’s imports slid for the 11th straight month, adding to economists’ growing bearishness – now at a post global financial crisis low – as policymakers seek to arrest an economic slowdown
- September’s 17.7% year-on-year drop in imports, in renminbi terms, further underlines the challenges of China’s longstanding bid to pivot the economy away from investment-led growth and cheap exports towards domestic consumption
- Slower growth in China has shaken global stock markets in recent months

Buffet clout brought to bear in rules fight – Pg. 18

- The Head of Swiss Re has predicted that regulators will drop proposals to hit biggest reinsurances groups with tougher safety rules, thanks in large part to the influence of investor Warren Buffett
- Mr Buffett’s status in US financial and political circles seemed to have helped reinsurers fend off inclusion in the systemically important insurers list, ...
- Mr Buffett’s Berkshire Hathaway group was built on a foundation of insurance and reinsurance investment, notably the 1998 deal for General Re
- Failure to subject reinsurers to tighter scrutiny would cause consternation in the broader insurance industry
- Reinsurers operate in a more concentrated market. Between them, Munich Re, the biggest, and Swiss Re are estimated to control about a quarter of the non-life reinsurance market

Deflation takes pound down after M&A boost – Pg. 22

- Sterling whipsawed through yesterday’s trading, climbing sharply on expectations of one of the UK’s biggest M&A deals before turning tail on data showing inflation falling below zero

US inflation dilemma hinges on the dollar – Pg. 24

- Without inflation moving towards its 2% target, the Fed is stuck. The outlook...is for inflation to pick up next year, rise further in 2017, but not to reach 2% until 2018
- The dollar, measured against a basket of trade partner currencies, has drifted down 1%. EM currencies have looked more sprightly
- A waning dollar and a bottoming in commodity prices, along with the modest US wage growth, ...

Answer: Capital Adequacy, Assets, Management Capability, Earnings, Liquidity, and Sensitivity

13 October 2015

Question: Name two of the securities found in the Money Markets.

Economics pioneer wins Nobel Prize – Pg. 2

- Angus Deaton, a British-born economist at Princeton University in the US, has won the Nobel Prize for economics for his pioneering work into what determines poverty and how people make their consumption decisions
- He warned against using aggregate data for the whole economy to justify important policy decisions and showed how it is essential to understand what happens to different groups of consumers, depending on their age or income levels

Africa hit by 'frontier' debt backlash – Pg. 22

- Sub-Saharan African countries are being forced to reconsider development projects as the sell-off in emerging markets makes access to international finance increasingly unaffordable
- Governments that were able to tap international capital markets for record sums of debt, thanks to global investors' hunger for yield, face sharply higher borrowing costs as the slowdown in China's economy and collapse in commodity prices make "frontier" debt less palatable to investors

Bond predators dragged down by distressed bets – Pg. 22

- So-called distressed debt funds seek lucrative opportunities in parts of the credit market where many investors fear to tread, snapping up the bonds or loans of borrowers that are nearing or have filed for bankruptcy
- The bet is sometimes that a company only needs more time and money to get on an even keel. Or the distressed debt fund can step in and take it over in a restructuring
- Usually the price of debts has been pushed below fair value – based on the expected recovery value of assets – by panicky traditional investors, which flee at the slightest whiff of danger
- Distressed debt hedge funds have lost on average 4.2% in the year to the end of September,...
- Traditional municipal bond investors have fled Puerto Rico in recent years, sending yields spiraling higher...

- Two “litigation plays” in debts of Washington Mutual and Lehman Brothers, which both collapsed in the financial crisis, have gone awry this year, inflicting further losses on some funds

Answer: (1) Treasuries and (2) Commercial Paper

12 October 2015

Question: Name two sources of funds for Financial Intermediaries.

Top European bakers warn of US threat to their future – Pg. 1

- European plans to introduce a financial transaction tax and structure reforms separating retail banks from investment banking activities would “limit the extent to which European banks can operate on the capital markets”
- “This is unwise – and unfair, since US banks with large investment banking activities based in London would effectively be exempt from the rules”
- Big banks were held back from merging by the sliding scale of extra capital requirements for global systematically important banks

Fed’s Fischer voices caution on outlook – Pg. 2

- ...shared the view held by most Fed rate-setters that it would be appropriate to lift interest rates in 2015 as the central bank responds to diminishing spare capacity in the labour market
- Markets are putting very low odds on the Fed lifting short-term rates at its October 27-28 meeting...

US women fall behind in the workforce – Pg. 2

- Last year the labour force participation rate of prime-age American women fell behind that of Japan – a country traditionally viewed as being a global laggard – leaving it languishing below the majority of OECD nations including Sweden, France, and even Greece
- The reasons for declines in US labour force participation, which measures people in work or looking for a post, are complex and heavily contested
- The share of US woman either in work or looking for a post soared from just 33% of 25-54 year olds in the 1940s to 77% at the start of the 2000s. yet since then it has trended to about 73% - even as other countries’ participation rates improved
- The ageing population explains a chunk of the departures from the labour force, but dismal numbers among individuals aged 25-54 point to other forces at work. Among prime-age men, only Italy and Israel have lower participation rates among 34-countries tracked by the OECD
- ...American’s workforce is being disproportionately affected by the number of men who have fallen foul of the law. Some 70m – 100m of America’s population have criminal records, raising a major barrier to their hopes of getting employed

Answer: (1) Deposits (lenders, credit unions, pension funds), (2) Premiums (life insurance), (3) Share issuance (mutual fund)

10 October 2015

Question: Describe the purpose of an investment banking house.

Banks give up US expats' data to the taxman – Pg. 2

- Bank details belonging to hundreds of thousands of American expats have been passed to Washington, marking the start of a new era of data exchange by governments intent on cracking down on tax cheats
- The US, which is moving ahead of other countries in closing its net on offshore tax evaders, has already been forced to give some governments an extra year to comply with new rules requiring them to hand over bank details of US citizens
- The US has also agreed to reciprocate by passing on information about US accounts to 34 countries that meet its "stringent safeguard, privacy, and technical standards"

US dividend growth faces headwinds – Pg. 13

- With the US bond market signaling no shift in the current low interest rate climate, equity investors face a tougher time securing a stream of ever rising dividend income from companies
- While S&P500 dividends payments continue to set records, as fears of a global slowdown keep executives from pumping up shareholder returns. The average dividend has increased 13.5% for S&P500 companies so far in 2015, compared with a 17.3% rise a year earlier,...
- In recent years, yield-starved investors have sought shares that pay hefty dividends, a point of attraction for the likes of McDonalds, Walmart and Exxon. The appeal of dividends remains strong, particularly as Wall Street economists and strategists are cutting forecasts for where the benchmark 10-year Treasury will end the year
- The benchmark yield is seen by some as falling back towards 2%, as the market believes the Federal Reserve will not tighten interest rate policy until next year
- Companies are loath to cut dividends, a signal that the board of directors and management see the long-term earnings power diminishing. Buybacks tend to be more episodic. More than a tenth of the companies within the S&P500 are on the aristocrats list, including 3m, AT&T, Chevron and PepsiCo

Answer: (1) Design Sellable Securities, (2) Buy securities from corporations, (3) Resell to 'savers' (broker transactions)

9 October 2015

Question: What are four requirements to transfer capital within an efficient market?

ECB keeps faith in gradual Eurozone recovery despite August equities turmoil – Pg. 4

- The eurozone's monetary policymaker wants more time to decide whether to beef up their 1.1tn (euro) quantitative easing package, ...
- More disappointing news on the global economy could force the ECB to act either by extending the duration of QE, accelerating the pace of bond buying, or broadening the scope of assets included on the list of what the bank can buy
- The IMF warned this week that the global economy was set to record its weakest expansion this year since the nadir of the global financial crisis in 2008

Bad loans soar in India's 'broken' banks – Pg. 19

- The Indian economy is growing at a respectable rate of more than 7% a year, faster than any other large emerging market
- But the state-controlled banks lent so much in previous years to infrastructure and steel companies for unprofitable road projects, power stations and factories that they have been left in aggregate with an alarming level of bad and doubtful loans
- For public sector banks, bad loans and "stressed assets" together accounted for more than 14% of assets at the end of June, compared with just 4.8% for the more disciplined and profit-motivated private sector banks that account for only a quarter of all lending. One state bank exceeded 19% of assets in bad and doubtful loans
- The RBI and the government, which has owned most of the banks since their nationalization in 1969, are urgently trying to reform and bolster the state banks that have for decades been riddled by corruption and incompetence

Treasury risk rises as debt ceiling looms – Pg. 22

- The US Treasury's current debt ceiling suspension expired in March, and since then officials have had to rely on cash reserves, shuffling money back and forth, and accounting gimmicks, known as "extraordinary measures"
- But Jack Lew, Treasury secretary, told Congress last week the government would have less than \$30bn of cash by about November 5, perilously little, and with no ability to borrow more
- ...approve a small rise of the \$18tn limit...
- ...there are plenty more pressing issues to distract and spook investors, such as mounting concerns over the health of the global economy and a potentially pivotal corporate earnings season starting this week
- So far investors are not pricing in any chance of the US government being forced to default on its debts
- The lack of alarm in the Treasury market is partly a product of a looming debt ceiling itself. The US government has been paring back issuance of shorter-dated bills during the approach to the ceiling, even as demand has continued to be robust

Riskier RMBS sales to double last year's total – Pg. 24

- Sales of repackaged lower-quality UK mortgages have reached their highest level since the financial crisis, driven by a new generation of lenders filling a void vacated by high-street institutions

- Home loans of this type, which do not meet strict high-street lending criteria, are a big driver of the UK's securitization market. They represent about a quarter of total issuance of UK residential MBS this year, against 12% last year
- Securitization is the process by which large quantities of assets, such as mortgages, credit card loans or car loans, are packaged into special vehicles and sold on as bonds to investors. This removes the loans from the balance sheets of the lenders and provides funding to support further lending

Answer: (1) Stable Government, (2) Low Inflation, (3) Savings (personal, corporate, fiscal), (4) Competition, (5) Disclosure (transparency), and (6) Fair Market Rules (legal system)

8 October 2015

Question: What is inflation?

Slowdown forces Norway to draw from oil savings – Pg. 2

- A slowdown in Norway is forcing the government to tap into its vast oil savings for the first time as it cuts taxes in an attempt to boost faltering growth and accelerate its economic transformation
- Valued at \$850bn, the oil fund is the world's largest sovereign wealth fund, with total investments amounting to more than 1% of all global shares
- Norway has been hard hit by the oil price collapse in the past year, and unemployment has also risen. Last month the central bank cut interest rates to record lows and hinted at further reductions next year, saying that the prospects for growth and investment has weakened

Shocks to financial stability risk fresh global recession, warns fund – Pg. 3

- The world risks a slide into a fresh financial crisis leading to global recession if governments and policymakers mishandle growing market stability risks, ...
- In advanced economies, the greatest risks came from the Fed's likely decision to raise interest rates, which the fund urged should be done in a way that did not spook markets.

Global economy – Pg. 9

- Policymakers badly underestimate the risks of both a return to recession in the west and of a global growth recession. If a recession were to occur, monetary policymakers lack the tools to respond. There is essentially no room left for easing in the industrial world
- Interest rates are expected to remain very low almost permanently in Japan and Europe and to rise only very slowly in the US
- We are in a new macroeconomic epoch where the risk of deflation is higher than that of inflation and we cannot rely on the self-restoring features of market economies
- History tells us that markets are inefficient and often wrong in their judgments about economic fundamentals. It also teaches us that policymakers who ignore adverse market signals because they are inconsistent with their preconceptions risk serious error

- First, the risks tilt heavily towards inflation rates that are below official targets
- Second, the prevailing expectation of extraordinarily low real interest rates. Real rates have been on a downward trend for nearly 25 years
- Emerging markets hit reverse

Answer: Year-over-year of a basket of goods as selected and weighted by the government agency!

7 October 2015

Question: 'Tis better to have loved and lost; than never to have loved at all...who coined this phrase and is it true?

Hedge funds suffer worst post-crisis loss as market turmoil rocks big names – Pg. 1

- The sector as a whole lost \$78bn in August, the worst monthly fall in assets in absolute terms since October 2008 after the collapse of Lehman Brothers....
- Total hedge fund industry assets at the end of August stood at \$3.05tn,
- Total hedge fund assets have doubled since 2008, ...
- Hedge funds were so named because they sought to protect investors from market volatility through hedging. But as the sector has grown, some have opted to instead take large, concentrated bets on specific stocks or trades

IMF warns of worst global growth since financial crisis – Pg. 2

- The world economy will this year grow at its slowest pace since the global financial crisis, ...with a deep slowdown in China and other emerging economies masking a strengthening recovery in rich countries
- It will mark the fifth consecutive year in which average growth in emerging economies has declined ...
- This drag on global growth is sufficient to pull it down to 3.1% this year,...
- There was not one specific cause of the global economic weakness, the IMF said, although the slowdown in China and its realignment towards consumption and services compounded pain for countries that export oil and metals
- The IMF expects 6.8% growth in China for 2015, moderating to a rate of 6.3% for much of the rest of the decade
- Russia and Brazil, two countries that enjoyed rapid growth when commodity prices were high, would be mired in deep recessions...

World economy on verge of tumbling into dollar recession – Pg. 2

- A strong US dollar combined with slowing global growth is set to plunge the world into its first outright US dollar recession since 2009,...
- "2009 was a contraction in US dollar GDP growth and we estimate that 2015 will show an even greater contraction in US dollar GDP growth"
- ...IMF statistics suggested that global GDP in nominal US dollar terms would hit \$74.5tn this year, a contraction of \$2.7tn from 2014. This compares to the \$3.3tn US dollar recession in 2009, the steepest since records began in the early 1960s

- The dollar is up 6.8% against a trade weighted basket of major currencies this year

Renminbi surpasses yen in payment stakes – Pg. 22

- China's renminbi has surpassed the Japanese yen to become the world's fourth-most-used payments currency, despite an unexpected devaluation and concerns about slowing Chinese growth
- The renminbi accounted for 2.79% of global payments in value terms in August...
- Hong Kong remains the dominant centre for offshore and cross-border renminbi payments, handing 70.4%. Singapore and London are the next biggest performers, accounting for 24.5% and 21.6%, respectively

Answer: Alfred Lord Tennyson's poem "in Memoriam:27, 1850. A question to ponder...

6 October 2015

Question: What are the measures of efficiency?

Bernanke attacks Capitol Hill over crisis role – Pg. 2

- ...Bernanke admitted the Fed had failed to spot some of the dangers building before the financial crash, and said that the controversial rescues of Bear Stearns and the insurance company AIG had damaged its political standing and "created new risks to its independence"
- As suggested by the title of his book, The courage to Act...
- "The Fed can support overall job growth during an economic recovery, but it has no power to address the quality of education, the pace of technological innovation, and other factors that determine if the jobs being created are good job with high wages"
- Mr Bernanke argues the US is wellplaced economically compared with many of its partners, in part because of more favourable demographics and a record for technological innovation
- He argues in the book that invoking worries about moral hazard in the middle of the crisis would have been 'misguide and dangerous'

Developing economies at mercy of shifting flows – Pg. 26

- Paul Volcker took over as chairman of the Federal Reserve in 1979 with a mission to take US inflation after the oil price and commodity shocks of the decade then coming to a close
- Problems in Latin America came to a head three years after he took office, driven by a rising debt burden, falling commodity prices and capital flight. In August 1982 Mexico told the commercial banks that had funded its industrialization it could not pay its debts. Alarmed bankers in effect stopped lending, prompting a Latin American financial crisis. More than 30 years later the question for emerging markets is where the similarities and differences lie
- The Fed has said US monetary policy should start to tighten this year, but it is the threat of falling prices, not inflation, which exercises policymakers. Recession in China, both an emerging market and the world's second-largest economy, may determine the direction for global growth and whether commodity prices continue to fall

- Central banks have accumulated reserves of hard currency, focusing attention on whether the region's corporate borrowers are most vulnerable to shifts in the flow of money. Changes in the movement of dollars through the global financial system appear set to be the biggest shift to the status quo
- Adding to the pressure is another throwback to the 1970s: petrodollars. High prices for crude then resulted in oil producers having large surpluses of dollars to invest, much of which went to emerging markets. Falling prices mean fewer petrodollars cycling back into the system, and the flow may even reverse, as countries such as Saudi Arabia spend reserves built up in the past five years

Fed finds it tough to make predictions – Pg. 28

- In a confusing past few weeks, the central bank kept rates on hold due in part to the risk of a global slowdown
- The market's judgment has been swift, with the benchmark 10-year Treasury yield back below 2%, its lowest since April
- Expectations that the US will meet the Fed's 2% inflation target are also down,

Answer: Sharpe, Treynor, and Coefficient of Variation (CV)

5 October 2015

Question: Traditionally, FFR and 30-day USD Libor have tracked with what spread?

World Bank seeks capital boost as slowdown strains resources – Pg. 1

- ...boost the \$253bn capital base of its main arm, the International Bank for Reconstruction and Development,
- An increase in World Bank capital appears to have some support from both the US administration and China

EM turmoil flashes global warning lights – Pg. 2

- Emerging economies risk "leading the world economy into a slump", with lower growth and a rout in financial markets, ...
- ...global economic patterns were "disappointing and uneven" with weaker growth than last year and the forecasts published on Tuesday showing only a "modest acceleration expected in 2016"
- The Tiger index – Tracking Indices for the Global Economic Recovery – shows how measures of real activity, financial markets and investor confidence compare with their historical averages in the global economy and within each country
- Because emerging economies are now much more important in the global economy and growth rates are still higher than their developed counterparts, global growth is still hovering around 3%, close to its long-term average
- While the IMF will recommend that countries maintain policies of cheap money, careful deficit cutting to minimize the contractionary effects and deep structural reforms to boost the longer-term potential for expansion, such calls have been falling on deaf ears

Insurers face tough new safety rules – Pg. 15

- Regulators seeking to prevent a repeat of the failure of AIG plan to hit nine of the world's biggest insurers with new safety rules that are tougher than some in the industry had expected
- ...increase the amount of capital they must hold against unexpected losses by 10% on average
- The global rules for the big nine insurers come into force in 2019

Fears over high level of company debt in Indonesia – Pg. 18

- Concern over external debt in corporate Indonesia is mounting as companies seek to roll over more than \$42bn of foreign currency loans within the next 12 months, following a period of steep rupiah depreciation
- External debt is a red flag to investors. It added fuel to the Asian financial crisis of 1997-98, as ravaged currencies magnified foreign currency borrowings across swaths of the region
- Some Asian currencies, including the Indonesian rupiah, are flirting with the levels hit at the time
- Cheap US dollar borrowing has recently been luring more Indonesian issuers, especially as the home market is thin and under-developed
- With foreign currency debt mounting, the central bank last year required companies to hedge a greater portion of their foreign currency borrowings in an attempt to guard against currency volatility ahead of a much-anticipated US rate hike

Answer: 7 – 12 basis points

3 October 2015

Question: The price of an asset is quoted as a bid/ask spread by a market maker. What is the “spread”?

US jobs data raise new rates doubts – Pg. 1

- ...US economy created 142,000 posts in September, fell short of the 201,000 gains economists had forecast and was more than two-fifths below the trailing 12-month average,...
- ...August's jobs tally was revised from 173,000 to 136,000 and wage growth flatlined. The jobless rate was unchanged at 5.1%
- Traders now expect the US central bank to wait to raise rates until March. Odds that the Fed will move by March slipped to 51%, the first month where the probability of tighter monetary policy eclipsed the 50:40 hurdle, ...
- The larger impediment to the Fed lifting rates for the first time since 2006 remains the inflation outlook, which has been muddied by a crumbling in the oil price over the past year
- (Prof Note: Remember fourth quarter 2014 when I stated no rate rise in 2015????!!! I stand by my prediction which was supported by the Yield Curve shape!)

Japan's economic strains laid bare by plight of poor pensioners – Pg. 4

- Beyond the human toll, policymakers fear pensioners struggling on a fixed income explain why higher wages have not turned into rising consumption in Japan. There are now seven pensioners for every 10 salaried workers – and the ratio is rising fast
- (Prof Note: This is why I dwell in all classes on retirement forecasting, planning, and preparation...)

US earnings pose test for the bulls – Pg. 13

- Expectations for profits and revenues have been scaled back sharply over the past three months, felled by the weight of a slowdown in China, a drop in commodity prices and ructions across emerging markets
- Areas of the US credit markets are also starting to crack, reflecting how the funding of massive share buybacks and a record year for mergers and acquisitions – two forces that supported equities until August – have prompted much higher corporate bond yields
- More troubling, as the S&P 500 has slid nearly 7% since the start of January and faces its first negative year since 2011, is how areas that had been strong, notably healthcare, are souring
- If realized, a drop in revenues would mark the third straight quarter without growth. The absence of pricing power for companies chimes with the message from low, long-term US Treasury yields that inflation pressure is moribund

Answer: Difference between buy price and sell price.

2 October 2015

Question: A wife purchases insurance on her husband (the marriage is unhealthy and toxic). What type of “trader” is the wife?

Capital flight darkens economic prospects for emerging markets – Pg. 1

- Emerging markets will suffer a net outflow of capital this year for the first time since the 1980s as their economic fortunes darken and the US Federal Reserve prepares to lift interest rates
- ...net capital outflows would amount to \$540bn this year, the first time this had been since 1988

Nest opens door to ‘smart home’ growth – Pg. 16

- Nest is broadening its developer platform and opening an online store in its latest effort to become a one-stop destination for buying and controlling smart-home devices
- Nest’s “Learning Thermostat” was one of the first internet-enabled household devices to capture widespread attention
- The platform competes with Apple’s Homekit, which is built into recent iPhones, and Samsung’s SmartThings, ...

Pension funds return to ABS in hunt for yields – Pg. 22

- Asset-backed securities are bond-like instruments that pay investors income based on underlying assets, from mortgages to credit card debt. They theoretically allow banks to fund the origination of new assets by transferring risk from their balance sheets to investors
- ABS may also benefit from investor aversion towards holding specific company bonds, rather than a pool of loans that are less volatile in times of stress

Answer: A “specular” as the wife is purchasing the instrument to profit from the loss of her husband. The strategy is profit-maximization.

1 October 2015

Question: What is a “Derivative”?

Deflation raises prospect of more quantitative easing – Pg. 2

- Last January, the ECB announced a huge programme of quantitative easing, buying up to 60bn (euro) in assets per month, including government bonds, as it sought to return inflation to its target of close to 2%
- With inflation driven down primarily by lower energy costs, however, economists remain confident that the Eurozone can still avoid a cycle of persistent falling prices
- The fall in inflation, which was from 0.1% in August, marks the first time in six months that the 19-nation currency bloc has experienced deflation. The main driver was energy prices, which were 8.9% lower than a year earlier, due to, in part, a slump in the oil market
- Core inflation, which strips out the most volatile items such as energy, stood at 0.9%, ...
- Externally, companies fear the slowdown in emerging markets and China in particular, is threatening to reduce the pace of exports’ growth
- The other concern relates to the resilience of the euro, which has strengthened against the dollar after the US Federal Reserve delayed its first increase in interest rates since the crisis

Emerging markets face fifth tough year, warns Lagarde – Pg. 4

- She suggested that the IMF’s key concerns surrounded emerging markets, which are being hit by a China slowdown, falling commodity prices, the prospects of higher US interest rates, and the risk of more dollar appreciation

WTO downgrades its forecast for global trade in 2015 – Pg. 4

- ...WTO economists estimated growth this year of 2.8%, from 3.3% previously, and warned that their prediction remained vulnerable to a cloudy outlook for the world economy
- For decades before the crisis global trade reliably grew at twice the rate of the global economy as part of what some have called an era of “hyperglobalization”, fed by the rise of China and other emerging markets
- The biggest shift in the WTO’s forecasts came in Asia where, thanks largely to China’s slowing imports and exports, the predicted growth in exports was lowered to 3.1% from the 5% WTO economists predicted in April...

Japan edges nearer recession as industrial production falls – Pg. 4

- The figures suggest the shock from China's economic slowdown, combined with sluggish consumption at home, is in danger of overwhelming the stimulus known as Abenomics
- But a series of demand shocks, from last year's consumption tax rise to the slowdown in China, are undermining that progress

NY Fed urges no rollback in bank rules – Pg. 24

- There should be no rollback in banking regulation as there is little evidence that onerous rules are holding back trading in financial markets, ...
- The biggest concern, however, is the corporate bond market, where trading conditions have deteriorated markedly....

Answer: An asset for which the value is derived from an underlying asset.

30 September 2015

Question: What is the main difference between the money markets and capital markets?

Equities face worst quarter since 2011 fears for global economy – Pg. 1

- US and global equities are heading for their worst quarterly showing since 2011, with investors rattled by China's economic slowdown, uncertainty over Federal Reserve policy and growing pessimism about corporate earnings
- ...IMF yesterday warned that corporate failures are likely to jump in the developing world, after a borrowing binge in the past decade
- The S&P 500 has fallen 8.7%, the biggest decline since the third quarter of 2011
- ...global stock markets are poised for their worst quarterly showing since 2011, shedding more than \$10tn in value
- Investors have become increasingly unsettled by signs of weakening global growth and are now questioning the US earnings outlook as the largest economy prepares to raise rates for the first time in nearly a decade

IMF issues warning on risks of Fed rise – Pg. 3

- ...warned that emerging economies and bond markets need to prepare for an increase in corporate failures if and when the US Federal Reserve and other central banks in advanced economies begin raising rates
- ...IMF economists warn a surge in corporate leverage has preceded many emerging market financial crises in history
- Fed by the cheap cost of money, over the past decade the corporate debt of non-financial companies across major emerging market economies more than quadrupled from \$4tn in 2004 to more than \$18tn in 2014. In the same period, the average ratio of emerging market corporate debt to DGP grew by 26%
- Among the IMF's concerns is the significant share of emerging market banks' assets tied up in corporate debt

McKinsey warns banks on earnings threat from technology – Pg. 16

- The digital revolution sweeping through the banking sector is set to wipe out almost two-thirds of earnings on some financial products as new technology companies drive down prices and erode lenders' profit margins
- ...technological competition would reduce profits from non-mortgage retail lending, such as credit cards and car loans, by 60% and revenues by 40% over the next decade

EM yields exceed 'taper tantrum' levels – Pg. 20

- Borrowing costs for emerging market countries have climbed above levels seen during 2013's "taper tantrum" as investors fear that deteriorating economic prospects will put pressure on government access to funding
- EM central banks are in a far stronger position to deal with external economic shocks than before the financial crisis, because of the greater prevalence of flexible exchange rates and larger sums borrowed in domestic currencies

FT Property – Read in entirety

Answer: Money markets are for short-term security exchanges, i.e. less than 270 days. The capital markets are for long-term security exchanges, i.e. greater than one year

29 September 2015

Question: What is the difference between the spot market and the futures market?

Malaysia fund seeks to quell concerns with quick asset sale – Pg. 3

- ...seeks to quell concerns over its multibillion-dollar debt pile and allegations of misappropriation of money that are swirling around the fund and Najib Razak, ...
- While it was originally suggested foreign buyers would be restricted to maximum holdings of 49%, some people familiar with the process say overseas companies may be offered majority stakes

Renminbi edges closer to reserve status – Pg. 4

- But remaining technical hurdles, concerns over Beijing's heavy-handed intervention in markets and poor communication of reforms such as the changes to its foreign exchange regime that set off a bout of turmoil in global financial markets last month, are causing nervousness within the IMF
- A move to include the renminbi in the basket used to value the IMF's de facto currency, the Special Drawing Rights, would represent its biggest shake-up since the creation of the euro which, together with the dollar, yen and British pound, makes up the elite club
- The IMF has two main criteria for measuring whether to include a currency in the SDR basket: the country's role as a big trading economy and its currency is "freely usable"
- The big question for the IMF is not China's capital controls but whether, in practical terms, member countries in crisis would be able to use the renminbi if needed

China statistics – Pg. 8

- China officially posted 7% real GDP growth for the first half of 2015,...
- Experts on China's national accounts data broadly agree that the quarterly real growth figure is subject to politically motivated "smoothing" aimed at reducing the appearance of sharp swings in the economy, especially in response to external shocks like the Asian financial crisis in 1998 and the global financial crisis in 2008

Lawsuits pile up as investors claim the market for Treasuries is rigged – Pg. 15

- US Treasuries are sold in an auction process in which banks and brokers listed as "primary dealers" place bids for the number of bonds they wish to buy and at what price. Investors can use primary dealers to buy at the auction or purchase them directly
- ...the investors are arguing that primary dealers are taking advantage of both the auctions and pre-auction transactions, known as the "when issued" market, to profit at the expense of their customers
- More than half of the cases have been filed by pension funds, using similar price analysis to that employed in market manipulation trials over Libor and in currency markets. These netted more than \$5.6bn in penalties for six banks that settled manipulation allegations

Qatar fund suffers \$12bn paper loss – Pg. 16

- It comes as the Doha-based fund, the ninth biggest in the world by assets, ...opens its first office in the US. The fund, which has invested about \$7bn in the US to date, aims to do five times as much in the next five years, mainly in infrastructure, technology and real estate, ...

US lenders shift investing to suit lower rates – Pg. 19

- Federal Reserve chair Janet Yellen's decision to delay an interest rate rise has worsened the outlook for big US banks, prompting them to try to eke out profits by shifting excess cash into longer-term assets
- ...Wells Fargo, the biggest bank in the world by market capitalization....

Answer: In the spot market, trades are executed immediately, i.e. real time. In the futures markets, which is a derivatives market, trades are agreed upon today but settled at later dates in the future.

28 September 2015

Question: A quadratic describes what type of function?

Saudis pull billions from global asset managers to fund deficit – Pg. 1

- The foreign reserves of the Saudi Arabian Monetary Agency have dropped by nearly \$73bn since oil prices started to decline last year as the kingdom keep spending to sustain the economy and fund its military campaign in Yemen
- While some of this cash has been used to fund the deficit, these executives say the central bank is also seeking to reinvest in less risky, more liquid products

Asians projected to overtake Hispanics as largest immigrant group in US by 2065 – Pg. 1

- The ranks of immigrants and their children will grow to hit a record share of the US population in the second half of this century, new projections show, with Asian immigration taking over as the major source of population growth
- ...foreign-born individuals and their children will comprise no less than 36% of the US population by 2065, higher than the peaks reached at the beginning of the 20th century and up from 26% now
- By 2065, Asians are projected to become the largest immigrant group. At 38% of the immigrant population, surpassing Hispanics, at 31%. Overall, the immigrant population will soar to 78m by 2065, compared with 45m today, with a growth rate double that of the US-born population
- The US population is expected to reach 441m by 2065, compared with 324m today, with 88% of the increased linked to future immigrants and their descendants...

UK tax rise prompts 'enveloped' home purchases – Pg. 4

- The buyer of a luxury property near London's Regent's Park is being offered the chance to save almost 1m (sterling) in property taxes by purchasing the offshore company that owns the home instead of the property itself
- Corporate entities are sometimes used to hold UK properties owned by non-domiciled residents and foreigners to avoid falling into the country's inheritance tax regime or to preserve anonymity

Iran to test investor views by offering Islamic T-bills – Pg. 17

- Iran is to issue Islamic Treasury bills, its version of short-term sovereign debt, for the first time today in an attempt to provide a fiscal stimulus for its cash-strapped economy,...
- About \$300m-worth of the Treasury bills – a sharia-compliant way for the government to raise money – will be offered to investors at a steep discount to their face value in a sign of how nascent capital markets are developing in Iran
- The government issues the one-year bonds to contractors in lieu of payment and the securities are being offered to investors via Iran's Fara Bourse, its small over-the-counter market
- Crucially, the effective interest rate on the bills is expected to be higher than the official bank deposit rate, which is about 20%. Iran's economy depends on its banking system, which is about 20%. Iran's economy depends on its banking system, which is hampered by bad debts, high interest rates and double-digit inflation

Answer: A parabola

26 September 2015

Question: When was the Asian Financial Crisis?

Yellen's postponement breeds uncertainty – Pg. 15

- Caterpillar, the heavy equipment manufacturer, on Thursday said sales would be \$1bn less than anticipated this year. After years of investment, customers in mining and construction

- have slashed spending, and the announcement of probable job losses by Caterpillar triggered a 6% share price fall, dragging other machinery stocks down
- ...many of the economic and financial indicators point towards a possibility of a global recession, and expects the market to take another tumble at some point, falling by up to 20% from this year's peak

Gold rally comes to end on rate rise comments – Pg. 15

- Gold's rally to a one-month high faded this week after Janet Yellen indicated that the Federal Reserve was on track to raise interest rates this year
- Because gold provides no yield, the prospect of a rate rise is weighing on the price
- Gold is priced in dollars and so is more expensive when the US currency strengthens
- Global equities are down 13% from their peak in June, the largest fall since 2011, ...
- Another boost has come from signs that physical demand in China is picking up, as buyers take advantage of lower prices

Dollar and Treasury yields rise on Yellen comments over Fed move – Pg. 16

- The dollar, Treasury yields and most main equity gauges rose after US Federal Reserve boss Janet Yellen indicated that an interest rate rise this year was still on the cards
- The US two-year bond yield, which moves inversely to the price and which is among the most sensitive to policy shifts, fell from 0.82% to less than 0.66% after the Fed's decision
- The Malaysian ringgit was 0.3% softer at 4.3863 per dollar, its weakest since the Asian financial crisis of 1998

Answer: 1998

25 September 2015

Question: When was Libor officially introduced and for how many currencies?

Yellen confirms case for raising rates this year but leaves escape route open – Pg. 1

- The recent shortfall in US inflation is largely a result of fleeting factors such as falling energy and import prices,...as she reiterated her expectation that central bank would lift rates this year
- Ms Yellen said tumbling energy costs and the 15% rise in the US dollar, hitting imports, had been drags on inflation, while the restraint from slack in the economy had diminished steadily
- ...the "prudent strategy" was not to wait for the US to hit full employment and for inflation to return to 2% before moving, ...
- She warned: "Continuing to hold short-term interest rates near zero well after activity has returned to normal and headwinds have faded could encourage excessive leverage and other forms of inappropriate risk-taking that might undermine financial stability"

Vietnam joins growing club of zero-inflation countries – Pg. 3

-other members include old hand Japan and the UK

- Consumer price inflation in Vietnam, whose multi-zero banknotes testify to years of hyperinflation, fell short of market forecasts for a rise of 0.8% in September. The zero reading was the lowest in almost 10 years of data
- Vietnam has had considerable success taming inflation, but just two years ago prices were rising at an annual pace of more than 6%. Four years ago the rate was 22%. The problem is the country's inflation target is about 5%.
- After China devalued the renminbi on August 11, Vietnam responded by widening the trading band for the dong, twice, from 1% to 3%, to allow the currency to fall and support exports. The currency has since lost 3% to 22,486 per dollar

Caterpillar warns on global demand – Pg. 17

- The announcement, which sent the US group's shares tumbling 6.5% by midday and weighed on the S&P 500 index, comes as concerns over a slowdown in China and other emerging economies ripple through markets
- Caterpillar generates 60% of its pre-tax profit from outside the US, and slowing emerging markets had already forced it to cut 31,000 jobs and close or consolidate more than 20 manufacturing facilities since 2012
- Rivals such as Komatsu of Japan are also suffering from the slowdown. Demand in China for the Japanese company's largest hydraulic excavators, for example, has dropped 50% or more every month between January and July, the latest month for which it has disclosed figures

US regulator shocked by the scale of 'deceit' – Pg. 19

- The EPA announced on Friday that VW had admitted installing "defeat device" software on 482,000 cars in the US
- (Prof Note: Why the EPA is so surprised given 2007 – 2009 financial armageddon is a mystery!)

BB&T signals more deals despite regulatory hurdle – Pg. 21

- BB&T is among a second tier of US banks that have looked to take advantage of a sector reshaping after the financial crisis
- BB&T is the seventh-biggest US bank by assets
- ...organic growth takes the bank nearer to \$250bn in assets...

Answer: 1986....three currencies

24 September 2015

Question: What two large corporate scandals have occurred in as many weeks?

Winterkorn falls on his sword as emissions scandal engulfs VW – Pg. 1

- The highest paid boss at a listed German company, Mr Winterkorn, 68, was credited with turning Volkswagen into a global giant that rivalled Toyota and General Motors

- VW has been reeling ever since the US Environmental Protection Agency revealed that the company had fitted its diesel vehicles with software that could be used to manipulate emissions tests, and demanded the recall of nearly 500,000 VW cars
- (Prof Note: What has this really taught us? Winkler is 68, i.e. DONE. Is he facing jail time? Is there talk of a claw back of salary “earned”? Once again we learn, cheating pays! At least he stepped down...unlike many financial titans that continue to hold on pointing the finger elsewhere. Way to take responsibility Winkler or way to hold the top accountable VW, either way...applause!)

Rise in WorldBank poverty threshold set to push millions more below the line – Pg. 1

- Raising the measure by a half to about \$1.90 a day, from \$1.25, would mark the biggest revision since the World Bank introduced its dollar-a-day yardstick of global poverty in 1990
- Most of the difference came in East Asia where the ranks of those falling below the poverty line almost doubled from 157m at the old \$1.25/day measure to 293m. In Latin America, the result was an increase of 8m in the number of poor to 37m

China manufacturing hits 6-year low – Pg. 4

- China’s crucial manufacturing sector is having its worst month since the depths of the global financial crisis in early 2009, ...
- At present, the People’s Bank of China is still intervening heavily in the foreign exchange market by selling dollars from its forex reserves and buying renminbi to stop a much larger depreciation
- Markets are betting on further depreciation and the offshore renminbi is currently trading at its biggest discount on record to the tightly controlled onshore renminbi

American ‘millennials’ upbeat on corporate behavior – Pg. 18

- The snapshot of US attitudes about companies highlights concerns about employee pay that have come to the fore in the presidential election – but also optimism among people born in the 1980s and 1990s, known as “millennials”
- Americans aged 18-35 were more likely than older people to say the behavior of companies had improved over the past decade...
- While just a fifth of people aged over 55 believed corporate behavior had improved in the past 10 years, 36% of millennials said it was better or more “just”
- The findings reflect concerns about wages and inequality...

Answer: United Airlines and Volkswagen, both cost the CEOs their positions. Why is finance different? Why are CEOs not held accountable in finance?

23 September 2015

Question: Prior to 1989, which government agency was responsible for regulating real estate appraisers involved with federal related transactions?

Thousands hit in pocket as financing schemes fail – Pg. 3

- Grassroots financing schemes operate in a similar manner to direct sales, with investors drawn in by the promise of high returns rather than, say profits from selling cosmetics. Some are right-out Ponzi schemes...
- Pyramid schemes, multi-layered sales networks known as chuanxiao and other too-good-to-be-true investments have flourished for years in China, especially in rust belt regions such as the northeast

Harvard seeks lesson in short selling – Pg. 13

- Harvard has put out a call for investment managers with expertise as short-sellers, as the world's largest university endowment becomes more cautious about the outlook for financial markets
- In its latest annual report, which showed investment returns fell to 5.8% in the year to June, the \$38bn endowment said its managers had started to increase their holdings of cash, and feared that some parts of the market had become "frothy"
- Harvard is ditching its approach of assessing the likely risk and return of each separate asset class and instead focusing on five key factors: the outlook for global equities, US Treasuries, currencies, inflation and high-yield credit
- Its \$6bn allocation to hedge funds also held back performance, returning only 0.1%
- The endowment's real estate portfolio was its top performing asset, up 19.4% last year

Brazil's real at all-time low against US dollar – Pg. 22

- The real touched R4.0604 to the dollar, a depreciation of 1.89% from the previous day's close and the weakest intraday level since it was introduced in 1994

Answer: None....

22 September 2015

Question: What is the difference between beta and alpha?

Alarm sounds on emerging markets and US slowdown despite Fed decision – Pg. 1

- The world economy is locked on a course towards an emerging markets crisis and a renewed slowdown in the US, despite the Federal Reserve's decision last week to hold off on a rise in rates, ...
- One of the most worrying for economists is the declining fortunes of emerging markets, which have deteriorated sharply this year following a significant slowdown in the Chinese economy, recessions in Russia and Brazil and widespread outflows of capital
- Developing world currencies have tumbled on average to their lowest levels since 2002
- Emerging market GDP growth rates are set to fall to 3.6% this year on average, their lowest level since the 2008-09 financial crisis, ...

Policymakers insist that the Fed remains on track to raise interest rates – Pg. 4

- Key Federal Reserve policymakers are insisting that the central bank remains on track to lift short-term interest rates before the end of 2015,

Delhi urges rate cut amid talks on central bank independence – Pg. 6

- As the world's third-biggest importer of crude oil, India is a big beneficiary of low petroleum prices
- ...fiscal deficit that he said was on track to narrow from last year's 4% of GDP and a current account deficit of 1.2%
- Growth...was running at 7-7.5%, a strong performance given adverse international conditions in which investors have scamped from emerging markets
- Foreign direct investment in India was up 49% this year,...

Goldman joins 'smart beta' ETF rush – Pg. 20

- ETFs seek to give investors a cheap, simple way of tracking an underlying market or index, collecting the passive "beta" of the broad market, as opposed to the "alpha" generated by clever stockpickers or bond kings
- ..."smart beta" which tries to beat the market cheaply by using more sophisticated indices...

Answer: Beta is market return whereas alpha is a return in excess of beta.

21 September 2015

Question: To whom is a professor ultimately responsible, to the students and their education or to the academic institution which employs the professor? When students education and administrative direction are in conflict, to whom is the professor ultimately accountable?

China renews push for market economy status – Pg. 4

- Beijing is accelerating its push for World Trade Organization market economy status (MES) despite growing international criticism that it has backed away from difficult economic reforms
- China's move to devalue the renminbi and bail out its stock market, among other steps, have raised concerns that it is backtracking from efforts to give freer reign to market forces
- A provision in China's WTO accession agreement that allows other countries to treat it as a non-market economy will expire in December 2016, potentially requiring the EU to begin drafting new trade legislation by the end of this year
- Granting Beijing MES would make it easier for Chinese companies targeted in WTO anti-dumping cases to defend themselves, leading some to warn of "disastrous consequences" for the EU and US
- While Beijing argues that MES should be extended automatically in December 2016 under the terms of its WTO accession agreement, other trade experts argue that the agreement instead requires Chinese exporters to prove first that they do not benefit from government subsidies and currency policy

Israel proposes Chinese labour to meet pledge on new homes – Pg. 5

- Israel submitted a proposal yesterday to import 20,000 construction workers from China in an attempt to fast-track homebuilding and make good on an election pledge to bring down soaring housing prices
- Israel has been importing thousands of foreign workers, mostly in construction, agriculture and nursing, since the second intifada, when the outbreak of violence caused authorities to cut work permits for Palestinians from the West Bank and Gaza Strip

The route to better wealth management – Pg. 12

- But now business schools are actively seeking those wealthy scions of dynasties in the making who want to learn how to manage the family firm or money – and getting a response
- Learning how to manage your money in the light of micro- and macro-economic trends is crucial (Prof Note: Amen!)

Answer: Self-reflection answer....

19 September 2015

Question: After the financial institutions crisis in the eighties, who was assigned the task of regulating real estate appraisers involved with federally related transactions?

Value of megadeals this year beats dotcom-boom record to reach \$1.2tn – Pg. 1

- Fueling the M&A fever, the largest brewer AB InBev this week revealed its plans to make an approach for rival SABMiller. A deal would probably cost more than \$100bn and rank among the six largest takeovers
- The total number of giant deals this year has climbed to 47 – one short of the record in 2006, just before the financial crisis
- Companies are under pressure from investors to do something with their large cash piles after years of share buybacks
- And with many US and European groups suffering from a lack of revenue growth, transformational deals are seen as a new source of higher earnings, especially in sectors such as pharmaceuticals, consumer products and telecoms

Fed rate setters ratchet up rhetoric on threat from overseas headwinds – Pg. 2

- Federal Reserve chair Janet Yellen has built the case for higher interest rates this year on the foundation of rapid hiring by corporate America driving the US to full employment
- But her statement on Thursday injected a strongly international dimension to deliberations that will make the outlook for policy more uncertain in the coming months
- The question now is whether the Fed's decision on Thursday to hold rates at near-zero levels represents a pause on its journey towards tighter monetary policy, or a shift in strategy
- A labour market economist, Ms Yellen has been arguing that when the jobless rate falls to its natural rate, wage growth and inflation will flicker to life, and the central bank will need to act

- Amid intensifying global headwinds, Ms Yellen hinted at the possibility of allowing the labour market to run hotter in order to get inflation back up to the Fed's 2% target. This raises the possibility that rates could stay on hold for longer than many analysts expected

Global investors pile into sovereign debt – Pg. 13

- Global government borrowing costs fell sharply yesterday in the wake of US policymakers expressing concerns over emerging markets with bond investors anticipating further monetary stimulus in Europe
- While most US policymakers still forecast a rate rise by the end of this year, markets price such a possibility at less than 50%, pulling the two-year Treasury yield below 0.7%

Answer: The States

18 September 2015

Question: What is the Appraisal Foundation?

Fed holds rates as global worries trump strengthening US growth – Pg. 1

- The US central bank maintained its 0-0.25% target range for the federal funds rate,
- Janet Yellen, the Fed chair, warned that developments in the global economy and markets, which have been rattled by China's slowdown, may "restrain US economic activity somewhat" as well as pushing down inflation
- The decision to hold rates at zero to a quarter of a point suggests Fed policymakers remain fearful of crushing a recovery that they have gone to huge lengths to nurture, as they assess fierce headwinds from overseas. These include a 15% rise in the trade weighted dollar in the past year, volatile financial markets, weakening emerging market growth and signs of the sharp slowdown in China's economy
- Ms Yellen went out of her way to keep the prospect of a 2015 increase on the table,...
- But unexpectedly dovish signals from the statement spurred some investors to bet that the central bank could stay on hold for another four months
- The Fed has only two more meetings left this year, in October and December

Dollar and overseas storms cloud future – Pg. 2

- ...a succession of storm clouds have rolled in from overseas to thwart the Fed's carefully laid plans for its first upward move since 2006....surging dollar...
- Fed policymakers made only incremental changes to their growth and inflation forecasts yesterday, suggesting that the US economy outlook has not changed radically since the Fed's June meeting
- The Fed chair also struck a worried note on emerging markets, ...

Treasury bonds jump and dollar sinks as Fed holds steady on rates – Pg. 21

- US Treasury bond prices rose and the dollar sank after the Federal Reserve once again opted to leave interest rates on hold, citing concerns about "developments abroad" even as it nudged up its domestic GDP growth and core inflation forecast for this year

- The yield on the two-year US government bond – which moves inversely to its price – was down 13bps at 0.69%
- The 10-year Treasury yield was 10bp lower at 2.23%, while the yield on the one-month bill turned negative for the first time since the end of June...
- Gold recovered from a fall to stand \$11 firmer at \$1,130 an ounce

Answer: A nonprofit organization, authorized by Congress regarding real property appraiser qualifications and appraisal standards. It is an organization made up of other organizations.

17 September 2015

Question: Name an organization that is a sponsor of the Appraisal Foundation?

US rate rise harder to justify nine years on – Pg. 1

- The last time the Federal Reserve raised its target interest rate, the decision did not seem such a big deal. It was June 29, 2006, US inflation was running at 4%, stock markets had been rising unremarkably for 18 months, and everybody knew the rise was coming
- US consumer price inflation, double the 2% target then, now stands at 0.2%. Unemployment was lower then than now. These are the two key targets of the Fed's official mandate, and make a rise far harder to justify now
- The commodity "supercycle" has turned since 2006
- A final issue is that bond markets have changed. Banks' near-death experience during the crisis, and the subsequent imposition of far heavier regulation, has left the dealers who drive the market for bonds with far less capacity, even as far more debt has been issued take advantage of persistent lower rates

Global factors weigh on Fed rate setters – Pg. 2

- Futures prices suggest a 25% likelihood of a quarter-point rate rise, ...
- What could convince Fed to rise? – The jobs front is strong. The labour market is at full employment, judged by Fed estimates, with unemployment closing in on 5%, the bottom end of the estimate for the long-term jobless rate of 5 – 5.2%
- Why do traders think Fed will hold? – Tighter financial conditions were enough to stop the Fed from tapering its bond purchases in September 2013
- How would markets react? – Fed officials have done little in recent weeks to prepare the markets for a September rise

Blankfein warns against monetary tightening – Pg. 2

- Just under half of economists polled by the Financial Times this week expect the US central bank to shift the current near-zero band for overnight rates higher when it concludes its two-day policy meeting today
- ...there had been plenty of tightening in the US in recent years, such as through income tax rises and the narrowing of budget deficit

S&P blames downgrade of Japan's debt on Abenomics – Pg. 3

- S&P's has slashed its rating on Japanese debt from AA- to A+ ...
- The downgrade is unlikely to trigger any immediate turmoil in the Japanese government bond markets, which are driven by deflation and large-scale asset buying by the Bank of Japan
- Japan has gross government debt amounting to 246.1% of GDP,...the highest of any advanced country, and a deficit of 6.2% of GDP
- Household consumption has been weak since Japan lifted its national sales tax from 5% to 8% in April last year. Mr Abe has had mixed success in persuading companies to lift wages

FT survey shows close call on Fed rate rise – Pg. 22

- About 47% of the 30 economists polled by the FT said the Fed would move, ...
- Meanwhile interest rate futures indicate only a 30% chance that the Fed will tighten policy this week
- While inflation remains below the Fed's started target of 2%, the labour market has been robust: nearly 1.7m jobs have been created since this year

Answer: One of International Sponsors is the Royal Institution of Chartered Surveyors (RICS).

16 September 2015

Question: What is USPAP?

Ireland leads the way as Eurozone homes market begins to recover – Pg. 2

- The Eurozone housing market has turned the corner after years in the doldrums and is likely to rise further,...
- The bursting of debt-fuelled property bubbles in countries such as Spain and Ireland played a big role in the eurozone's financial crisis, and although there was a brief recovery in 2010 and 2011, house prices fell again in 2012 and 2013
- Across the Eurozone as a whole, house prices at the end of March were 1.1% higher than a year earlier. By far the sharpest increase came in Ireland, where prices were 16.8% higher. Germany and Austria, where the housing market remained comparatively stable during the financial crisis, also saw gains, with prices up 5% and 3.6% respectively
- The cost of new housing in Spain jumped even more sharply, by 4.9%, suggesting that years of pent-up demand is finally being released as the broader recovery gathers strength
- Elsewhere, the picture is more muted, with house prices continuing to fall in countries such as France, Italy and Greece
- Eurozone member states including Ireland, the Netherlands and Estonia have already imposed or adjusted loan-to-value caps for local borrowers, in an effort to prevent consumers from over-stretching themselves. Other countries, such as Belgium, have increased the amount of capital banks must hold against certain types of loans in a bid to dissuade them from risky lending

Fed primes its levers for lift-off challenge – Pg. 20

- The Fed needs new levers because of the creation of trillions of dollars of extra bank reserves through its quantitative easing programme. It cannot use its traditional tool of varying the supply of reserves to banks to steer rates: there is simply too much money sloshing around the system
- Its solution will involve varying the interest rate it pays on those excess reserves parked with the central bank, which total \$2.5tn, supplemented by an overnight reverse repurchase facility to manage the federal funds rate
- Under the RRP the Fed will sell Treasuries from its balance sheet to a wide array of players, including money market funds, and buy them back the following day. The difference between the selling and buying prices implies an interest rate paid on the cash invested, in effect extending the central bank's rate-setting reach beyond the realm of ordinary banks

Fund managers braced for global recession – Pg. 20

- Fund managers are bracing for a global recession by selling stocks and commodities,...
- The latest sign of concern for the economic outlook comes as investors balance the effect of recovery in the US against a slowdown for China and countries that supply it with raw materials
- The US bull stock market has entered a seventh year, but the S&P500 is on course for losses after a rocky August

Answer: Uniform Standards of Professional Appraisal Practice (establishes standards for the guidance and education of appraisers and users of appraisal services)

15 September 2015

Question: What is FIRREA?

Economic nerves return to torment China equities – Pg. 1

- Chinese equities tumbled again as concerns over the health of the country's economy continued to unnerve international investors and officials
- The falls came with many economists and investors expecting the Federal Reserve to shelve plans to tighten monetary policy at its pivotal interest rate-setting meeting on Thursday, largely because of mounting concerns over China and the turbulence it has caused
- The benchmark Shanghai Composite shed 2.7% and the small-cap focused Shenzhen Composite fell 6.7%

Fed assesses financial market turmoil ahead of rates decision – Pg. 3

- When Federal Reserve policymakers gather this week to decide whether to tighten monetary policy, they will be well aware that recent movements in financial markets have already done a lot of work for them
- Those calling for the central bank to hold fire have recent history on their side
- Recent economic data tracking the domestic economy have been solid, with GDP rising at a 3.7% annual pace in the second quarter and the third-quarter numbers on track for 2.2% expansion,...

- Weighed against this...is depressed core inflation of just 1.2%, and lower inflation expectations

Brazil budget to fend off further rating cuts – Pg. 4

- Brazil has announced an emergency R\$65bn package of budget cuts and tax increases aimed at warding off further credit rating downgrades after S&P's slashed Latin America's biggest economy to junk last week

Bears target BofA amid governance row – Pg. 18

- Bets on a fall in the share price of Bank of America last week rose to their highest level in more than two years, ...
- Last week 0.93% of shares outstanding had been borrowed then sold by investors who were hoping to buy them back for less,...
- That was the highest level of "short interest" in BofA, the second-biggest US bank by assets, since February 2013

Answer: Financial Institutions Reform Recovery & Enforcement Act (FIRREA), enacted in 1989 in order to protect federally regulated financial institutions from loss.

14 September 2015

Question: When is the Case-Shiller residential pricing index published?

Fed guidance splits markets on rate rise and poses test for Yellen's leadership – Pg. 1

- If the Fed skips a September rise, it would create a communications challenge for Ms Yellen, who has advocated a rate increase in 2015 and would need to convince traders the Fed still meant business about lifting rates
- The futures market put odds of just 28% on an imminent increase...
- The two-year Treasury yield hit four-year high of 0.76%, ...
- Falling commodity prices, inflation expectations and the rise in the dollar were all given as possible reasons for the Fed to sit tight. Futures traders put a 41% chance of no move this year

Stock sell-offs reveal economic 'faultlines' – Pg. 4

- The sell-offs rocking equity markets reflect the "release of pressure" accumulated along "major faultlines",.....
- In a gloomy assessment of the turmoil that has shaken global stock markets in recent weeks, the BIS, which acts as the central bank of central banks, said emerging markets were particularly exposed to the unwinding of financial vulnerabilities built up since the 2008 crisis
- Unlike the IMF and the World Bank, which have both called for the Fed to delay its "lift-off", the BIS believes the problems facing emerging markets are partly a consequence of the ultra-low borrowing costs that have prevailed since the crisis

- The BIS official pointed in particular to the increase in dollar-denominated debt of non-financial corporations in developing economies, which surpassed \$3tn in the first quarter of this year
- The BIS acknowledged these levels of foreign debt were lower than those that preceded previous financial crises. But it thinks further increases in the dollar's value could still cause sharp economic slowdowns by halting the flow of credit

When rates rise – Pg. 5

- Almost all global banks hold a lot of US debt, since it is highly liquid
- The scenarios are being explored because the Fed is set to raise its record-low interest rates for the first time in a decade, perhaps as early as this week
- Under Basel III regulations, the banks have to disclose some detail about what higher interest rates would do to their businesses
- And there is a more general way that higher interest rates help. Rising interest rates are a sign of a strong economy. That will improve corporate profits and encourage companies to expand. To finance that expansion many of them will look to the banks. Lending volumes, then, should rise
- So higher volumes and higher margins....three in particular should be causes for concern. The first is the impact of rate rises on the dollar. Non-US borrowers have been enthusiastic borrowers of dollar debt. In emerging markets, for example, dollar-denominated debt has risen 81% to \$3.3tn over the past five years,
- Higher US rates mean a strong dollar, making the payments even more expensive in the borrowers' local currencies. Combine that with a slowdown in emerging markets, and a move by the Fed would make a bad situation worse
- The second is the internet. After years of meagre rewards, savers may jump at the first sign of an increase to move their money to a more lucrative account (Prof Note: FSA students...this is exactly what I was saying...)
- The final, less tangible, concern is the popular attitude towards banks. The prospect of banks making huge profits while the rest of the economy struggles might be a red rag wot the bank-bashers
- The banks that will do best are those with more deposits than outstanding loans. The excess deposits tend to be invested in short-term bonds at low yields.
- ...a number of banks will have to raise the prices they charge corporate borrowers

Fears mount over US stocks bubble – Pg. 11

- A growing number of investors believe that US stocks are overvalued, creating the risk of a significant bear market...
- ...his [Shiller] valuation confidence indices, based on investor surveys, show greater fear that the market is overvalued than at any time since the peak of the dotcom bubble in 2000
-there was no historical evidence for a link between interest rates and share prices

Answer: Last Tuesday of each month at 9:00am EST

12 September 2015

Question: What happens if Emerging Markets increase interest rates?

Cheap oil 'slams brakes' on US shale – Pg. 1

- Production of US shale oil will fall sharply next year as a result of the collapse in crude prices,
- The agency said oil production outside Opec, the producers' cartel, would fall by nearly 500,000 barrels a day next year, the largest drop since the collapse of the Soviet Union. US shale will account for about 80% of that fall
- ...total supply this year – at 96.3m b/d in August – continues to outpace demand and inventories are building

Brazil central bank hopes to stay above fray – Pg. 2

- In a bid to crush inflation, it has embarked on a two-and-a-half-year tightening cycle, raising its benchmark interest rate, the Selic, to a painful 14.25% even as the economy has slid in recession
- The central bank pushed interest rates down to a record low for Brazil of 7.25% but inflation started to rise, public finances soured and the economy sputtered as the commodity boom faded and investors lost confidence...

Homegrown reasons for the Fed to stay put – Pg. 8

- The financial markets currency think there is a higher than 50% probability that the Fed will raise rates before the year end, suggesting that a rise will not come as hugely destabilizing shock
- The proportion of adults who are participating in the labour market – either working or looking for work – has fallen to its lowest level in nearly four decades. A large number of Americans leaving the labour force altogether suggests wage inflation will kick off at lower level of employment
- ...the rise in compensation in the second quarter of 2015 was the slowest since 1982
- Core inflation has remained below the Fed's 2% target...
- Yet the Fed's best contribution to the global economy is to keep the US economy growing steadily, not to attempt to micromanage financial markets elsewhere

Investors flee EM on US rate uncertainty – Pg. 13

- The moves come as investors consider the potential for two changes to the world economy: a first US interest rate rise in nine years, and a significant moderation in Chinese demand for commodities for the first time in a decade
- The dollar has strengthened this year and commodity prices have fallen, raising concerns for emerging market countries and companies that borrow in the US currency and export significant raw materials to China
- A valuation gap between developed market and emerging market stocks widened over the summer. The price-to-book ratio on the MSCI emerging markets index stood at 1.28 at the end of August, the lowest it has been in more than five years

Answer: Investment and manufacturing will plummet and drive their economies into recession.

11 September 2015

Question: What happens if Emerging Markets reduce interest rates?

Brazil's finance minister moves to soothe nerves after downgrade jitters – Pg. 1

- ...the country's investment grade debt rating to junk
- The downgrade from triple B minus to double B plus with a negative outlook...
- Brazil was downgraded after last week backpedaling on an earlier commitment for a primary fiscal surplus, the budget balance before interest payments, of 0.7% for 2016, instead projecting a consolidated deficit of 0.34%

Cheap borrowing costs struggle to spark big recovery – Pg. 3

- By some measures the US is doing well. Unemployment is just 5.1%. Second-quarter growth at 3.7% was well above the long-term historical trend. But the picture is marred. Annual wage growth at 2.2% is well below the pace many Fed officials expect at full employment, and the labour force participation rate is at the lowest level since the 1970s
- The latter is partly because of the retirement of baby boomers, but also because many potential workers have given up looking for a job

Crush looms after US corporate debt binge – Pg. 17

- With a \$4tn mountain of debt maturing over the next five years, corporate America's reliance on cheap cash is about to be tested
- Tighter borrowing conditions will mark a turning point in the debt binge
- Analysts with S&P expect defaults among junk-rated US companies to hit 2.9% by June 2016, nearly twice the rate in 2013

Brazil's real nears record low after downgrade – Pg. 20

- Fears of capital outflows accelerating from recession-hit Brazil holed the real below the waterline yesterday, with the currency sliding 2.5% and approaching its all-time low against the US dollar set nearly 13 years ago
- Brazil is in the thick of the EM squall, but its problems are exacerbated by economic and political difficulties, including a sizeable capital accounts deficit and the government's struggle to stick to its austerity agenda

Answer: Currencies fall, inflation rises, and capital quickly leaves and living standards decline

10 September 2015

Question: What happened yesterday in the Technology world?

Beijing clamps down on forex deals to stem capital flight – Pg. 1

- China has tightened its capital controls, in a sharp reversal of its market liberalizing rhetoric, as it struggles to contain the fallout from last month's devaluation of the renminbi
- The August 11 devaluation unleashed turmoil on global stock markets and policy confusion at home, forcing the central bank to spend as much as \$200bn to support the renminbi
- The prospect of an interest-rate increase in the US has further encouraged capital flight
- Safe has ordered banks and financial institutions to pay particular attention to the practice of over-invoicing exports, often used to disguise large capital outflows
- China has long imposed limits on the amount of foreign exchange that can be bought or sold by individuals and companies but those controls have broken down somewhat in recent years as the renminbi has become more widely used around the world
- Although still the largest in the world, its reserves fell by the biggest amount on record in August, dropping \$94bn to about \$3.56tn

Emerging markets call on Fed to lift rates and end uncertainty – Pg. 1

- Anxiety over Fed policy has combined with a slowdown in China and falling commodity prices to rock emerging markets in recent months

US job vacancies show biggest rise in 5 years – Pg. 2

- The number of vacancies rose 430,000 in July, the biggest gain in five years, to a record 5.75m
- The number of empty posts grew in industries including professional services, retail, transport and utilities, manufacturing, and leisure and hospitality
- ...wage growth remains muted, ...

Probe into US Treasury markets – Pg. 13

- New York's banking regulator is probing potential manipulation of the US Treasury markets, in a sign of how scrutiny of the \$12tn industry is widening, ...
- The justice department is also examining the potential rigging of Treasury auctions, after the agency and other regulators netted more than \$5.6bn in penalties from six banks that settled allegations that they manipulated currency markets
- The US Treasury market is especially important because it is a benchmark for borrowing costs and asset prices around the world and a haven in times of crisis

Puerto Rico warned over \$28bn cash crunch – Pg. 20

- Puerto Rico faces a \$28bn financing gap over the next five years, ...

Answer: The new iPhone was introduced. This will be my first smart phone purchase! I will soon download my first App!

9 September 2015

Question: What two organizations created at Bretton Woods disagree with a September rate rise by the US Federal Reserve?

Fed urged to hold fire on rates or risk sparking emerging market 'panic' – Pg. 1

- The US Federal Reserve risks triggering “panic and turmoil” in emerging markets if it opts to raise rates at its September meeting and should hold fire until the global economy is on a surer footing, ...
- Rising uncertainty over growth in China and its impact on the global economy meant that a Fed decision to raise its policy rate next week, for the first time since 2006, would have negative consequences,...
- ...if the Fed’s policymakers were to decide next week to raise rates, they would be doing so against the advice of both of the institutions created at Bretton Woods as guardians of global economic stability

Finland plans cuts to pay and holidays to revive economy – Pg. 2

- Finland’s new centre-right government is proposing scrapping two bank holidays and cutting pay for sick leave, overtime and Sunday working in the latest attempts to turn around its ailing economy
- Its labour costs are a fifth higher than in Germany or neighbouring Sweden while a massive postwar baby boom means it has the most rapidly ageing population in the world behind Japan
- Finland’s GDP was revised up to 0.2% growth in the second quarter but the economy has stagnated or contracted since late 2010 and remains well below its pre-crisis peak level

Mixed economic indicators leave Federal Reserve with hard choices – Pg. 3

- ...debt servicing costs at their lowest as a share of income since at least the 1980s, ...
- ...US exporters are suffering from the hindrance of a higher dollar
- The unemployment rate has fallen below levels seen at the beginning of both the Fed’s last two rate-increasing cycles, and companies are finding it harder to fill vacancies than in 2005-06

Risk parity industry defends strategy – Pg. 22

- Risk parity funds – which passively invest about \$500bn in a range of assets such as stocks and bonds – use algorithms to shift allocations periodically in response to volatility. It is this strategy, argue some analysts and rival funds, that exacerbated the recent stock market choppiness
- Most risk parity funds use models and leverage to target a constant volatility, so when the turbulence of asset classes climbs their models lower the exposure
- Risk parity funds suffered a torrid summer but outperformed the equity market, thanks to leveraged bets on the more resilient bond market – although these big fixed-income allocations hurt RP funds earlier in the year due to expectations of rising US interest rates

Answer: IMF and World Bank

8 September 2015

Question: Why can rations be limiting?

Subprime repackaged as investors feel ready to embrace risky borrowers again – Pg. 1

- Yield-hungry investors are ready to endorse a revival of bonds backed by riskier US residential mortgages, as lenders warm to housebuyers who do not meet strict borrowing guidelines introduced after the financial crisis
- But the now toxic label of “subprime” mortgages has been dropped....”non-prime mortgages” – a term funds are using to describe mortgages that do not meet government standards
- A score below 620 used to be called subprime, while the average is about 700
- Issuance of residential mortgages backed securities that do not carry the guarantee of government agencies such as Fannie Mae and Freddie Mac has dried up to less than \$10bn for 2014, from \$500bn a year before the crisis
- One way for banks and other lenders to satisfy these new rules is by issuing a qualified mortgage, for which applicants must meet a total monthly debt-to-income ratio of 43% or less
- Banks are wary of issuing outside the QM standards because of the potential liabilities involved, including being sued by the borrower if they cannot pay the loan back, ...

EM selling pressure puts lira at new low – Pg. 26

- EM currencies remain precariously positioned between the two big market obsessions of the moment – the timing of a Federal Reserve rise in US interest rates and the health of the Chinese economy
- A Fed rise strengthens the dollar, while a Fed delay risks being seen by the market as a consequence of China’s weakness

Jobs report keeps investors guessing on rate rise – Pg. 28

- For now, investors are leaning towards another monetary policy reprieve. Fed funds futures indicate only a 30% chance of lift-off in September...
- The 10-year and 30-year US Treasury yields have climbed from the lows of earlier this year, but remain very low in light of looming US rate increases, as many investors expect the “yield curve” – the difference between short and long-term interest rates – to continue to flatten even as the Fed lifts rates

Answer: NO defined set

7 September 2014

Question: What is a ‘quick’ ratio to measure liquidity?

Salaries rise as skilled workers enjoy ‘pick of jobs market’ – Pg. 3

- Skilled workers gained the upper hand in the jobs market in August as recruiters struggled to fill posts, raising salaries for permanent and contract staff

- The survey offers more evidence that there is a decreasing amount of spare capacity in the labour market, as the BoE weighs whether the economy is ready to begin moving away from its long period of low interest rates

Rouble's decline hits Russia foreign currency debt repayments – Pg. 6

- Combined with a deepening recession and western trade sanctions, the wild gyrations in the oil price and knock-on effects of the Russian economy facing a credit crunch when it comes to repaying their foreign currency debt
- One factor weighing on sentiment is China, which last year became one of the largest sources of foreign credit to Russia,...

Answer: Current Assets/Current Liabilities

5 September 2014

Question: What is the Securities Market Line (SML)?

US jobless rate at lowest since 2008 – Pg. 1

- The US unemployment rate tumbled more than expected to 5.1%, the lowest since April 2008 – leaving it at the level the Fed associates with full employment
- The US private sector has added more than 13m jobs over the past 66 months, in its longest string of gains on record, fueling calls for the Fed to end its near-zero rates policy
- The S&P500 index fell 1.6% yesterday afternoon as traders pushed up the odds of a September lift-off on the back of the jobs numbers

Danger lies in belief that inflation is history – Pg. 11

- Students of economic history often marvel at some of the phenomena and oddities of past eras such as feudalism, the use of giant stones as currency, tulip bubbles and the gold standard
- Any slight inflationary concerns suffered after mauling from the renewed commodity price slide this summer, and more recently China's decision to let the renminbi depreciate, which triggered convulsions across global markets
- ...sagging measures of investors' inflation expectations have slid precipitously in recent weeks. So-called "break-even" rates – which gauge inflation expectations by comparing conventional and inflation-protected government debt – have in some cases plumbed lows last seen at the nadir of the financial crisis
- The health of the global economy is feeble, spare capacity built up in the noughties boom years remains considerable, commodity prices are expected to stay in the doldrums and China's giant economy could, in an extreme scenario, tip the world into another recession
- The average annual rise in the US consumer price index was 7.1% in the 1970s; 5.6% in the 80s; 3% in the 90s; 2.6% in the noughties; and just 1.8% over the past five years

Answer: It is a line that quantifies the cost of equity with the single market risk variable as beta. It is more commonly referenced as CAPM (Capital Asset Pricing Model).

4 September 2014

Question: How many jobs were added in August 2015 in the U.S. and where does the unemployment rate stand?

Draghi comes bearing gifts for markets – Pg. 2

- The promise of additional quantitative easing, from a central bank that has already pledged to buy 1.1tn (euro) of mostly government bonds, buoyed equities and bonds across the region
- There was little detail of what QE2 could look like...

Jobs data seen as crucial to Fed rates decision – Pg. 2

- The health of the jobs market has sat at the heart of Fed chair Janet Yellen's case for higher rates this year
- Analysts are looking for payroll gains of about 218,000 for August...
- The jobless rate, meanwhile, is expected to drop to 5.2% from 5.3%, ...
- Under the Fed's economic models, the amount of slack in the economy helps drive inflation pressures down the road. Calculation that spare capacity in the labour market is fast disappearing helps explain why many of the FOMC think rates need to be lifted from near-zero levels
- What complicates the analysis, however, is the view that the unemployment rate is itself an inadequate way of assessing jobs market slack. A broader measure, which includes people in part-time employment but would like a full-time post, stands higher at 10.4%
- Muted wage growth of about 2% this year also suggests that there is still spare capacity in the jobs market
- At 5.3%, the unemployment rate stands on the cusp of the Fed policymakers' view of the natural rate of joblessness, between 5 and 5.2%

Euro 'spanked' by Draghi dovishness – Pg. 22

- The euro dropped 1.2% against the dollar...hitting a two-week low of \$1.1090
- Economic recovery is weakening and the rate of inflation slowing, the central bank said, prompting it to raise the cap on its 60bn (euro) a month quantitative easing programme
- ...number of issues, including uncertainty over the US Federal Reserve's rate rise intentions, China's slowing economy and pressure on emerging market countries, has caused the euro to appreciate over the summer

Answer: 173,000 jobs and 5.1%

3 September 2015

Question: Who selects the candidates for Federal Reserve Chairperson?

Global investors rattled by China's hunt for stock market culprits – Pg. 1

- The authorities have arrested, or investigated, several employees of brokerages, listed companies and even the market regulator itself as they seek to tackle malpractice, manipulation and “rumour-mongering”
- One big US hedge fund with operations in China said it was conducting extra audits, concerned that the authorities were subjecting foreign investors to additional scrutiny

Beijing to lend Venezuela \$5bn to boost oil production – Pg. 3

- China will lend Venezuela \$5bn to boost oil output, ...
- China has lent \$50bn to Venezuela in oil-backed loans secured under former president Hugo Chavez but has become much less enthusiastic about adding its exposure as the Venezuelan economy has worsened. Venezuela is the eighth-largest oil supplier to China, primarily of heavy crude that trades at lower than benchmark prices
- Crude oil sales account for 96% of Venezuela’s exports, and every \$1 drop in the price of oil equates to a \$700m hit to government revenues

Europe’s banks steal march on US rivals – Pg. 14

- Europe’s slimmed-down investment banks are stealing market share from US rivals in global fixed income, currency and commodities trading...
- European banks’ loss of global advisory business has been a widely reported trend, as companies from the continent have increasingly turned to US banking giants for advice on M&A, as well as other transactions
- ...European banks are lagging behind in equities business ...
- Morgan Stanley expects European banks to increase their revenues from equities business by 7% next year, against a 16% forecast advance for US banks. It also expects European banks to lose another 4% of advisory revenue

Dollar gains pace ahead of key events – Pg. 20

- ...pushing the euro back below \$1.1250, as US stocks rebounded
- Its strength is once again telling on emerging market currencies
- A snapshot of the US jobs market from ADP Research showed 190,000 jobs were created in August, slightly fewer than expected, although there was an upward revision on US second-quarter productivity

Answer: The President of the U.S.

2 September 2015

Question: The FOMC meets a minimum of how many times a year?

Manufacturing in China slides at fastest rate in three years – Pg. 1

- Activity in China’s manufacturing sector contracted at its fastest pace in three years, sending global shares down and exacerbating fears about a Chinese slowdown that have hit global markets

- China's central bank cut interest rates last week and said that it would inject liquidity into the banking sector, in a move to stimulate the slowing economy and stem the slide in share prices

Canada's fall into recession knocks Harper poll hopes – Pg. 4

- Canada's economy shrank at a 0.5% annualized pace in the quarter to the end of June,...
- With Canada emerging from the downturn less battered than the US and Europe, he gained a reputation as the most trusted economic manager among Canadian political leaders
- The Bank of Canada has struggled to predict the impact that the crumbling oil price will have on the country's energy-exporting economy. The central bank surprised investors by cutting interest rates in January and did so again in July
- Canada's first recession since the 2008-09 crisis, has raised fiscal stimulus as a central issue in campaigns

Uber faces lawsuit to decide if 160,000 drivers should be ranked as employees – Pg. 11

- If Uber were forced to take on the full costs of employing its drivers, it could weaken the economic drivers, it could weaken the economic model of one of the most highly valued tech start-ups, and set a precedent that would threaten other companies that rely on organizing freelance worker
- The labour costs for most sharing-economy groups would rise by 25 – 40% if they were forced to switch from being simple marketplaces to full-service companies, ...
- The burden will now be on the company to “disprove an employment relationship”...

Oil bear forecasts return to \$25 a barrel – Pg. 18

- ...while oil companies were slashing capital expenditures, the long lead times on most projects meant the impact would not be felt on supplies in the market until around 2019. As such, ...WTI could fall as low as \$25 a barrel for up to a month this year, ...

Local-currency debt lowers credit risk – Pg. 20

- The chaos endured by emerging markets this summer is unlikely to evolve into a credit crisis...
- Across the largest emerging markets, the share of debt held in a country's own currency has jumped from just over 50% to just under 75% in the past 15 years...
- On average local investors hold 68% of the sovereign debt issued by their government, compared with 58% in 2000

Answer: Eight (8)

1 September 2015

Question: What are the two types of Income Statements?

Emerging market currency wars threaten to cut back world trade – Pg. 1

- Weakness in emerging market currencies is hurting global trade by reducing imports without any benefit to export volumes, ...
- The findings suggest that any currency war between developing nations is likely to be even more damaging than previously thought, leading to a reduction in global trade and possibly economic growth, rather than just reappointing a fixed level of trade between “winners” and “losers”
- Since June 2014, the currencies of Russia, Columbia, Brazil, Turkey, Mexico and Chile have fallen between 20% and 50% against the dollar, while the Malaysian ringgit and Indonesian rupiah are at their weakest since the Asian financial crisis of 1998

Wealthy Chinese look to boost overseas holdings – Pg. 6

- Residential property was the most popular investment, followed by fixed-income securities, commercial property, trust products and life policies
- A significant proportion of this class are the self-made who have managed to profit from the economic expansion – a phenomenon that has led to large inflows of foreign investment to China
- The top reason for overseas investment, cited by over 38% of respondents, was to gain entry to good schools. As parents send offspring abroad for western education, many are buying flats in college towns
- China’s high net worth families had shifted from making as much money as they can to protecting their wealth...

US banks face regulatory pressure to classify risky oil loans as troubled assets – Pg. 15

- The US oil boom of the past six years has been fueled by a surge in borrowing by small and medium sized companies
- A long slump in the crude price would pose a risk to banks with a high proportion of loans to oil and gas groups.

Equities worldwide pulled down by China – Pg. 22

- All three major Wall Street equity indices fell, with the S&P 500 down 0.8% yesterday and 6.3% this month, its worst monthly performance since May 2012
- Falling Chinese shares pulled bourses down across the US, Europe and Asia after reports that Beijing had scrapped large-scale share purchases as a method of propping up markets

Answer: Direct and Indirect

31 August 2015

Question: What are the three sections of a Statement of Cash Flow?

China ditches mass share buys after \$200bn two-month spree – Pg. 1

- The Chinese government has decided to abandon attempts to boost the stock market through large-scale share purchases and will instead ramp up efforts to investigate and punish people suspected of “destabilizing the market” ...

- ...prop up a market that is down 37% since its Peak in Mid-June

China turmoil adds to Fed jitters as US rate rise decision looms – Pg. 3

- The turmoil in China has intensified the debate within a divided Federal Reserve over whether the inflation outlook will be strong enough to justify higher interest rates as soon as next month, ...
- On Saturday, Stanley Fischer, the Fed's vice-chairman, acknowledged the central bank was looking at China and its impact on other economies "even more closely than usual" but insisted there was still "good reason" that US inflation would head to the central bank's 2% target
- Arguments for a September rise are being backed by strong domestic growth figures, with the US economy expanding 3.7% in the second quarter, and optimism about the jobs market, with important numbers due on Friday

Asia is a bigger problem for Europe than the US – Pg. 7

- ...Eurozone still have a problem with inflation, and with the level of demand
- ...consensus forecasts expect UK and US inflation to be back to about 1.7% by the middle of 2016. In the Eurozone prices are forecast to rise by barely 1%

China banks under growing pressure as bad loans jump – Pg. 11

- The country's big four state-controlled banks – Agricultural Bank of China, ICBC, Bank of China and China Construction Bank - ...
- ICBC, the world's biggest bank by assets, warned that the "risks of illegal fundraising and financial frauds are spreading to the banking system" as it reported a 28% increase in nonperforming loans compared with the previous six months

Answer: Operations, Investment, and Finance

29 August 2015

Question: What is the size of notional Over-the-Counter derivative contracts in the global market today?

Fed still wavering on early rate rise – Pg. 1

- US economic data remain strong, with second-quarter GDP growth numbers upgraded to 3.7% this week

Switzerland defies forecasts and sidesteps drop into recession – Pg. 2

- GDP increased 0.2% in the three months to June, ...despite economists overwhelmingly expecting a contraction. In the first three months of the year, Switzerland's economy had contracted by 0.2%. A recession is defined as two quarters of negative growth
- Switzerland's economy remains gripped by deflation with the franc's steep rise forcing exporters to slash prices and cutting import costs. Annual inflation was minus 1.3% in July
- During the Greece crisis, the franc acted as a haven for investors

- Swiss watchmakers have seen demand tumbling for their luxury products as a result of the slowdown in Chinese growth and Beijing's crackdown on corruption. Swiss watch exports in July were 9.3% lower than a year earlier with sales to Asia down 21.4%,...

European banks fight to retain US pension rights – Pg. 8

- Three of Europe's biggest banks are scrambling to keep their right to manage money for US pensioners after regulators threatened to withdraw it as further punishment for pleading guilty to market manipulation this year
- The move is a further sign US regulators are taking a tougher approach with banks that are found to have broken US laws amid criticism that they have until now appeared "too big to bar"
- Deutsche was forced to plead guilty to manipulating that Libor interest rate benchmark in a settlement with US regulators earlier this year

Answer: \$630,000.0 bn

28 August 2015

Question: What is the notional size of contracts pegged to Libor globally?

Apple names date to unveil next iPhone as it fights to defy slowing growth fears – Pg. 13

- Apple has scheduled its annual iPhone debut for Wednesday September 9, a year after the launch of its latest handset alongside Apple Pay and the Watch
- The venue is expected to see the debut of the iPhone 6S which, in keeping with previous "S" models, will probably have upgrades to the handset's internal technology, such as a faster processor, while maintaining the current model's size and design
- New features are rumoured to include the addition of "Force Touch", where pressing harder on the iPhone's screen will allow for new kinds of interaction, a concept first introduced on the Apple Watch
- (Prof Note: I am taking the plunge...this shall be my first smart phone. By the end of the year I shall download my first app. I think the HP-12c will be my first app!)

BoE publishes bond liquidity concerns – Pg. 20

- Regulation to make banks safer may have had a destabilizing effect on the bond market, ...
- Central bankers appear increasingly concerned with bond market liquidity, a subject that has rapidly risen up the list of investor concerns
- A rise in the cost of capital, partly because of the imposition of new regulation, has caused many banks to retreat from trading and shrink their balance sheets – particularly the part they can devote to dealing in corporate bonds

Strong US growth figures give boost to dollar – Pg. 20

- The major currencies returned to more familiar long-term patterns of behavior after three days of market upheaval, led by a re-energised dollar that felt the benefit of a better than expected rise in US growth

- The dollar index, which measures the greenback against a basket of its peers, recovered the ground lost since the start of a week that had been thrown into turmoil by market panic over China

Answer: \$350tn

27 August 2015

Question: What is the ratio for Capitalization rate?

Case for rate rise next month now 'less compelling', says Fed official – Pg. 1

- ..turmoil that has spread from China to global markets is rattling policymakers
- The turmoil eased yesterday, with Wall Street staging an impressive comeback. The benchmark S&P 500 posted its biggest one-day gain in almost four years after a volatile day in which the FTSE Eurofirst 300 closed down 1.9%

Asian asset managers: under-appreciated – Pg. 10

- Major Asian stock markets are down for the year, shrinking assets already invested and disincentivising further inflows
- Of \$11tn-\$12tn in institutional assets in Asia, only \$2tn is allocated to third parties to manage – although this number is growing -
- If western markets offer a road map, there should be most to come. US institutional assets are of similar total value to those of Asia, yet a far higher proportion – around 80% - is externally managed

Lenders' capital raising plans hit by sell-off – Pg. 12

- There is growing concern that the recent sell-off in bank shares will make expected capital raisings much harder to achieve for large European lenders such as Standard Chartered, Deutsche Bank and Credit Suisse

US natural gas glut prompts price warning – Pg. 18

- By the onset of winter, analysts expect gas banked for the heating season to approach or exceed 4tn cubic feet, surpassing a high set in 2012
- US producers inject gas into underground reservoirs from spring to autumn, banking fuel for the winter season. These facilities, consisting of salt domes, depleted gasfields and aquifers, are designed to hold 4.665tn

Shanghai and Shenzhen sink despite rate cut – Pg. 18

- A fresh salvo of easing measures from the People's Bank of China failed to counter downward pressure on stocks, with the Shanghai Composite index finishing the day 1.3% lower
- China's central bank cut rates on Tuesday and said it would pump liquidity into the banking sector to support the economy and reverse a slump in share prices that has alarmed global investors

- The central bank also cut the one-year savings rate by 25bp to 1.75% and said it would lower the reserve requirement ratio for large banks by 50bp, in effect injecting liquidity
- China's equities market has lost more than 40% since a seven-year high in mid-June

US rate rise falls fast down the probability scale – Pg. 20

- One possibility is that the Fed will not merely keep on delaying a rate rise but will not in fact raise at all (Prof Note: My vote!!!)
- What was a hard decision for the Fed has been made a lot more complicated by the frantic market reaction to the renminbi devaluation
- Opportunities came with good inflation and jobs data. But the worry has been that the economy has not grown fast enough, even with lower oil prices. Inflation remains well below the Fed's 2% target
- A strong US labour may justify the Fed raising rates, but global factors mean the central bank needs to see stability before it can contemplate the move the market has long expected

Answer: Net Operating Income Divided by Sales Price

26 August 2015

Question: Over the past 20-years, what has been the average S&P500 equity return and corresponding risk?

Beijing cuts interest rates in bid to revive economy – Pg. 1

- China's central bank cut interest rates yesterday and said it would pump liquidity into the banking sector in an effort to boost the slowing economy and stem a slump in share prices that has alarmed global investors
- ...reduced its benchmark one-year lending rate by 25bps to 4.6% with immediate effect...
- The bank also cut the one-year savings rate by 25bps to 1.75%....
- In response to Monday's plunge, European exchanges had seen their sharpest falls since the 2008 crisis and the DJIA plunged 1,000 points on opening

Late slide in US stocks stirs the turmoil – Pg. 1

- ...by the closing bell the main US equity gauge had fallen 1.3% on the day, less than 1point off the initial low touched after Monday's opening dive and back at a level typically termed a correction

Britain set to remain haven for foreign exchange reserves – Pg. 2

- ...over the past decade China has quietly become one of the biggest foreign owners of British bricks-and-mortar assets
- Infrastructure is seen as particularly attractive because of the UK's stable regulatory environment, inflation-linked returns and revenue streams that are often backed by the government. Some infrastructure companies are in effect monopolies
- ...China Investment Corporation amass a 10% stake in London's Heathrow airport,...

Gloomy economic reality dawns on Brazil – Pg. 3

- Latin America's largest economy has fallen into its biggest recession since the Great Depression, hit by lower commodity prices, a multibillion-dollar corruption scandal at state-controlled oil company Petrobras, and a political crisis...
- ...economy forecast to shrink 2% this year,...

Alibaba staff told to focus on their jobs as share price fall takes toll on morale – Pg. 11

- ...the company's stock sank below its listing price of \$68 for the first time
- Alibaba's shares have been declining since January over worries about the regulatory environment in China, missed earnings forecasts and concerns about counterfeit goods...

Answer: (8.65%, 18.50%)

25 August 2015

Question: What happens if Janet [Yellen] raises short term rates given the market turmoil?

Global stocks sell-off as China's 'Black Monday' darkens markets – Pg. 1

- Lawrence Summers, former US Treasury secretary, wrote in the Financial Times yesterday that raising rates in the near future would be a "serious error" that would threaten stability
- The falls come after the Shanghai Composite dropped 8.5%, its worst day since February 2007
- The S&P 500 fell as much as 5.3%, slipping into correction territory before lunchtime rally that fizzled out, leaving the index down 3.9% at the close
- ...the 10-year government bond yield at one point slipping below 2% for the first time since April
- Beijing appears to have decided it is too expensive to continue to prop up stocks....

Attention turns to Jackson Hole for a signal from Fed on interest rates – Pg. 1

- For good reasons, the Federal Reserve would like to raise interest rates. It has made clear that US employment no longer gives a reason to keep rates at emergency lows, and has prepared the market for a first rate rise next month
- Forecasts derived from US bond prices suggest that expected average inflation over the next decade has just dropped below 1.5% - for the first time since May 2009, at the worst of the global financial crisis
- Inflation expectations mattered critically to the Fed under Ben Bernanke. Twice since the crisis, it resorted to fresh bond purchases after falls far milder than this current deflation scare. When the Fed eases, or signals easing, and US rates stay low, the dollar weakens

Police investigate reports of suicides in wake of Ashley Madison data hack – Pg. 16

- (Prof Note: "Don't do the 'crime', if you cannot do the time!")

- (Prof Note: What I find absolutely hilarious are the number of people that accessed the site from government, corporate, and military systems. Hello...can you say iPad connected to a mobile network which is NOT owned by your employer?!)

Treasury yields plummet amid wider turmoil – Pg. 20

- US Treasury yields fell to their lowest level since April, as collapsing stock prices around the world triggered a move towards less risky assets
- Ten-year US Treasury yields, which move inversely to prices, fell below 2% to hit 1.91%, before rising
- The yield on Russian 10-year rouble denominated bonds jumped 31bps to hit 12%
- In the US, traders continued to fret over the fate of US high-yield debt, which had weakened at the end of last week

Answer: The U.S. Yield Curve flattens, driving the U.S. into recession. Of course she can adjust the duration of the Fed Rsv balance sheet but with the flight to quality, it seems doubtful she would be successful in raising long-term rates. Just my opinion!

24 August 2015

Question: What does it mean when an auditor issues an ‘adverse opinion’?

Russia moves to halt rouble sell-off – Pg. 2

- The Russian government has resumed pressure on exporters to sell foreign currency in an effort to prevent global market turbulence from triggering another rouble sell-off
- The move mirrors measures Russia employed amid the dramatic fall of the rouble at the end of 2014
- As corporate tax payments are due by the end of September, stronger demand for local currency is expected this week

World’s poor bank on a better future as ‘financial inclusion’ at tipping point – Pg. 4

- In an increasing number of places governments are working with the banking industry and telecoms companies to establish a mobile payment system aimed at those without bank accounts – in Peru 70% of its 22m adults...

The Fed looks set to make a dangerous mistake – Pg. 11

- ...barring major unforeseen developments – rates will probably be increased by the end of the year
- Like most major central banks, the Fed has put its price stability objective into practice by adopting a 2% inflation target. The biggest risk is that inflation will be lower than this – a risk that would be exacerbated by tightening policy
- More than half the components of the consumer price index have declined in the past six months – the first time this has happened in more than a decade
- CPI inflation, which excludes volatile energy and food prices and difficult-to-measure housing, is less than 1%

- If the currencies of China and other emerging markets depreciate further, US inflation will be even more subdued

Rising auditor warnings on Hong Kong groups heighten China fallout fears – Pg. 15

- Auditors have sharply increased their warnings over the financial health of Hong Kong companies at time when investors fear the repercussions of China's slowing economy
- Disclaimers are the second-most serious grade of qualified audit opinion, and mean that the auditor is worried that there are issues facing the company that could be both material and pervasive to its finances. The only worse outcome is an adverse opinion, which indicates outright disagreement between auditor and company

Banks fine tally since crisis hits \$260bn – Pg. 17

- Bank of America, Morgan Stanley, JPMorgan, Citi and Goldman Sachs have borne the brunt of the fines so far, collectively paying out \$137bn. They have another \$15bn to come in the next two years...
- So far, US mortgage issues accounted for \$110bn of litigation costs across the banks followed by PPI at \$43bn, foreign exchange rigging at \$15bn, money laundering at \$15bn and Libor/Euribor at \$10bn

Answer: An outright disagreement between auditor and company

22 August 2015

Question: What is the large theory for quantifying Cost of Equity which uses multiple macroeconomic variables?

Global stocks suffer sell-off as fears intensify over Chinese slowdown – Pg. 1

- Stock markets in the US, Europe and Asia tumbled yesterday after lackluster Chinese data fueled concerns about the impact of China's slowdown on the global economy
- The three main US stock markets saw sharp sell-offs in the opening minutes of trading
- Equities in Hong Kong, Indonesia and Taiwan entered bear market territory, while US crude plunged below \$40 a barrel in New York for the first time since the financial crisis

Data point to strengthening Eurozone recovery – Pg. 2

- The eurozone's recovery strengthened a little this month as the weaker euro led to a rise in new export orders for the region's businesses, ...
- The picture was less optimistic in the US, where data also compiled by Market Suggests manufacturing growth in August slowed to its weakest pace since October 2013
- In the Eurozone, preliminary GDP figures for the second quarter suggested the region's recovery lost momentum during the spring despite a cocktail of low oil prices, a weaker euro and aggressive monetary easing by the ECB

Gold regains its haven allure in equity rout – Pg. 11

- Gold regained its role as a haven investment, recording its biggest five-day gain since January as equities markets around the world plummeted
- Gold hit \$1,168.4 yesterday,...
- Gold's rebound was helped by remarks from the US Federal Reserve that suggested uncertainty over a September rate rise. That contributed to a drop in the dollar and a fall in US bond yields, which move inversely to prices

Answer: Arbitrage Pricing Theory (APT)

21 August 2015

Question: For a public company, how does one quantify the cost of equity?

US stocks slide to six-month low in wake of emerging-market currency turmoil – Pg. 1

- The US stock market slid by the most since February 2014 yesterday, wiping out all of this year's gains to trade at a six-month low, as deepening emerging markets turmoil triggered by the commodity slide and China's devaluation rattled global bourses
- The shift towards more flexible exchange rates in countries such as Kazakhstan and Vietnam underscores how China's devaluation has ratcheted up pressure on emerging markets, already struggling with concerns over the commodity price collapse, a looming US rate rise and capital outflows
- In the latest sign of rising EM currency stress, Kazakhstan's tenge lost more than 20% of its value after the central Asian country announced it would allow its currency to float freely, following a similar move by Vietnam earlier this week

Brazil's economic malaise deepens as unemployment rate surges to five-year high – Pg. 4

- Brazil's unemployment rate rose sharply in July to its highest level in five years, in the latest sign of the country's economic malaise...
- Unemployment rose for the seventh straight month, hitting 7.5%. This is up from 6.9% in June and much worse than the 7% the market had forecast
- ...the economy is expected to contract more than 2% this year, making it the country's deepest recession in a quarter of a century

Spreads widen in ailing credit markets – Pg. 20

- Investors are demanding a greater premium for owning the debt of US companies in a sign that weakening growth prospects for China and sliding commodity prices are hurting US credit markets
- Credit spreads, or the difference in yield between debt sold by companies and that of US government bonds, are at their widest level for the year
- The poor performance of credit this week has been matched by falling equity prices and, in a sign of rising risk aversion, Treasury yields have fallen over the past month

Answer: Capital Asset Pricing Model (CAPM)

20 August 2015

Question: What is the definition of “Market Value” according to the Federal Reserve Administration/website?

Currencies lose firepower as effective trade weapon – Pg. 2

- In a new study of 46 countries including China, economists at the World Bank found that currency devaluations were these days only half as effective a tool for boosting exports as they were in the mid-1990s
- Moreover, the World Bank economists found the further countries became integrated into the global economy – as China has done in spectacular style since the 1990s – the less the effect was likely to be of any currency changes on their exports
- The biggest reason...is the development of global supply chains in the past two decades and the reality that many products today are agglomerations of parts made in many different countries

Weakened foundations – Pg. 5

- In the thick of the Asian financial crisis of the late 1990s, as one desperate country after another slashed the value of their currencies, China was credited with halting the malaise by keeping its exchange rate pegged firmly to the dollar
- Total debt in the Chinese economy quadrupled from \$7tn in 2007 to \$28tn by the middle of last year,
- At 282% of GDP and climbing, China’s debt load was already bigger last year in relative terms than those of Germany and the US
- The majority of new credit has gone into property and associated industries such as steel, cement, glass and factories to produce fridges, televisions, light bulbs and other products people need to put in their new homes
- Beijing has launched a huge programme that some describe as “quantitative easing with Chinese characteristics”, to swap short-term local government debt for longer-term, lower-cost bonds
- Yet income from land sales, which had accounted for an average of 40% of local government revenues, has plummeted in the past year

Dollar and Treasury yields fall as Fed minutes prompt rate rethink – Pg. 19

- The US central bank expressed concerns about low inflation as well as the risks posed by a stronger dollar and developments in China, but said conditions for a rate rise were “approaching”
- US consumer price inflation data released yesterday were benign, with both the headline and core readings up just 0.1% last month, for year-on-year rates of 0.2% and 1.8%, respectively

Kazakhstan devalues as ‘contagion’ stirs – Pg. 20

- Kazakhstan and Vietnam allowed their currencies to fall yesterday, fueling expectations of more depreciations among emerging market countries, which could trigger financial solvency problems
- Emerging markets have more than doubled their dollar-denominated debt in five years to \$4.5tn... (Prof Note: Can we say, “tesobono”?)

Answer: “Buyer and seller are typically motivated, both parties are well informed or well advised, each acting in what he or she considers his or her own best interest; a reasonable time is allowed for exposure in the open market; payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.”

19 August 2015

Question: What is the definition of “Market Value” according to The Dictionary of Real Estate Appraisal, Second Edition, American Institute of Real Estate Appraisers?

Emerging markets rocked by \$1tn capital flight as confidence slumps – Pg. 1

- The flood of capital gushing out of emerging markets has risen towards \$1tn over the past 13 months, roughly double the amount that left during the financial crisis, amid slumping confidence in developing economies
- As funds flow out, a vicious circle is triggered. Currencies tumble against the dollar, damping demand for imports and driving down aggregate demand.
- (Prof Note: Now may be a good time to look at that beachfront in the Philippines!)

Walmart earnings hit by higher wages – Pg. 12

- This year, Walmart’s decision to raise wages triggered a number of other key US employers to do the same. The company said it was spending more on staff than it had anticipated in February, and these investments in training, additional hours and higher wages were starting to have a positive impact on its sales
- US like-for-like sales rose 1.5% in the second quarter, with an increase in store traffic of 1.3%

US inflation expectations at year low – Pg. 18

- Measures of US inflation expectations have tumbled to their lowest level this year, following a sharp decline in commodity prices and concerns that China’s recent currency depreciation will fan a deflationary trend
- Analysts say the change reflects sliding oil prices and concerns over the weakening renminbi (Prof Vent: Why are gas prices so high?! Yes, I know the answer but not they go up proportional to crude but NOT down)

Answer: “The most probably price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms for which the specified property rights should sell after reasonable

exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress”

18 August 2015

Question: How does the International Valuation Standards Committee define “Market Value”?

Banks’ \$2bn US payout opens way for billions more in forex claims – Pg. 1

- Global banks are facing billions of pounds-worth of civil claims in London and Asia over the rigging of currency markets, ...
- Barclays, Goldman Sachs, HSBC and RBS were among nine banks revealed last Friday to have agreed to a \$2bn settlement with thousands of investors affected by rate-rigging in a New York court case

Abe blow as Japan’s economy shrinks – Pg. 2

- The Japanese economy shrank at an annualized rate of 1.6% in the second quarter of 2015, ...
- The contraction down from 4.5% growth in the first quarter, came in slightly lower than market expectations of a 1.8% fall but reflected broad-based weakness in demand across the economy, casting doubt on hopes for a recovery later in the year
- The central bank forecasts growth of 1.7% and inflation of 0.7% for the year to March 2016

Rouble heads growing list of EM casualties – Pg. 21

- Russia, Turkey, Malaysia and Taiwan headed a lengthening list of emerging market countries whose currencies are being pummeled by markets’ continued fixation with China’s slowdown and an imminent US rate rise

Answer: “Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.”

17 August 2015

Question: How does the Appraisal Foundation/USPAP define “Market Value”?

Marketers say dropping famous brand could leave Google in an alphabet stew – Pg. 1

- Last week’s decision to change its name to Alphabet puts Google on a potentially risky path that will see it remove one of the world’s most successful brand names from most of its businesses (Prof Note: This smells of “New Coke”)
- But if there are risks, the reshuffling of brands could also be very valuable for Google’s shareholders, producing a new corporate brand that analysts say gives it freedom to expand into new markets

- “Google” was the world’s second most valuable brand last year. The search company plans to rename itself Alphabet before the end of the year, limiting the Google name to its internet division

Investors feel the pinch as strong dollar hits dividends – Pg. 11

- Global dividends have fallen year-on-year for the third quarter running as the strength of the US dollar continued to weigh on payouts
- Investors received a total of \$404.9bn in dividends in the second quarter, down 6.7% from a year earlier, ...
- However, underlying dividends were up 8.9% year-on-year once currency movements, special dividends and other factors were stripped out. This was powered by increases in Europe and Japan

Anxiety on rise over US student debt securities – Pg. 14

- The US student loan market has expanded significantly in recent years, driven by rising tuition costs and a clamour for a university education by millennials after the financial crisis
- Total US student debt has trebled over the past decade to almost \$1.2tn...sparking concerns that this constitutes a long-term threat to consumer spending by a core segment of the population and a drag on US growth
- The average difference between the yield of triple A-rated student loan bonds in a JPMorgan index and Libor, a common interest rate benchmark, has almost doubled over the past month to 100bps for five-year paper

Answer: “A type of value, stated as an opinion, that presumes the transfer of a property, i.e. a right of ownership or a bundle of such rights, as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal”

I was having a conversation with Elliot E., an economist, and we were agreeing on our economic hatred of Starbucks and how it was ruining the younger generation. When I look out upon my classes, many times at least 1/3 of the students have a \$5 cup of Starbucks overpriced Joe. I, of course, have my thermos of homemade Joe and when asked if that is because I am cheap, I say, “YES”.

Let us look at the economics. If you assume 2.00% inflation and an investment rate of 6.00% let us figure out the cost of a cup of Starbucks Joe at retirement in today’s dollars. Simple math states we earn an after tax return of 4.00%. So, a 25 year old has 40 year investment horizon and a 45 year old has a 20 year investment horizon and a 65 year old is all about consumption. For the 25-year-old the \$5 cup of Joe ‘costs’ \$24 and for the 45-year-old the \$5 cup of Joe ‘costs’ \$11. Basically there is a 5X multiplier for the 25-year-old and a 2X multiplier for the 45 year old. What does all of this mean, the greatest destroyer of wealth accumulation is consumption. How do you ensure yourself of wealth, do not spend it! (and invest wisely).

P.S. If one assumes 8.00% investment return (which is what the institutional investors assume) then that \$5 Cup of Joe for the 25-year-old becomes \$50 at retirement, i.e. a 10X multiplier. How much are you really enjoying that Starbucks coffee???!?

15 August 2015

Question: What is the relationship between Prime and FFR?

Weak Eurozone data underline fragile recovery – Pg. 2

- GDP in the Eurozone increased 0.3%, undershooting analysts estimates of 0.4%, as France's economy stagnated and Germany, Italy and the Netherlands grew less than expected.
- Unemployment remains in double figures and data from Germany indicate that companies in the eurozone's economic powerhouse are reluctant to invest, regardless of record-low interest rates
- Household and government expenditure rose, although investment remained weak, especially in the construction sector

China release data on gold reserves – Pg. 11

- ...its holdings to 1,677 tonnes at the end of July, an increase of 1%
- China started reporting its reserves this year under the IMF's Special Data Dissemination Standard. SDDS, launched in 1996, is a method used by more than 70 countries and includes monthly reports of gold holdings
- China is the sixth-largest holder of gold in the world, after US, Germany, the IMF, Italy and France...
- The US has gold reserves of 8,133 tonnes
- Gold fell to \$1,088.50 a troy ounce last month, ...

Long bonds rebound as deflationary fears stir – Pg. 11

- A sustained depreciation, accompanied by other currencies continuing to slide against the US dollar, raises the prospect of a deflationary wave – on the back of cheaper exported goods from China and other countries – rippling through the global economy
- Because the value of long-dated bonds is driven by expectations for inflation, rising yields suggested that investors thought the global economy was steadying, with the US Federal Reserve set to shift interest rate policy higher, as soon as September

Answer: 300bps

14 August 2015

Question: What does the "M" really mean in MIRR?

Rare defence by Chinese central bank reassures jittery markets on renminbi – Pg. 1

- China's central bank has made a rare public defence of its currency policy, assuring jittery global markets that it does not want to see a collapse in the value of the renminbi following Tuesday's shock devaluation
- The renminbi weakened 1% in early trading yesterday, but the loss was halved following the PBoC conference. The currency has fallen 3.3% against the US dollar over the three days

since the PBoC's announcement that it was moving to a more "market-based" onshore foreign exchange regime

Challenge for China after devaluation – Pg. 3

- ...critics counter that China's appeal to market forces is opportunistic, arguing that the Communist party likes to unleash market forces when they happen to align with its policy goals
- Proponents of the reform interpretation point out that China's devaluation does not follow the usual currency war script. Unlike Abenomics in Japan, for example, the PBoC is not creating money and selling it into the market; the central bank weakened the renminbi by unleashing depreciation pressure that had been building for months but that previous central bank intervention had held in check
- The central bank publishes a daily guidance rate for the renminbi each morning and allows banks to trade the currency by no more than 2% above or below that level
- The central bank said it would henceforth set the guidance rate mainly based on the previous day's spot close – a promise to let the market dictate the guidance rather than vice versa.

US investment banks pull ahead – Pg. 11

- The top five US banks have taken 33.5% of the global investment banking fee pool so far this year...almost double the five highest-ranked European banks, at 17.2%
- Shrinking can impair banks' ability to underwrite big equity or bond deals, or carry out other complex transactions, which inevitably leads to lower fees
- The US banks have benefited from stability at the top. While three of the top five European banks have removed their chief executives within the past few months, for example, none of the top five US banks has made a change since Mike Corbat replaced Vikram Pandit at the helm of Citigroup almost three years ago.

BP traders ruled to have rigged US gas markets in the wake of Hurricane Ike – Pg. 11

- BP faces the prospect of fresh regulatory fines after a judge ruled that its energy traders rigged a US natural gas market in the aftermath of a 2008 hurricane
- After Hurricane Ike made landfall in Texas in September 2008, the price of natural gas delivered in the Houston Ship Channel dropped to a sharp discount to the benchmark Henry Hub in Louisiana. That created an "economic windfall" for BP, ...as it had sold derivatives in Houston and bought them in Henry
- "BP engaged in market manipulation. This is a classic case of physical for financial benefits"

Mexico and Columbia 'join fragile five' – Pg. 18

- Columbia and Mexico have become members of the "fragile five" quintet of, emerging market nations, replacing India and Brazil, ...
- Alongside Turkey, South Africa and Indonesia, the Latin American duo are seen as the countries most overdependent on potentially skittish foreign investment flows
- Mexico is considered vulnerable because its reserve coverage ratio is just 1.6 years, or less than the seven years of Russia, another struggling oil exporter. A country's reserve coverage

- ratio is its foreign exchange reserves divided by its funding gap – the capital needed to balance its current account deficit, repay short-term funding and compensate for any drying up of foreign direct investment
- A real interest rate of close to zero gives Mexico little flexibility to cut rates if its economy weakens further

Answer: Bifurcates the reinvestment rate and the discount rate.

13 August 2015

Question: What are the three sections of a Statement of Cash Flow?

China steps in to calm global nerves over renminbi slide – Pg. 1

- The Chinese currency had fallen by as much as 2% earlier yesterday to a low of 6.45 per dollar, before authorities stepped in to buttress the renminbi, which rallied 1% in the final 15 minutes of the trading day to 6.38 versus the dollar
- China's decision to tolerate a weaker currency has fanned concerns that its economy, long an engine of global growth, is slowing much faster than previously thought

Super-rich face fresh scrutiny – Pg. 3

- Cash-strapped governments are already clamping down on evasion and avoidance to shore up public finances and calm public anger over widening economic inequality and alleged tax dodging
- Wealthy citizens are increasingly being singled out for special treatment because of their complex tax affairs and the scope for aggressive tax planning. The crackdown also reflects their growing importance to public finances
- Tax rates have also gone up for many wealthy people. From 2010 to 2013 six or seven EU member states raised their top rates each year

Bank rules blamed for bond trade slide – Pg. 18

- The liquidity of global debt markets has emerged as a hot topic in the financial industry during the past year, ...
- Bonds have become harder to buy and sell in recent years, even as global debt markets have swelled and billions of dollars of retail money has gushed into fixed income vehicles such as mutual funds and exchange traded funds
- The concern is that if retail investors are burnt by losses they could pull their money out of funds that hold increasingly illiquid securities, exacerbating a sell-off and fueling even more outflow

China's neighbours hit multiyear forex lows – Pg. 20

- The sustained falls raised concern at the implications of a currency war, amid talk that China was seeking to make its exports more competitive

- The euro made notable gains yesterday as investors unwound carry trades, where investors borrow in currencies with low interest rates to fund bets in higher-yielding assets, featuring the shared currency and Asian emerging market counterparts

Answer: Operations, Investment and Finance

12 August 2015

Question: What is a typical ratio lenders seek for a DSCR?

China risks clash with US as 1.9% devaluation surprises markets – Pg. 1

- China yesterday carried out the biggest devaluation of the renminbi in two decades to boost its slowing economy, marking an escalation of international “currency wars”, surprising markets and risking a clash with Washington (Prof Note: What??? Was not the \$3.5tn in money creation by the U.S. the greatest currency devaluation EVER???)
- It should help combat a big fall in China’s exports fueled by the renminbi’s relative strength
- It comes as China pushes for the renminbi to be accepted as a global reserve currency alongside the dollar, yen, euro and sterling by the IMF, which has cited greater exchange rate flexibility as a key factor

How oil plunge has upended companies and economies – Pg. 16

- The drop has inflicted massive pain on oil-exporting countries, widening currencies. Energy companies have laid off an estimated 70,000 workers and scrapped projects worth billions of dollars, especially in high-cost areas such as Canada’s oil sands and the Gulf of Mexico
- Venezuela, a country whose crude oil accounts for 96% of export revenues and that loses \$700m for every dollar fall in the oil price, typifies the difficulties oil exporters face
- The windfall is worth more than \$200bn for the US, Eurozone, UK and Japan, ...
- But in the US, sales of gas guzzlers such as SUVs are up, and the country is seeing something of a renaissance in motoring

Opec pumps more oil despite Saudi cut – Pg. 20

- Saudi Arabia scaled down its oil production from record levels last month but Opec output reached the highest level since 2012
- Opec output, led by Saudi Arabia and Iraq, has risen this summer, adding to a global glut

Move to end paper reports prompts US outcry – Pg. 20

- In 2013 a study from the Pew research centre found that 15% of US adults aged 18 and older did not use the internet or email, while more than 40% of those over 64 were not online

Answer: 1.2 – 1.25

11 August 2015

Question: What is DSCR?

China marks milestone in rates push – Pg. 2

- As gyrations in China's stock market captured the world's attention in recent months, less eye-catching but ultimately more important changes were under way in the country's \$21tn market for bank deposits
- Chinese lenders sold certificates of deposit to the public at unregulated interest rates for the first time in the second quarter, the central bank revealed, marking a milestone in Beijing's push to let market forces set the price of money (Prof Note: Is this not what happened with the S&Ls, i.e. deregulation allowed investment in assets for which they had no knowledge?)
- Cheap deposit funding has also discouraged banks from seeking smaller borrowers willing to pay higher interest rates, since lenders earn fat margins even on conservative loans
- Market-based interest rates are also a key criterion that the IMF will use to decide whether it will endorse the renminbi as an official reserve currency later this year

Shrinking Russia economy prompts oil price alert – Pg. 2

- Russia's economy contracted by 4.6% in the second quarter compared with the same period in 2014, the largest drop in six years, marking the country's first recession since the financial crisis
- The figure comes after the first quarter when the economy contracted by relatively mild 2.2%
- Fears that the squeeze would trigger a broader systemic crisis receded when the rouble stabilized around 50 to the US dollar this spring after a steep fall. It has since depreciated to 64 to the US dollar, raising fresh concerns

US 'break-even' rate at seven-month low – Pg. 22

- A gauge of US short-term inflation expectations has fallen to a seven-month low in the wake of the renewed commodity rout, even as the US Federal Reserve prepares to raise interest rates for the first time in almost a decade
- The US "break-even" rate is an indication of where investors see inflation is headed, and is derived by comparing the yields of conventional US bonds and inflation-protected debt. The two-year break-eve rate dipped for a seventh day running yesterday...
- Falling forecasts for the US consumer price basket casts a cloud over the Fed's plans to start raising interest rates this year, with most economists penciling in September as the most likely lift-off date
- The main US consumer price index is at just 0.1%, ...
- The Fed's preferred gauge of domestic inflation, the personal consumption expenditures deflator, accelerated to 1.8% quarter-on-quarter in the three months to June, .

Answer: NOI divided by debt service, i.e. $DSCR = NOI/DS$

10 August 2015

Question: What is the easiest way to determine if one will return 100.0% of invested capital?

Mao policies would put GDP growth just below China's forecast rate, says study – Pg. 1

- ...the abolition of the private sector in China and a return to a command economy would yield an annual average GDP growth of 4-5%. That is about one percentage point less than the average growth they predict China will achieve if it continues with a market-based reforms that began in the late 1970s and that are credited with lifting hundreds of millions of people out of poverty
- Assuming a continuation of current policies, the paper forecasts that the economy will expand by 7-8% for the next decade, slowing to 5.2% on average between 2024 – 36 and then 3.6% between 2036 and 2050
- That is slower than the 3.9% rate it predicts between 2036 and 2050 if China were to return to Maoist policies introduced after the Great Leap Forward, in which 30m people died in a famine that was largely the result of economic mismanagement

Japan eases its fixation on jobs for life – Pg. 4

- The polarization of Japan's labour market not only causes hardship of those on the wrong side of the lifetime system – it is also a significant economic problem. The productivity of temporary staff is lower, ...because they are less motivated and companies do not train them
- Factors such as an ageing population, increasing demand and a deindustrialization that is eroding the lifetime system are easing things for workers trying to get on the ladder

Pay increases for US rate traders signal 'war for talent' before possible Fed rise – Pg. 11

- ...senior rates staff at US and European banks are on course to receive average rises in total pay this year of about 10%, ...
- Base pay in FICC sales and trading held steady in the industry last year, at about \$400,000-\$500,000 for managing directors at US banks and \$800,000 - \$1m for European counterparts

Investors not tempted by cheap Apple – Pg. 12

- Media and technology shares have suffered steep declines over the past two weeks, with shares of Disney, Time Warner, Twitter, LinkedIn and Viacom sliding more than 8%, ...
- Analysts and portfolio managers have rejected comparisons to 2012-13, when Apple shares tumbled more than 40% on a split adjusted basis

Answer: Discount the cash flows for the 'Worst' case and if NPV is positive, 100.0% of capital will be returned.

8 August 2015

Question: How are price and value different?

US jobs data narrow rate-rise odds – Pg. 1

- American payrolls expanded by 215,000 in July, slightly below a revised gain of 231,000 jobs in June and marginally below Wall Street expectations of a 225,000 increase,...

- The unemployment rate was unchanged at 5.3%. The widest definition of joblessness, U6, fell to a seven-year low of 10.4% in July, from 10.5% in June
- Over the past three months, employment have added an average of 235,000 jobs a month, signaling the US expansion has remained on stable footing

‘Great implosion’ leaves US cable groups reeling as Netflix gains ground – Pg. 8

- On Wednesday alone \$37bn was wiped off the market value of Sumner Redstone’s Viacom...21st Century Fox,...Walt Disney...and five other big cable and broadcast groups...
- ...fear that Netflix, YouTube and others may fundamentally disrupt the sector, where operating profit margins have exceeded 40%
- In the US, the big television groups depend on two main sources of revenue: advertising and so-called affiliate fees from cable and satellite companies that carry their channels

Hayes sentenced to 14 years for rigging of Libor rates – Pg. 9

- A jury unanimously found Mr Hayes – a yen derivatives trader known as “Rainman” because he was so awkward and numbers-obsessed – guilty on all eight counts of conspiracy to defraud
- (Prof Note: I remember at Constellation one of the salespeople had done a spark with Carroll Oil, i.e. we went from supplying electricity/gas to supplying liquids with the stroke of a pen. I spent the next two days flowcharting the business decision, documenting signatures, and my box had no lines, i.e. I had NOTHING to do with this. The CFO called me demanding to know what happened and I said, “Welcome to NewEnergy!” She exploded! I asked, “What happens if the Carroll Oil truck falls over on a school bus of children?” No one knew if we were liable. My boss said very loudly, “Roger, the best thing you do is cover your own a\$\$!” (it was not intended as a compliment). I said, “See you on visiting days!” My point...stand up for your own ethics as when it gets bad you could be standing there alone!)

Ringgit drops to 17-year low against US dollar – Pg. 11

- The plight of emerging market currencies deteriorated this week, driven by growing concern about the impact of falling commodity prices and exposure to China’s slowing economy
- The slide follows the double-dip in crude prices – oil revenues accounts for 30% of government revenue
- Brazil’s real weakened 2.2% over the week...
- Russia’s rouble wilted, also by 2.2%, ...
- The euro fell 0.2% yesterday to \$1.0907...

Answer: Price is market and value is individual.

7 August 2015

Question: When something happens with your computer you generally always turn it off then on to see if the problem resolves itself. When a home system fails what should you do?

Bank of England keeps rates on hold but says time for a rise is approaching – Pg. 1

- The move put the BoE on a more cautious path than the US Federal Reserve, which is expected to raise rates as early as September, although it remains ahead of the ECB and the BoJ, both still firmly in easing mode
- The BoE upgraded its growth forecasts for this year, but halved its forecasts for inflation in 2015 from 0.6% to 0.3%. Inflation, which fell back to zero in June, is expected to hover around that level for the next few months before rising on a more sustained basis towards the middle of 2016

Europe to mandate clearing of swaps – Pg. 20

- Europe is set to enforce mandatory clearing of interest rates swaps from late April next year after Brussels adopted new rules to bolster over-the-counter derivatives trading yesterday
- The move means Europe will fall into line with the US and Japan – the other main markets for over-the-counter derivatives clearing – in requiring big market participants such as banks to clear some swaps
- Interest rate swaps make up most of the global \$700tn OTC market
- The European rules will cover fixed-to-floating interest rate swaps and forward rate agreements for instruments denominated in euro, sterling or yen, and certain kinds of US-dollar denominated swaps

Rouble at lowest against dollar since February – Pg. 20

- Russia's rouble led weakness among emerging market currencies yesterday, slipping to its weakest level against the US dollar since February
- US monthly jobs data due today will be the next big test for EM currency sentiment, with a robust report likely to burnish the dollar
- Several EM currencies have fallen to milestone lows against the US dollar – notably the Malaysian ringgit, the Indonesian rupiah and Brazil's real
- Last week the central bank cut its benchmark interest rate by 0.5% to 11%. It has gradually lowered the rate from 17% in January, weighing on the currency

Answer: Check the breaker! There, I just saved you a \$165 service call to learn what a EE (me) should have already known!

6 August 2015

Question: If a student has \$100,000 in debt at a rate of 6.00% for 30 years, what is the monthly payment?

Saudi Arabia to tap markets for \$27bn as low oil strains finances – Pg. 1

- Saudi Arabia's resort to further domestic borrowing highlights the challenges facing the region's largest economy amid one of the steepest falls in the oil price in recent decades. Brent has dropped from \$115 a barrel in June last year to about \$50 this week
- ...Saudi Arabia, which requires an oil price of \$105 a barrel to balance its budget
- The bond plan has echoes of the 1990s, when Riyadh issued local banking debt via Saudi government development bonds. At one point at the end of the 1990s, Saudi debt reached

100% of GDP. It was only when oil prices began their sharp ascent in the early 2000s that the kingdom's debt levels began to come down

IMF alert to snags in renminbi's progress – Pg. 2

- The IMF has hailed China's progress on financial reform but said the renminbi still lags behind rivals on key metrics that determine whether the fund will formally endorse the redback as a reserve currency
- The fund's executive board will make a final decision on the renminbi late this year as part of its five-yearly review of the currency composition of its special drawing rights – a global reserve asset comprising the dollar, euro, pound and yen

BoE to release large volume of monetary policy data – Pg. 2

- But with US interest rates set to rise for the first time in almost a decade, questions are being raised about whether the end of the great bond party is nigh
- Simply buying the bonds in the Barclays Aggregate index – which includes a mix of highly-rated corporate and government debentures – in 1981 would have bagged 8.4% a year on average since then. Corporate bonds have done even better, on average returning 9.3% annual. Equities have only marginally outperformed and at the cost of considerably more volatility (Prof Note: Hello....what I have been ranting about for years!!! Bonds are sexy!!!)
- At the same time many investors would embrace a reversal in yields as a chance to pile into the market, thereby muting the danger of entering bear territory. Insurers and pension funds in particular have labored to get the returns they need to match their long-dated liabilities at a time when interest rates have plumbed to record lows

US groups forced to disclose salary gaps – Pg. 13

- US companies will have to disclose the gap between their chief executive's pay and an average employee's salary under rule that will provide fresh data on the issue of inequality
- ...rule that requires listed companies to disclose the pay ratio between chief executives and their median employee (Prof Note: For the record, my employees received an across the board pay increase of 25% last year. However, as I am not listed, I will not be disclosing this ratio!)
- The AFL-CIO played a role in lobbying for the rule and said it should "shame" groups into current chief executive pay (Prof Note: Oh pulllezzzz...just watch, the definition of "executive pay" will change and this will be another ratio public companies target and 'manage' for analyst calls. (am I really that cynical?!))

Answer: f clx, 100000 chs pv, 6 g l, 30 g n, pmt...\$600. This breaks my heart!

5 August 2015

Question: What is the student loan rate for a Direct Unsubsidized Loan for graduate study?

Job Insecurity ... Younger workers learn to live with temporary employment – Pg. 1

- A majority of young workers across the Eurozone are now in temporary jobs, despite a long-awaited recovery taking hold across the continent
- At more than 52%, the share of younger workers on temporary contracts is the highest on record

Recovery prompts rise in precarious job contracts – Pg. 3

- In France, permanent jobs account for just 16% of new contracts, down from a quarter in 2000. In Spain, almost seven in 10 young workers are on temporary contracts. The share of the eurozone's 15 to 24-year-old workers who are temps is the highest on record, at 52.4%
- The OECD warns that temping is more of a "trap" than a "stepping stone" in Italy, France and Spain, where fewer than 30% of temporary employees had moved on to permanent jobs three years later

Lending Club looks to extend into car loans and mortgages as revenues swell – Pg. 11

- Lending Club, the world's biggest online marketplace connecting borrowers and investors, posted another quarter of rapid growth
- Lending Club is at the forefront of a new breed of lenders which say they can supply loans for less – by cutting out the cost of branches and avoiding reserve requirements – while providing consumers with a quicker, less paper-intensive process

Western banks step up renminbi debt issuance – Pg. 18

- Western banks are issuing more renminbi-denominated bonds in moves to gain an early foothold in a nascent but potentially large capital market
- Increased issuance from global lenders is one of the latest steps in the renminbi's progress to internationalization
- Four rate cuts from the People's Bank of China have also helped lower domestic borrowing costs

Answer: 5.84%

4 August 2015

Question: If you lose 50% of your principal in year 1 and gain it all back in year two, what is your average annual return?

Ex-star trader given 14 years in prison for fixing Libor – Pg. 1

- ...first conviction in the global scandal over the manipulation of benchmark interest rates
- Magnus Peterson, the founder of collapsed hedge fund Weaving Capital, was given a 13-year prison sentence this year while UBS rogue trader Kwaku Adoboli received seven years in 2012
- While at UBS, he generated about \$260m in revenues over three years, attracting competitors including Lehman Brothers and Goldman Sachs, which both tried to recruit him. He left UBS for Citi at the end of 2009 after a dispute over pay. Citi fired him after less than a year, when they discovered he was trying to manipulate Libor

Paris property investors threaten legal challenge to ‘toxic’ rent controls – Pg. 2

- Under a new law that applies to leases signed after August 1, rents in Paris must be no more than 20% above or 30% below the median rental price for the area
- The measures follow a similar move in Germany, where the lower house of parliament approved a rent cap law for Berlin in March
- About one-fifth of rents in Paris are expected to decrease because of the law

Brent below \$50 as output rises – Pg. 11

- Oil slid below \$50 a barrel yesterday, extending last month’s losses to hit the lowest level since January amid signs that growing production will continue to outstrip demand
- The renewed price pressure came as market participants focused on accelerating production from Opec countries, such as Saudi Arabia and Iraq, where output has reached records amid global competition for customers
- Despite the more than halving of prices from this time last year, US oil output has proved resilient, with the number of rigs drilling for crude stabilizing in recent weeks
- Concerns over the state of the economy in China, the world’s largest oil importer, have also place pressure on the market

Moody’s warns on lending crackdown – Pg. 18

- Highly indebted companies could struggle to refinance their debts as a result of a US crackdown on risky bank lending, ...
- Leveraged loans – the loan equivalent of junk bonds – were heavily criticized for their role in the 2008 financial crisis. In 2013 new guidelines restricted the terms on which banks could lend along with the amount
- Leveraged lending guidelines were designed to lower bank exposure to risky loans and cut systemic risk. They set deadlines for repayment of debt and say banks should only “originate” loans up to six times earnings before interest, tax, depreciations and amortization (Prof Note: EBITDA)

Puerto Rico debt slides after payment missed – Pg. 18

- Puerto Rico general obligation bonds maturing in 2035 fell below 70 cents on the dollar yesterday in thin trading, ...
- Investors are likely to see lower recovery rates if the territory restructures its debts as the US commonwealth prioritizes which bond payments it makes over the remainder of the year...

Answer: 25%....now you see why you have to understand the statistics. You have an average return of 25% but no gain???

3 August 2015

Question: What is population of Puerto Rico? Greece? What is PR’s debt burden? What is Greece’s debt burden? Is Puerto Rico the U.S.’s Greece?

Puerto Rico set to go into formal default – Pg. 1

- PR faces the prospect of being formally pushed into default after the close of business today after missing a \$58m payment on Public Finance Corporation bonds
- PR defaulted on some of its debts over the weekend after years of battling to stay current on its obligations, signaling the start of a contentious restructuring process for the US commonwealth's \$72bn debt pile
- The PFC bonds hold fewer protections than "general obligation" bonds issued by the Puerto Rican government
- Economic activity would have to grow "substantially" in a short time to avoid a haircut of \$30bn to \$40bn, which is necessary to get Puerto Rico "out from underneath this debt"...

US online lenders urge voluntary code – Pg. 12

- Loans arranged by online – or "marketplace" – lenders have soared in the US in recent years, as yield-starved investors scramble to extend credit to parts of the economy that the traditional banks are unable, or unwilling, to reach.
- But in small-business loans in particular borrowers have complained of being sucked into high-interest loans via "bait and switch" tactics employed by platforms that originate them
- Online lending could account for about 10% of all unsecured consumer and small-business loans in the US by 2020,...

Strong dollar cuts revenues by \$100bn – Pg. 13

- The sharp rise in the US dollar may slice more than \$100bn of dollar-denominated revenues at some of America's largest multinationals this year, ...
- Companies within the S&P 500 earned roughly 48% of their revenues abroad in 2014 (Prof Note: I have been saying 30% in class...please take note of "48%")
- But diverging monetary policies have pushed the trade-weighted dollar 19% above year-ago levels, including a 22% gain against the euro

Answer: 3.5m (PR), 11m (Greece), 74bn (PR), 600bn (Greece); by the numbers, no.

1 August 2015

Question: How many in a baker's dozen?

US oil majors suffer heavy falls – Pg. 1

- Shares in some of the world's biggest energy groups tumbled yesterday as the collapse in oil prices battered the profits of ExxonMobil and Chevron, ...
- For the first time the biggest industry operators are feeling the full impact of a plunge in Brent Crude since last summer that has led to an estimated 70,000 job losses worldwide and caused some \$200bn of spending on major new oil and gas projects to be shelved
- It now stands at \$52.08 a barrel, down from \$115 in June last year

Wages grow at slowest pace since 1980s – Pg. 4

- Expectations of a Federal Reserve rate rise in September took a knock yesterday when data showed quarterly US wage growth at its lowest level for more than three decades
- Wages and salaries for US workers rose by the smallest amount for a quarter since 1982, potentially clouding hopes of policymakers that the recovery is set to shift into a higher gear
- Wage growth is also a key factor weighing on when the Fed will raise rates
- GDP climbed 2.3% in the three months to June...

Week dominated by speculation over when Fed might raise rates – Pg. 12

- The dollar sank and Treasury bond prices rallied strongly as weak US wage data capped a week dominated by speculation over when the Federal Reserve might raise interest rates
- The euro was up 1% on the day at \$1.1042...
- The yield on the two-year US government bond, which moves inversely to its price, was down 6bps at 0.68%, having climbed to within sight of a four-year high

Answer: 13

31 July 2015

Question: What have we learned from Cecil the Lion?

Big companies raise red flag on profits hit by China woes – Pg. 1

- Some of the world's largest companies have sounded the alarm over the slowdown in the Chinese economy, warning that weaker growth would hit profits in the second half of the year
- The warnings are a sign that China's weaker growth and its stock market rout this month are creating a headache for global corporates that have long relied heavily on the world's second-largest economy to drive revenues
- China's slowdown, which follows years of extraordinary growth, has been particularly startling in recent months, with figures last week showing that the country's factory activity in July contracted the most in 15 months

US economy speeds up in second quarter – Pg. 3

- The US economy accelerated in the second quarter after a stronger start to the year than previously estimated...
- GDP rose by an annualized 2.3% in the quarter to June...marginally shy of Wall Street forecasts of 2.5% growth
- ...revisions further back suggested the US has had an even more sluggish recovery since the crash
- The US Federal Reserve has signaled that it remains on track to raise interest rates from near-zero levels since 2008, in part because of "moderately" expanding economic activity
- Consumers' willingness to spend more will be a key factor in the Fed's willingness to follow through with its hints of a rate rise
- ...savings rate fell in the second quarter to 4.8% from 5.2% in the first

Google defies 'right to be forgotten' demands – Pg. 17

- Google will disobey a formal notice from France's privacy watchdog, which has demanded the company extend Europe's "right to be forgotten" online around the world, in a move that risks further legal action
- In a controversial ruling last year, the European Court of Justice found citizens have the right to ask internet search engines to remove embarrassing or sensitive results that include their name
- Google said yesterday it will "respectfully disagree" with the watchdog's demands, adding that it has asked for the formal notice to be removed
- France would be the first country to open a sanctions process over the right to be forgotten, ...

Answer: This goes to earlier comments I made, one must diversify income to passive sources, i.e. real estate, as soon in life as possible. Also, social media has made us all responsible for our conduct personally as well as professionally. The dentist that shot Cecil's business went from fifth gear to reverse literally overnight. Also, how much do dentists really earn that they can afford \$55,000 hunting license fees?

30 July 2015

Question: What was the date when the CME Group began its market for real estate derivatives, i.e. case-shiller?

Fed signals rate rise ahead but keeps options open on timing – Pg. 1

- In a statement after its policy meeting yesterday, the US central bank gave stronger endorsement of progress in the jobs market, saying it was seeing "solid" jobs gains and suggesting it was nearing its goals on full employment
- The recent decline in oil prices prompted to stabilizing energy prices, highlighting the uncertainty within the Fed on inflation
- As expected, the Fed left its target range for short-term rates at the near-zero level they have occupied since late 2008
- The dollar rose 0.7% to \$1.0984 against the euro after the release of the Fed's latest assessment of the economy. Yields on US government bonds, which had been higher before the release of the statement in anticipation of more explicitness on the timing of a rate rise, fell slightly
- Business investment and exports remained soft, and inflation was continuing to run below the Fed's 2% target, with inflation expectations in markets remaining low, ...

Fed has global investors begging – and then 'some' – Pg. 3

- The Fed chair has shifted the central bank away from its practice of giving commitments on the timing of monetary policy changes, stressing instead that it will follow a more flexible approach as it is guided by economic data
- The other main requirement the Fed has set itself before lifting rates is that it should have "reasonable confidence" that inflation is heading back towards its 2% target

- Annual price growth has hovered below the Fed's 2% target for a third year, and market expectations remain low

Occupational ret tape costs millions of jobs, warns White House – Pg. 3

- The country's obsession with occupational licenses sits awkwardly with its reputation for free market capitalism, but one in four US workers require a license to do their jobs
- One of the malign effects is to heighten the barriers into the workforce for vast population of individuals with criminal records, ...
- Between 70m and 100m people in the US have such a record, and this is in many cases an obstacle to qualifying for an occupational license, even if the conviction is not relevant to the type of license sought (Prof Note: Little known "secret", several of my classes lecture notes were written inside prison walls (not by me!). There is a HUGE untapped resource in highly educated individuals needing a second chance!)

New bond indices to exclude emerging issuers – Pg. 18

- BAML will create new bond indices that exclude emerging market issuers, after rating downgrades to Russian and Brazilian companies prompted concern about their inclusion in a widely tracked benchmark
- Falling commodity prices and a stronger US dollar have exerted significant pressure across many emerging market economies this year, souring the macro outlook for a number of countries including Brazil, Russia, Turkey, Indonesia, Columbia, and South Africa

Answer: May 2006

29 July 2015

Question: What are three measures of central location?

Currencies mauled after China rout – Pg. 1

- Emerging market currencies have slumped to 15-year lows as China's equity rout and free-falling commodity prices reverberate throughout the global economy
- Raw-material exporters Brazil, Russia and Columbia have suffered some of the heaviest sell-offs as the fall in the price of commodities such as oil, copper and Iron ore continued unabated this week,....
- Currency markets act as a bellwether for investor sentiment, so the slump raises the likelihood of a deeper sell-off in equity and debt markets
- Beijing's failure to stabilize its domestic stock market in recent days following an unprecedented sell-off has alarmed global investors
- The Brazilian real and Columbian peso have fallen by 22% and 17% respectively so far this year,...
- ...a depreciating currency is welcomed by some countries because it makes their exports more competitive, it also increases import prices and the cost of servicing debt denominated in foreign currencies, threatening financial stability

German 'wise men' back euro exit as last resort – Pg. 2

- Countries should be able to exit the euro as a “last resort” if they cannot manage their debts, the German government’s independent economic advisers say, in a sign of Berlin’s hardening attitude towards propping up fellow members of the single currency

S&P warns Brazil’s credit rating is at risk – Pg. 4

- The agency placed Brazil’s foreign currency rating, which is one notch above junk, on negative outlook for possible downgrade, initially weakening Brazil’s currency, the real, by as much as 2% against the dollar
- The government is under pressure to rein in spending and restore the budget to a primary fiscal surplus – the balance before interest payments – a measure that is considered a crucial indicator of the health of public finances

Fed language all important for signal of interest rate rise – Pg. 4

- Why is the statement important? ... The Fed has edged from giving formal guidance to the markets on what it will do with interest rates, preferring to indicate progress via its description of the economy in regular FOMC statements
- Why do they want to be flexible? ... While the Fed thinks the US is approaching the state at which it needs higher rates, things are still in flux and a lot of economic data are due to be released before its September meeting. In particular, there are two more jobs reports to come, a closely followed gauge of wages and salaries, as well as consumer data and inflation numbers
- Tomorrow will bring the first take of US GDP growth in the second quarter, ...

Answer: Mean, Median, Mode, also Trimmed Mean or IQR (Prof Note: This is a question on tonight’s final examination for Real Estate Finance...I hope you are reading this! 😊)

28 July 2015

Question: Can a right of way created under an easement on a Deed in Maryland be transferred?

Renewed stock storm deals blow to Beijing after action to halt rout – Pg. 1

- The Shanghai stock market saw the second-biggest fall in its history yesterday, posing a dilemma for the Chinese authorities after their unprecedented attempts over the past month to try to stop the rout in equities
- The Shanghai Composite sank 8.5%,...
- Yesterday’s turbulence will add to pressure on the ruling Communist party to take more action to encourage growth, with calls for another reduction in interest rates and a cut in the amount banks must hold in reserve
- The policy response has included a ban on short selling, barring sales by big shareholders, and the extension of loans to brokerages from China’s central bank

ECB under pressure to increase firepower – Pg. 2

- The IMF praised the QE programme, saying it “strongly supports” the ECB’s plans to keep the bond purchases running to the end of September 2016, and credited the policy with preventing the six-month Greek crisis from causing more damage to the wider Eurozone
- Annual Eurozone inflation is 0.2% and has consistently undershot the ECB’s target in recent years, reaching a low of minus 0.6% at the start of this year
- The QE programme is already controversial in Germany, where leaders have questioned whether the massive bond buying would be effective, arguing that high government debt levels and failure to implement economic reforms lie at the heart of the region’s failure to recover quickly from the Eurozone crisis
- The IMF called for “countries with fiscal space” – a clear reference to Germany – to use public money to spur investment, something Berlin has been loath to do because of political commitments to maintain a balanced budget

Fed and BoE signal rises in rates amid muddled data – Pg. 2

- An increase in borrowing costs in the US and UK will see monetary conditions in those two economies diverge from the Eurozone, Japan and China, where central banks remain in easing mode. A rise will also have consequences for emerging markets
- Investors are pricing in first rate rise in the US by December, with the BoE moving in February

Puerto Rico can avoid default, creditors told – Pg. 22

- Puerto Rico can avoid a sweeping restructuring of its \$72bn debt pile by eliminating its deficit and borrowing in the short term, ...
- The latest report argues instead that Puerto Rico can move to a surplus by fiscal year 2017, ...
- While the report said Puerto Rico could avoid a broad-based restructuring, it noted the island had about 18 different debt issuing entities all with different legal protection and financial capabilities. Each should be considered individually,....
- Among the more controversial issues is whether any restructuring would involve its general obligation bonds.
- The island collects only about 56% of its potential tax revenue. Bringing Puerto Rico into line with the US state average of 83% could bring in an additional \$1.1bn, ...
- Meanwhile, total governmental expenses have risen 29% in the past decade, even as population has declined 6%

Answer: As a general rule, no. (Prof Note: I am still working on my issue which is now larger than this and requires pulling the deeds for all the surrounding properties...nothing is easy! However, the responses were overwhelming...thank you. I will keep you updated on the Hatfield v McCoy issue.)

27 July 2015

Question: What are the three measures of efficiency?

Developing world suffers retail slowdown – Pg. 2

- Retail sales growth in commodity-rich developing countries has slipped to its lowest level for six years, ...underlining how broader economic malaise has hit consumers' pockets
- The slowdown in consumer spending, which is particularly pronounced in Russia, Brazil, Columbia, Chile and South Africa, shows how the impact of lackluster commodity exports is weighing increasingly heavily upon shopping habits in the developing world
- Retail sales growth in developing countries that are not exporters of commodities slipped to 2.6% in May from 2.7% in April, ...
- It marked the lowest level since October 2009, when retail sales growth averaged 2.2%, and was well off the 6.8% growth registered in May last year
- Overall emerging market GDP growth in May fell to 3.5%, down from 3.6% in April and well off a post-crisis peak of 10% in 2010,...
- Overall, average retail spending growth in emerging markets dropped to 5.9% in May, down from 6.2% in April – highlighting the strength of flagging consumer activity in latin American and emerging European commodity exporters

Downgrade fear as Brazil faces possible budget deficit – Pg. 2

- Brazil's economy may be in freefall but until recently its hard-pressed citizens could at least count on the commitment of their famously hawkish finance minister to limit the damage
- The news drove Brazil's currency, the real, to a 12-year low against the dollar and knocked 2.18% off the benchmark iBovespa stock index amid speculation over whether Brazil can maintain its investment grade rating
- The changes mean that Brazil's gross public debt, instead of stabilizing, will rise from 65% this year to 70% by the end of 2017, ...

Answer: Coefficient of Variation (CV), Sharpe, and Treynor

25 July 2015

Question: If you want your money to double in 10 years, what growth rate must you have per annum?

India to curb central bank over rate setting – Pg. 4

- India's government has signaled it will remove control of interest rates from the central bank, in a plan that has been attacked by some economists and bankers as a threat to independent monetary policy but welcomed by others as an overdue modernization

US income equality rises up political agenda – Pg. 4

- With the median household incomes at similar levels to the 1990s and the top 10% of the population controlling three-quarters of the country's wealth, the issue has become too dominant in public discourse for politicians to avoid
- The Federal minimum is \$7.25 an hour, which his below the inflation-adjusted peak of \$8.54 it reached in 1968, ...and since the last increase in 2009 it has lost 8% of its purchasing power

Fed and BoE roar ahead of rate race rivals – Pg. 11

- The market thinks the Fed will raise interest rates later this year, the BoE early in 2016
- Yet in the bond market, there has been a cool response to US and UK rate expectations. One big difference at the moment is how bond traders expect a modest pace of interest rate shifts in the coming years from the current low levels maintained by the US and UK central banks
- Other factors have weighted on bond yields, among them the depressed nature of inflation globally and the ECB's stimulus programme

Answer: 7.20% (remember rule of 72)

24 July 2015

Question: What is the only segment of consumer loans growing in the U.S.?

Amazon grabs most valuable retailer crown from Walmart as profits rise 20% - Pg. 1

- ...valued as high as \$267bn after a 19% share price surge in after-hours trading
- Walmart, with its network of physical stores around the US, had a market capitalization of \$235bn yesterday

IMF warns Tokyo to step up Abenomics strategy – Pg. 4

- The IMF has warned Japan that it needs to “reload” its Abenomics reforms on risk slowing growth, stagflation and turmoil in financial markets
- ...IMF yesterday said the world's third-largest economy was in modest recovery and predicted it would grow at a rate of 0.8% in 2015 and 1.2% in 2016

Citi says households driving down Mexico peso – Pg. 20

- The Mexico peso is one of the worst performing EM currencies this year, even though the country is widely regarded as a rare bright spot in a gloomy emerging world
- An explanation often offered is that, as one of the most liquid of EM currencies, the peso is among the first assets to be sold when investors become broadly averse to EM risk, whatever their views of Mexico itself

Answer: Student Loans current at \$1.2tn

23 July 2015

Question: Approximately what percentage of student loans are greater than 90 days past due?

Weakening economy forces Brazil to reduce its target for balanced budget – Pg. 1

- ...the budget balance before interest payments, from 1.2% of GDP to just 0.15%
- Brazil's currency, the real, weakened 1.61% against the dollar....
- The reduction in the target for the primary fiscal surplus, considered the main gauge of the health of public finances in Latin America's largest economy,, was forced by a rapid weakening of the economy

- The government originally expected the economy to grow 0.8% this year but revised that yesterday to a decline of 1.49%
- Brazil's economy is suffering a hangover from the end of the commodities boom and a prolonged period of fiscal stimulus. That has generated a toxic mix of sluggish growth and persistent inflation

Eurozone borrowing at a record level – Pg. 2

- Debt levels in the Eurozone have reached a record high despite the incipient economic recovery in the region, underlining the challenges governments face in tackling the legacy of the sovereign debt crisis
- The ECB's programme of quantitative easing has pushed down interest rates to ultra-low levels, encouraging governments to borrow more in the early part of this year, despite the turmoil in Greece
- Across countries that use the euro, average debt to GDP reached 92.9% in the first quarter of 2015, up from 92% in the previous quarter and 91.9% in the same period last year,...
- Greece remains Europe's most indebted nation, with borrowing equal to 169% of annual GDP, but Italy, Belgium, Cyprus and Portugal also carry government debt that exceeds 100% of economic output
- The region's economy expanded 0.4% in the first quarter of this year – while the US saw a contraction
- Britain's economy expanded nearly 3% last year, but government debt as a proportion of GDP climbed from 87.3% to 89.4% because of high budget deficit of 5.7%

Navient fuels US student loan fears – Pg. 16

- Navient Corp, the US's largest student loan servicing company, gave a glimpse into worsening trends in the \$1.2tn market as it reported a 40% drop in profits owing to a big rise in provisions and a squeeze on interest margins
- Student loans have been the only consumer debt segment to grow in the US since the Lehman crisis, with the total outstanding more than doubling since 2008. At the same time, fears have risen that the jobs market is not strong enough to support such towering amounts of debt
- Navient, which was spun off from Sallie Mae last year, added to such concerns on Tuesday by confirming problems among a group of higher-risk borrowers who already had student loans but decided on further study during the recession, deferring their loans and beginning to repay them only last year
- Keeping tabs on the student loan market, the largest source of consumer debt in the US economy after mortgages, has long been a policy focus of the US government, which underwrites about 92% of the debt via the federal direct loan programme
- ...the class of 2014 graduate with average loans of \$33,000
- At the end of the first quarter, 11.1% of student debt was more than 90 days delinquent, ...down slightly from 11.3% in the fourth quarter last year

Answer: 11.0%

22 July 2015

Question: What is a Swap?

Apple loses \$66bn in value after results fail to impress – Pg. 1

- Apple's share price has gained by more than a third in the past 12 months but it has failed to break above February's all-time high of \$133, with its growth prospects in China casting a long shadow
- (Prof Note: I will admit to still using a blackberry. I will further admit that I have never downloaded an "app". Finally, I am worried I am too 'young' to become a dinosaur and will purchase an iPhone (the big screen, of course, I am getting younger) in September. I need to see what captures student's attention at the expense of ME! ☺)

Brics lender opens a challenger to World Bank – Pg. 4

- A new Brics development bank was formally launched in Shanghai yesterday, with representatives from Brazil, Russia, India, China and South Africa envisaging a nimbler, more responsive alternative to institutions such as the World Bank
- The inauguration of the lender, officially called the New Development Bank, comes less than a month after the launch of the China-led Asian Infrastructure Development Bank, which similarly aims to create a parallel global investment institution in which developing countries have greater influence
- But unlike AIIB, NDB will not limit itself to Asia. Excluding South Africa, the four original Bric countries comprise more than 40% of the world's population, a quarter of the world's population, a quarter of the world's land area and more than 25% of global GDP

Emerging markets shed jobs as slowdown worsens – Pg. 6

- Unemployment across emerging markets has risen sharply this year, reversing a six-year slide, even as it has continued to fall in developed countries
- The figures compound a worsening slowdown in emerging markets, driven by a decline in commodity prices and a fall off in global trade, which threatens to drag consumer spending down further
- Across emerging markets, unemployment has risen to 5.7%, from a cyclical low of 5.2% in January, the sharpest rise since the global financial crisis, ...
- The rise in joblessness comes as emerging market economic growth is at its slowest since the 2009 slump as developing nations struggle with the impact of a stronger US dollar and weaker commodity prices
- Recession-plagued Brazil has seen joblessness jump from 5% to 6.3% since the turn of the year, while over the same period unemployment in Russia has risen 0.7% to 5.9%.
- In contrast, unemployment is still dropping in developed markets, with both the US and Eurozone seeing joblessness fall by 0.4%, to 5.3% and 11.1% respectively, since December, and Japan's rate ticking down as well

US oil price falls to lowest for three months – Pg. 22

- US crude oil slipped below \$50 a barrel yesterday, touching the lowest level since April, as a persistent supply glut and expectations for higher interest rates from the Federal Reserve before the end of the year, kept West Texas Intermediate on track for its biggest monthly slide of 2015
- The shale boom has so far proved resilient in the face of lower prices, with once fast-growing output slowing, but not reversing, leading hedge funds and others to place large bets on a price fall

Answer: Transaction between two parties, e.g. A to B. For example, \$5 from you to Starbucks, Cup of Joe from Starbucks to you, i.e. a Swap. A swap in its purest form is NOT a derivative.

21 July 2015

Question: What is the current price of an ounce of gold?

Gold hits lowest level in five years amid signs of US economic recovery – Pg. 1

- Gold dropped 4% to hit a low of \$1,088 a troy ounce – a level last seen in March 2010 ...
- Gold has traditionally been seen as a haven and a hedge against inflation and a weaker dollar. But with the US economy showing signs of recovery and the dollar strengthening, its attractiveness has waned

Fed calls for additional \$200bn in banks' buffers – Pg. 4

- The eight leading US banks will hold extra capital buffers totaling \$200bn under new Federal Reserve rules aimed at preventing a big financial collapse
- The new risk-based capital surcharges range from 1% to 4.5%, with the largest buffer requirement applying to JPMorgan. Citigroup faces the second-biggest surcharge, at 3.5% of risk-weighted assets, ...
- One key feature of the rules is an incentive to rely less on short-term wholesale funding, such as repurchase market where banks exchange securities for cash, which the international Basel Committee did not take into account for its own surcharge rules

ECB easing raises fears on house price bubble – Pg. 6

- The ECB's quantitative easing programme risks fueling house price bubbles across several European countries, ...as investors seeking higher returns pour cash into real estate
- Germany, Norway and the UK were judged most at risk as ultra-low interest rates and bond yields had made real estate look attractive by comparison, fueling rapid house price growth in those countries,...
- Since 2010 average house prices in Norway had risen by over 30%, in Germany by nearly 25% and in the UK by nearly 15%
- The search for yield has also pushed a surge of money into the commercial property market over the past couple of years, sparking fears of a separate bubble. In 2014 global commercial property prices and yields hit levels last seen before the financial crisis, ...
- The Bundesbank warned in late 2013 that average German house prices could be overvalued by as much as 10%, and by 20% in some cities

- Although the Bank of England has halted its own quantitative easing programme, British house prices are still growing strongly. They rose by 5.7% in the year to May

Warning of oil price fall as Iran sanctions lifted – Pg. 7

- The deal, which will allow Iran to regain access to as much as \$150bn in frozen assets and to the global financial system, could increase output to 4m b/d by 2017,...
- Iran could also quickly release 30m barrels from floating storage into global markets, depressing prices if there is no corresponding increase in demand

Hackers threaten to betray 37m users of adultery website Ashley Madison – Pg. 15

- The breach comes three months after Ashley Madison announced plans for an initial public offering in London later this year
- AshleyMadison.com says it has 37m members in 48 countries, making it the second-largest dating website by number of users after Match.com. Its slogan is “Life is short. Have an affair.” (Prof Note: I just have to chuckle about this. One of my favourite slogans, “If you can’t do the time, don’t do the crime!”)

Answer: \$1,088

20 July 2015

Question: What are two methods to hedge interest rate risk on a variable rate loan?

China gives short shrift to ‘malicious’ bears – Pg. 3

- In the wake of the Chinese stock market’s dramatic fall early this month, police and securities regulators announced they had launched an investigation into “malicious short selling” in the equity futures market
- The announcement was part of a raft of measures intended to stabilize the market after it fell 30% from its peak in mid-June, but it also raised the question: what makes short-selling “malicious”?

Beijing acts to regulate margin finance after online lending blamed for role in turbulence – Pg. 3

- Chinese regulators are tightening their grip on internet financing, after the stock market crash raised concerns about margins lending and the risk of ordinary citizens losing their savings
- New guidelines, issued by the People’s Bank of China at the weekend, specify that client funds must be parked at established banks and require that online financing platforms provide better disclosure and warn customers more regularly about risk
- A sharp rise in loans for stock investments offered via online lenders helped fuel a surge in Chinese stock markets that saw the Shanghai Composite Index rise 150% over the 12 months through mid-June
- Since the subsequent tumble that wiped some \$3tn off the country’s stock markets, regulators have been struggling to shore up share prices and prevent a full-fledged rout that

- could hurt the broader economy or spark damaging protests against the ruling Communist party
- Tighter rules on margin lending, outlined last week, have prompted some online platforms that offered grey-market margin loans to quit the business

US chiefs temper confidence on growth – Pg. 16

- Chief executives in the US are much less confident about their growth prospects and the global economy than counterparts in Europe and Asia, ...
- By far the biggest fear for all chief executives was customer loyalty, with 86% of respondents identifying it as one of their main concerns. That underlined a belief that technology and other disruptive forces could easily prompt customers to shift their allegiances to rivals

Answer: Swaps and Costless Collar

18 July 2015

Question: What is a capitalization Rate?

China's market aid tops \$200bn – Pg. 1

- The huge scale of Chinese government intervention to staunch a stock market sell-off has been revealed by reports showing the country's biggest state-owned banks have provided the equivalent of \$200bn to help prop up equities
- The operation echoes a move by the Hong Kong authorities in 1998 to prop up the local stock market by buying 11% of the Hang Seng, funded by drawing on foreign currency reserves

Fischer defends Fed's powers to provide support in crisis – Pg. 3

- The vice-chairman of the Fed's board of governors said that the central bank could "deal with" existing restrictions on its emergency lending powers that were introduced after the financial meltdown of 2007-09
- Whereas the Fed used to be able in unusual circumstances to lend to any individual non-bank financial institution in a crisis, it cannot now under revised laws. It must provide loans to a class of institutions which the Treasury secretary's permission, and with notification being made to Congress
- The existing laws leave the Fed more constrained in its ability to intervene in a crisis than some other major central banks, including the Bank of England

US lenders buoyed by household borrowing as trading feels the squeeze – Pg. 10

- The lawsuits that cost the biggest global banks more than \$300bn in fines, settlements and provisions, also now appear to be abating

Answer: Pure definition: NOI/Sales Price.

17 July 2015

Question: \$150,000 mortgage on primary home with a credit score exceeding 800 has a mortgage rate of 4.00% and 30-years. What is the monthly P&I payment?

City professionals fuel apartment block boom – Pg. 4

- Hotspots have not been plentiful in the US's post-crisis economy but one may be emerging in commercial real estate
- Values have risen over 12% in the past year to surpass their boomtime peaks
- Industry insiders expect prices of apartments to be lifted further by tight supply, cheap finance and a growing appetite for city centre renting among younger professionals. With home ownership rates at a 25-year low and rents surging, builders are focusing construction on pricey city centre blocks
- The Fed noted commercial real estate prices in the last monetary policy report to Congress, saying "valuation pressures" were rising

Obama turns attention to \$80bn cost of keeping huge prison population behind bars – Pg. 4

- Reducing the economic and social impact of a criminal justice system that costs Americans \$80bn a year just to keep its huge prison population behind bars has emerged as one of Mr Obama's top priorities during his final 18 months in office
- With more than 2.2m people in prison, America is home to just 5% of the world's population but more than 20% of its prisoners, ... (Prof Note: Either we, as Americans, are a bunch of criminals compared to the world or we incarcerate far to many....hmmmm)
- Since 1980, an explosion in convictions related to the "war on drugs" has quadrupled the number of offenders incarcerated...(Prof Note: Legalize and regulate!)
- Every year more than 600,000 people are released from state and federal prisons

Eurozone bank issuance at 13-year low – Pg. 22

- Issuance of euro-denominated bonds by Eurozone banks has fallen to its lowest level in more than a decade, as lenders adjust to a post-financial crisis era of much lower funding requirements
- Declining debt issuance, which comes against the backdrop of historically low interest rates, is reflected across different forms of bank capital market funding. Banks also have access to extremely low cheap funding through the ECB, which has extended liquidity through its long-term refinancing operations

Gold falls as strong dollar hits precious metals – Pg. 22

- Gold has fallen to an eight-month low as precious metals struggle in the face of a strengthening US dollar
- As the bullion declined to \$1,142.9 a troy ounce yesterday...

Answer: 150000 chs pv, 4 g l, 30 g n, pmt...716.12

16 July 2015

Question: When someone asks, what is the risk of the project, what must be provided for the answer to be complete?

Yellen signals Fed set to raise rates this year as economy strengthens – Pg. 1

- The Fed chair said that the prospects for the US economy were “favourable” as hiring propels the country towards maximum employment, ...
- ...Ms Yellen acknowledged risks to the US from the Greek debt crisis and China’s attempts to tackle its high debt, weak property markets and “volatile” financial conditions. China yesterday reported growth of 7% in the second quarter, unchanged from the previous quarter as stimulus measures cushioned a long-term slowdown
- Her testimony came as Canada’s central bank trimmed its key rate yesterday, reflecting how its economy has suffered from falling oil prices, ...

China growth steady after stimulus – Pg. 2

- China’s economic growth held steady in the second quarter as key production indicators rebounded, suggesting that stimulus measures launched since late last year have cushioned a long-term secular decline
- The steady growth follows four cuts in benchmark interest rates since November and reductions totaling more than 1.5% in the required reserve ratio for banks
- Monetary easing has aimed to counter a deceleration of investment that has dragged on the economy, as property developers pull back on construction amid an overhang of unsold flats and as factors slow expansion in the face of falling prices
- Real estate investment continued its decline but property sales rose 16% in floor-area terms in June, the fastest monthly growth since late 2013
- Total borrowing in the first half of 2015 is 19% lower than the same period last year, ...

Upbeat Yellen puts faith in strong US recovery – Pg. 6

- The IMF implored the Federal Reserve this month not to raise short-term interest rates in 2015, saying the US economy was not strong enough to handle it

Beijing cuts red tape on interbank debt – Pg. 20

- China has relaxed rules to allow more foreign involvement in its domestic bond market, a step that some analysts believe could help smooth the renminbi’s path towards reserve currency
- China’s onshore bond market is one of the largest credit markets and is growing as the government tries to shift debts away from commercial bank balance sheets and on to a broader investor base
- The onshore market is far more liquid and diverse than its offshore renminbi counterpart – known as the dim sum market – while yields are typically higher and durations longer

Dollar lifted after Yellen bullish on US economy – Pg. 20

- The dollar was in ascendant yesterday as the currency market responded to a positive assessment of the US economy from Janet Yellen,...

Answer: A number! For example, “The risks are...yadda, yadda, but the project return distribution has a central location of X and RISK of Y which results in a P(Loss) of Z.”

15 July 2015

Question: What is China’s proportion of global consumption?

IMF raises doubts over its bailout role – Pg. 4

- The IMF has sent its strongest signal that it may walk away from Greece’s new bailout programme, arguing in a confidential analysis that the country’s debt is rocketing and budget surplus targets set by Athens cannot be achieved
- ...the IMF said the recent turmoil in the Greek economy would lead debt to peak at close to 200% of economic output over the next two years. At the start of the Eurozone crisis, Athens’ debt stood at 127%
- Under its rules, the IMF is not allowed to participate in a bailout if the country’s debt is deemed unsustainable and there is no prospect of it returning to private bond markets for financing. The IMF has bent its rules to participate in previous Greek bailouts, but the memo suggests it can no longer do so
- Any shortfall would have to be made up through Greek privatization proceeds, which have repeatedly fallen short of expectations, or through Greek borrowing on the bond market, which has dried up since the Syriza-led government took power in Athens in January – and which the IMF memo said was highly unlikely to materialize

Mortgages revival boosts lenders – Pg. 17

- A revival in mortgages has helped the top two US lenders to a relatively buoyant quarter, offsetting continued pressure on margins from low interest rates
- The big US banks still struggle to deliver consistent profits amid the ultra-loose monetary policy of the US Federal Reserve. Net interest margins – the spread between the rates at which they borrow and lend – stabilized at Wells Fargo and JPMorgan between April and June, after years of steady falls

Oil price war set to open Iranian front – Pg. 26

- The west’s nuclear deal with Iran is set to intensify a battle for customers between the big oil producers, with Saudi Arabia raising output to record levels ahead of the full return to the market of its regional rival
- Iran was once Opec’s largest oil producer after Saudi Arabia but western sanctions have in four years halved its exports to just over 1m barrels a day
- Oil prices have fallen almost 10% this month and were trading near \$58 a barrel yesterday
- It [Iran] says it could almost double output to 5m b/d by the end of the decade, and is looking to attract at least \$100bn in foreign investment
- Iran is expected to be able to accelerate production by between 500,000 b/d and 800,000 b/d next year, although getting back to its 2011 level of 3.6m b/d is likely to take longer

- Iraq, which has overtaken Iran as the second-largest Opec producer, has raised its output close to 4m b/d, a record

Treasuries report shows extent of 'self-trading' – Pg. 26

- A significant share of the \$12tn US Treasury market consists of proprietary trading companies transacting with themselves
- During the massive swing, so-called "self-trading" between principal traders' electronic systems surged to 14.9% of the 10-year Treasury securities cash market and 11.5% of its futures equivalent – against 5.6% and 2.7% on 16 "control days"

Answer: Over the next five years China will grow to be greater than half of all global demand.

14 July 2015

Question: What is the daily consumption of global oil (approximately)?

US report into October bond meltdown calls for review of automated trading – Pg. 1

- High-frequency traders could face a wave of new regulation after US authorities called for a broad review of the rules that govern them following a burst of volatility that shook faith in markets' resilience
- Yields seesawed over 12 minutes as liquidity dried up, sparking fears over the underlying fragility of the \$12tn US Treasury market that is the bedrock of the global financial system
- The report noted that automated trading can occur at speeds that "exceed the capacity of manual detection and intervention, posing a challenge to traditional risk management protocols"
- Non-banks that rely heavily on automated trading now account for 60% of institutional trading in the bond markets, up from 25% in 2008,...

Saudi crude output hits record of 10.6m b/d – Pg. 24

- Saudi Arabia has told Opec it has raised crude oil output to the highest level on record, as it prepares for the return to international markets of regional rival Iran and for peak summer demand
- If Saudi Arabia keeps increasing production at this rate, it could, by the end of the summer, be the first country to pump 11m b/d since the Soviet Union
- Saudi Arabia is the only big producer with significant spare capacity, and it appears willing to use it, especially as it eyes a possible normalization of relations between Tehran and the west. Iran's crude exports have been curbed by sanctions on its nuclear programme
- The shale boom has boosted US crude output to about 9.7m b/d
- Russian output, at about 10.5m b/d, is expected to stall or slip next year
- Iraq's output topped 4m b/d for the first time in June...
- Opec lowered its estimate for demand for its crude this year by 100,000 b/d to 29.2m b/d. It expects higher demand next year of 30.1m b/d, still more than 1m barrels below current output

China bounces further as frozen stocks return – Pg. 24

- Chinese shares advanced again yesterday as hundreds of companies resumed trading and after the regulator launched a fresh crackdown on margin lending
- The Shanghai Composite closed up 2.4% in spite of sharp falls for large-cap stocks such as commercial lenders and oil producers. Bank of China dropped 5.6% while Agricultural Bank of China sank 4.1%. PetroChina, which has the highest weighting in the index, lost 4.2%

Answer: 94m b/d

(General Comment: Over the past few months we have seen the mighty fall, e.g. Bill Cosby, Jared Fogle (ok...not so mighty but stay with me), Rachel Dolezal (ok...not so mighty but stay with me), Molly Shattuck, etc. Granted, not engaging in rape or child pornography are base ethics of any culture so not a risk for this list-serve, however, this is not my point here. When these things happen I often wonder, 'How do they support themselves going forward?' While I believe none of us here will commit the crimes/ethical issues of those listed above, perhaps we can learn an important lesson. In my opinion, one can never start converting active income to passive sources soon enough in life. This is one reason I am so bullish on real estate. If I could trouble you to stop a moment today and think about, 'What happens if my job/position goes away? How would I support my family and myself?' Just think it about it. You may not have the answer but think about it... Better now than if you are faced with the situation.)

13 July 2015

Question: Why do I believe the Federal Reserve cannot simply raise short-term rates?

China cracks down on margin lending in latest effort to shore up markets – Pg. 1

- China's securities regulator has moved to crack down on identity fraud and grey-market margin lending in the latest of a series of aggressive government measures to prevent the country's stock markets from tumbling further

US economy strong enough for rate rise, says Fed policymaker – Pg. 3

- The US is reaching full employment and is strong enough to sustain a rise in short-term interest rates, notwithstanding recent turbulence overseas,...
- Minutes from the Fed's latest policy meeting in June suggested many members of the FOMC remained cautious about US performance and were seeking further evidence that the economy was on track before advocating the first rise, with some warning against a "premature" decision. The IMF has urged the Fed to hold fire on rates until 2016
- But the US economy has added 3m jobs in the past year, prompting calls from some FOMC members for an end to the Fed's near-zero rates policy

Gas overtakes coal in US electricity generation – Pg. 15

- The US generated more of its electricity from gas than from coal for the first time ever in April – in a sign of how the shale boom is putting mounting pressure on the country's mining industry

- Plunging prices for natural gas, which have fallen alongside oil since last summer, led to it being used to generate 31% of America's electricity in April, while coal contributed 30%
- US coal production is expected to fall by 7.5% this year,...

Answer: Without a corresponding shift in long-term rates the yield curve will flatten pushing the U.S. towards another recession.

11 July 2015

Question: How could the Federal Reserve fix the low long-term rates issue?

Stumbling Clinton frays party nerves – Pg. 3

- Tactical blunders. A strained relationship with the media. An insurgent rival drawing enormous crowds
- Her campaign raised \$45m in its first three months, three times the size of Mr Sanders' war chest, and she has built an army of volunteers across key early battleground states such as Iowa, New Hampshire and South Carolina
- (Prof Note: My hope for a U.S. President is simple: No one named Bush or Clinton! Whatever happened to diversity? I forget who said it but it was profound, "The U.S. does not have a crown to pass...")

Yellen repeats case for US interest rate rise this year – Pg. 3

- The FOMC is deeply divided over when to make its first move, with different policymakers advocating either one or two rises this year – or none at all (Prof Note: At the beginning of the year I predicted none...I stand by my prediction)

Oil oversupply 'cannot last', IEA warns – Pg. 11

- The rebalancing of the oil market that started last year has yet to run its course and a bottom in prices "may still be ahead",...
- Global oil supply surged by 550,000 barrels a day in June to 96.6m b/d, up 3.1m b/d from the same month a year ago,...
- Brent hit \$55 a barrel on Monday, rattled by financial turmoil in Greece and the stock market rout in China

Answer: Sell long-dated instruments.

10 July 2015

Question: What happens if the Federal Reserve sells part of its long-dated securities portfolio?

Brics leaders warn of financial instability amid global upheaval – Pg. 1

- They voiced their concern as a barrage of measures taken by Beijing to calm investor nerves stemmed the recent market rout in China, with equities rising strongly yesterday after a string of sharp declines wiped out trillions of the value of stocks

IMF downgrades forecast for global growth – Pg. 2

- ...poorer-than-expected US growth contributed to a sluggish start to the year
- ...IMF reduced its growth projections for 2015 to 3.3% from 3.5% after a disappointing first quarter, particularly in the US
- ...upgrading the outlook for the Eurozone from 1.6 to 1.7%
- The IMF slashed growth forecasts for the US economy this year from 3.1 to 2.5%. it downgraded its outlook for Japan and the UK by 0.2 to 0.3% to 0.8 and 2.4%, respectively
- The outlook for China and India was left unchanged, while the Fund slashed its forecasts for this year for Mexico and Brazil by 0.6 and 0.5%, to 2.4% and (1.5%) (Prof Note: That is a negative number for Brasil)

OECD warns on 'chronic' low pay and job insecurity – Pg. 2

- The OECD's biggest concern is the sharp increase in long-term unemployment since the crisis, particularly among young people. More than a third of the unemployed in the OECD area have been out of work for a year or longer, and their ranks have swollen 77% since 2007

Rate rise prospect revives spread 'conundrum' – Pg. 22

- Alan Greenspan – who as Fed Chairman was known for his gnomic air – in 2005 describe as a "conundrum" the fact that that the 10-year Treasury yield had shrugged off hefty increases in the central bank's benchmark interest rate
- ...the US central bank is still sitting on a \$4tn portfolio of Treasuries, agency debt and mortgage-backed bonds acquired during its quantitative easing programme – a potentially potent monetary policy tool
- While the assumption is that the Fed will carefully deflate its holdings through a gradual end to reinvesting and repayments, if the Treasury market proves as stubbornly unwilling to climb as it was in the noughties – reprising the Greenspan conundrum – then officials could sanction the sales of some of these assets (Prof Note: Hmmm...I had not thought of that...I do not believe there can be a raising of short-term without a sale of long-term. Else the yield curve flattens...not good!!!)

Answer: Rightward shift of the supply curve and prices go down, i.e. yields go up.

9 July 2015

Question: What is the relationship between covariance and correlation coefficient?

China banks big share sales in drastic effort to steady markets – Pg. 1

- ...banning listed company shareholders with big stakes from selling shares, and using central bank money to bolster the market
- Citing the "irrational drop" in share prices in recent days, the securities regulator banned listed company shareholders with stakes of 5% or more from selling any shares for six

- months. It also applies to senior executives and board members, regardless of the size of their stakes
- The sell-off was equally pronounced in Hong Kong, where global investors typically trade Chinese stocks

Middle class smaller and poorer than thought – Pg. 2

- The global middle class is both smaller and poorer than previously thought, ...
- Just 16% of the world's population lives on incomes that would take them safely above the US poverty line
- Past estimates have put the size of the global middle class at up to 2bn people
- ...71% of the world's population still ranked as poor or low-income in 2011, ...compared with 79% in 2001
- ...3.4bn people, or 56% of the world's population, living only just above the global poverty line, on \$2-\$10/day – equivalent to a family of four earning \$2,920 - \$14,600 a year
- China accounted for most of the increase, with its middle-income population swelling from 32m to 235m between 2001 and 2011
- In 2001 North America accounted for 54% of the world's "high-income" people. By 2011 that figure had fallen to 46%
- The share of the US population that is high-income fell from 58% in 2001 to 56% in 2011, even as Canada saw its share rise from 49% to 56%. The ranks of high income individuals also swelled in western Europe, rising from 35% to 44% of the population
- ..a number of European countries have crept ahead of the US when judged by the share of their populations where a family of four earns \$73,000 or more a year
- The lack of progress among middle-income Americans has become a source of anxiety and political debate in the US. Median household income fell from \$53,646 in 2001 to \$50,054 in 2011, affected by factors that include globalization, the displacement of middle-income jobs by technology and the decline of trade unions

Answer: Covariance (a,b) = Correlation Coefficient (a,b) * Sigma a * Sigma b

8 July 2015

Question: What is the current US Treasury 10-year rate?

China unease sparks sharp rise in companies suspending shares – Pg. 1

- Hundreds of Chinese companies have halted trading in their shares as Beijing struggles to insulate the economy from the country's steepest equity decline in more than two decades
- In a further sign of unease about the Chinese market, commodities were hit hard, led by copper
- Beijing has taken steps to keep stocks on China's two main indices afloat, including direct purchases of large-cap companies, a halt to initial public offerings and a cut to trading fees

Bosses at UBS knew I was rigging Libor, trader nicknamed Rainman tells court – Pg. 1

- Mr Hayes, 35, said he did not act dishonestly and that there were no rules or policies around Libor setting (Prof Note: So, if your mother is not there to see you taking the cookie from the jar, is it still wrong?!)

Dollar rise poses threat to growth and emerging nations, says IMF – Pg. 4

- More gains by the dollar could leave US growth “significantly debilitated” and have repercussions across emerging markets, ...
- In a health check on the US, the fund reiterated its advice that the Federal Reserve should delay raising interest rates until next year, partly because of a risk that a rate increase would trigger a new rise in the dollar with destabilizing consequences globally
- Continued appreciation of the dollar, which has risen more than 20% against a basket of key currencies in the past 12 months, was a “prominent risk” because of growth divergences between the US and other economies, the IMF added, as it forecast a steady widening of the current account deficit towards 3.5% of GDP over the rest of the decade
- Central banks and finance ministries around the world are braced for possible capital outflows and currency gyrations as investors funnel money into higher-yielding US assets after a rate rise

Land in demand – Pg. 5

- At independence in 1947, India inherited the 1894 Land Acquisition Act, which allowed the state to take private land for “public purposes” if owners were fairly compensated
- In 2013, the then congress-led government pushed through legislation designed to strike a balance between property-owners’ interests and the need to make land available for industry and urban expansion
- At the heart of the law was the requirement that authorities obtain the consent of 70 to 80% of “project affected families”, including both property owners and those, such as farmhands, losing their livelihood, before taking any land

Fund sector manages record \$74tn – Pg. 11

- ...net revenue growth fell short of the rise in assets under management as pressure on fees squeezed prices and investors continued to shift traditional actively managed products to lower-cost tracker funds
- The growth in assets under management and profits comes at a time when some fund managers are starting to move into businesses traditionally dominated by banks, such as direct lending

End of an era for Chicago futures trading – Pg. 18

- The open-outcry pits have traditionally been seen as a place of aggressive competition and remain a very male domain...

Answer: 2.27%

7 July 2015

Question: Putting things in perspective, what is the population of Greece?

Athens offered last chance to avoid crashing out of single currency – Pg. 1

- In a sign that Greek authorities expected no resolution for some time, a week-long closure of the banks was extended last night to at least Thursday
- The euro was up 0.05% at \$1.1077. Yields on the 10-year German Bund edged down just 3bps
- (Prof Note: Are there no consequences any longer in any society?!)

Vote adds to conundrum on US rate expectations – Pg. 2

- A key concern would be any unraveling of investors' presumption that euro membership is irreversible, raising fears that other countries could be forced out...
- While the Fed has signaled it plans to lift rates as soon as September, futures trading is pointing to low odds of an increase happening by then, with the contract for that month trading at just 0.16%
- The 30-day Fed funds future for December 2015 fell to a new low of just 0.285%, well down from a post-taper tantrum high of 1.44%

Ukraine to beat US as top Beijing corn supplier – Pg. 22

- Ukraine is set to become China's top supplier of corn in the first half of 2015 as both countries reap the benefits of closer trade relations and Beijing looks to diversify its grain and oilseed purchases
- Ukraine has established itself as China's top corn exporter at a surprising pace since its first shipment to the country in 2012 after Kiev and Beijing signed a \$3bn loan-for-corn deal
- The eastern European country's ascent has come at the expense of the US, which until last year was the top corn exporter to China
- ...imports from Ukraine help satisfy China's growing demand for grains and meat
- Some economists suggest that the rising imports from eastern Europe fit in with China's new "silk road" plan, which aims to upgrade road and rail links between Europe and Asia while also revitalizing maritime routes across Southeast Asia and the Indian Ocean

Answer: 2014: 11,000,000

6 July 2015

Question: Will Greece leave the Euro?

China pumps liquidity into markets in fresh attempt to halt share sell-off – Pg. 1

- Chinese authorities have ramped up their attempts to restore investor confidence in the country's tumbling stock markets, setting the stage for another turbulent week of trading on the Shanghai and Shenzhen stock exchanges
- Investors have lost almost \$3tn in paper gains – equivalent to about one-third of China's annual economic output

- Measures to support the market include the voluntary suspension of IPOs by 28 companies that had received earlier approvals to float on the Shanghai and Shenzhen stock exchanges, and a pledge by 25 fund managers to help stabilize the market by buying units in their own funds and holding on to shares for at least a year

Commodities price fall helps China avoid big growth setback – Pg. 3

- China's economy would have grown at less than 6% in the first quarter of the year were it not for the collapse of global commodity prices, ...
- ...net exports contributed 1.3% of the 7% growth
- Consumption and investment, meanwhile, accounted for 4.5 and 1.2 percentage points of first-quarter growth, respectively
- Chinese authorities have also instructed banks to continue to lend to infrastructure projects even if they might be insolvent and eased standards for local government bond issues - ...

Answer: Unknown BUT regardless, austerity measures are coming, whether forced or a resultant...they are coming!

4 July 2015

Question: What percentage of Greeks 25 – 34 live at home with their parents?

Beijing singles out short-sellers in latest stab at halting stocks' rout – Pg. 1

- China's authorities targeted short sellers and market manipulators in a fresh attempt to halt the slump in Chinese stocks, as the Shanghai Composite index suffered its steepest three-week decline since 1992
- The market rout deepened yesterday, with the Shanghai index falling 5.8% and the Shenzhen Composite shedding 5.4%. The two indices have fallen nearly 30% since mid-June, despite frenetic attempts by Beijing to stave off a crash
- There were also signs yesterday that the stock market moves are beginning to reverberate beyond China

Greek banks prepare plan to raid deposits to avert financial collapse – Pg. 1

- Greek banks are preparing contingency plans for a possible "bail-in" of depositors amid fears the country is heading for a financial collapse, ...
- The plans, which call for a "haircut" of at least 30% on deposits above 8,000 (euro), ...
- A Greek bail-in could resemble the rescue plan agreed by Cyprus in 2013, when customers funds were seized to shore up the banks
- Greece's banks have been closed since Monday, when capital controls were imposed to prevent a bank run...
- Greek deposits are guaranteed up to 100,000 (euro) but the country's deposit insurance fund amounts to only 3bn (euro)
- (Prof Note: Hence why I advocate a small, very small, portion of wealth in physical gold coins buried in your back yard!)

Answer: 63.5% live at home with their parents!

3 July 2015

Question: When was Greece's first recorded financial default?

China move to relax rules on margin loan fails to stem stock market losses – Pg. 1

- Chinese shares fell again yesterday despite moves by regulators to buoy the market, adding to concerns about the volatility of Chinese stocks
- ...Shanghai Composite index closing down 3.5% and the Shenzhen stock exchange ending the day 5.6% lower
- China is in a bear market with its two main indices recording a 20% drop over the past three weeks
- Margin lending – using borrowed money to trade shares – has been a big driver of the rally that propelled China's main stock index to a seven-year high on June 12. But the borrowing exposes the stock market to the risk of big falls as investors struggle to meet margin calls (Prof Note: Is this not one of the issues of the Great Depression in the U.S.?)

US jobs market still shy of full strength – Pg. 2

- US employers added jobs at a resilient pace in June, but stalling wage growth and falling labour force participation suggest the jobs market has some way to go before reaching full strength
- Non-farm payrolls rose 223,000, slightly shy of analyst forecast...
- Set against hiring, average hourly earnings were unchanged at \$24.95, leaving them up just 2% over the past year
- An indicator of underemployment, which includes discouraged workers and people who are working part-time but want a full-time job, dropped to the lowest level since July 2008
- The Fed estimates that the long-term unemployment rate is 5-5.2%
- In a disappointing outcome, the fall in joblessness was heavily influenced by departures from the labour force, with the participation rate sliding 0.3 of a percentage point to 62.6%, leaving it at its lowest level since the 1970s

Sweden cuts interest rate to minus 0.35% over Greece fears – Pg. 2

- Sweden's central bank has taken its main policy rate deeper into negative and uncharted territory, citing economic uncertainty and worries about Greece
- ...Riksbank expecting to post GDP growth of 2.9% this year. House prices and household debt have been rising in Sweden – and in neighbouring Denmark and Norway where rates are also at record lows – prompting fears of a housing bubble
- Headline inflation was negative last year at minus 0.2% and is expected to increase to only 0.2% this year

Answer: 4th Century. The Temple of Delos, major lender, lost more than 80% of lent funds.

2 July 2015

Question: What is the further lesson we have learned from NBC?

Chinese investors blame share collapse on state – Pg. 6

- China's main stock index lost 5% yesterday, shrugging off an interest-rate cut by the central bank over the weekend.
- The market has now tumbled 22% since hitting a seven-year high on June 12

Commerzbank sells property loan portfolios – Pg. 18

- Germany's second-largest lender will sell a European portfolio of loans with a face value of 2.2bn (euro) to JPMorgan and Lone Star, and a German portfolio with a face value of 700m to Oaktree
- Selling the two portfolios, which between them encompass assets in 15 markets, will allow Commerzbank to take a step towards reducing the number of complexities of its non-core assets

Plunging currency clips corporate Indonesia's wings – Pg. 19

- The collapse in Indonesia's currency, now at levels last seen during the Asian financial crisis nearly two decades ago, is squeezing margins across the corporate landscape and forcing groups to rein in overseas borrowing
- The currency is down 7% against the dollar this year
- While the extent of the damage is far less than in 1997-98, when the pain was compounded by vast dollar borrowings, profits are shrinking and the pressure is on to slash costs
- "Airlines are particularly hard hit because...US dollar costs can be as much as 70% of their total"
- Historically, the aviation sector has avoided expensive currency hedging, passing exchange rate risk to the consumer by charging fares in dollars. But the practice – also common in real estate – was banned by the central bank last week in an attempt to shore up the local currency
- Foreign currency borrowings, while not at the levels of the crisis in 1997-98, have been rising – debts that are further magnified by the weaker rupiah
- Real estate groups are among the most exposed as developers have borrowed in dollars, which has proved cheaper than taking out loans in local currency

Answer: If you lie repeatedly, get caught, are allegedly contrite (despite being an adult, clearly knowing your lies were wrong and repeated, and an icon of public truths) you will be forgiven. However, if one expresses unsavory views that offend people, despite Constitutional protection of "Free" speech, you are "Fired". (Prof Note: Donald Trump's comments were unsavory at best. When comparing NBC's response to both Brian Williams and Donald Trump I am saddened. Perhaps it is further evidence/proof that the goal of a company is to maximize shareholder wealth without an ethical/moral focus. I am just saddened.)

1 July 2015

Question: What is the lesson learned from Macy's?

Payment failure pitches IMF into uncharted waters – Pg. 2

- Under IMF rules Greece's failure to make a required 1.5bn (euro) payment by the close of business in Washington will have immediate repercussions: Athens will no longer be able to access IMF financing until it clears the debt. It also sets off a series of notifications and procedures that could eventually culminate in Greece losing its voting rights in the fund or even being kicked out
- The IMF has only ever been defaulted on by smaller, developing members
- There is further symbolism in the fact that Greece, which joined the IMF in 1945 and was among its founding members, is both European and far richer than many of the 188 countries that now belong to the fund
- The missed payment comes at an awkward time for the IMF. Like its sister institution in Washington, the World Bank, the fund is fighting to retain its international relevance as emerging powers such as China set about creating rival institutions
- Under article five of the IMF's articles of agreement the fund can vote to give members more time to repay the fund if it is facing "exceptional hardship"

Mood turns anxious as banks ration pensions – Pg. 3

- Greek banks struggled yesterday to arrange payments to hundreds of thousands of cash-strapped pensioners amid mounting fears that capital controls imposed this week may not be sufficient to prevent a financial meltdown

Prices of Greek bonds imply likely default – Pg. 22

- Non-regulated, over-the-counter trading of bonds remains possible and one banker in Europe said he had seen a small number of Greek bond sales on Monday
- ...a number of electronic bond platforms have suspended fixed-income trading as the Athens stock exchange and the country's banks stay shut ahead of Sunday's referendum on new bailout terms offered by the country's creditors

Answer: It is ok to associate yourself with some that have views like Donald Trump provided he does not exercise his constitutional right of "Free" speech. If Donald Trump expresses his true views, business 'ties' must be severed! (Prof Note: Trump's unsavory comments, views and opinions, I do not believe, are new to him. Macy's has been peddling his wares for 10 years. Either Macy's is such a poor institution that they did not underwrite the personal views of a major business partner or simply did not care unless they were made public. Which is worse?!)

30 June 2015

Question: Ignoring depreciation, what is an easy way to determine after-tax returns in real estate?

Greek voters warned that bailout rejection would spell 'No to Europe' – Pg. 1

- European leaders warned Greeks that Sunday's vote on the country's international bailout was a referendum on its membership of the Eurozone, insisting rejection would bring no better offer and could have disastrous economic consequences
- Missing the payment will put Greece in a category with Zimbabwe, Sudan and Cuba – though credit rating agencies and Eurozone officials insist the move will not affect Athens' other loans
- Investors sold bonds in the Eurozone periphery and sought refuge in German government debt

Use of sedative in prisoner executions upheld – Pg. 5

- In a fiery end to a term that had seen the Supreme Court legalize same-sex marriage nationwide and uphold a crucial component of President Barack Obama's healthcare law, the highest court declined to bar the use of a controversial drug in executions, paving the way for some states to restart meting out capital punishment
- (Prof Note: What can be more "cruel and unusual" than death. The execution of a prisoner is \$500,000 more expensive than lifetime incarceration. Is not executing someone not another invoice on society? Is not lifetime incarceration a worse punishment?)

'2015 is the new 2007' as big deals pick up pace – Pg. 15

- Compared with the boom years for M&A in the mid 2000s, the global economy is weaker, interest rates are at historic lows and many groups are sitting on large piles of cash. What is the same, eight years on, is bankers' ability to push up values – so much so that this year is set to be the strongest for deals since the 2007 peak
- Given the size of deals being attempted, many are being funded partly with shares – which creates an additional risk for targets, as big deals may take as long as 18 months to close

Puerto Rico bonds tumble as coffers run dry – Pg. 20

- Puerto Rico's bonds tumbled to new lows after the island's governor admitted that its \$70bn debt pile was "not payable" and a report on the economy warned that the fiscal crisis was even deeper than previously thought
- The yield of a \$3.5bn bond issued last year slid to trade at just 71 cents on the dollar, implying a record annual yield of more than 12%
- Public sector debt is estimated to have reached 100% of GDP at the end of last year, with revenues on average 15% lower than projected since 2004

Answer: Multiple interest rate by $(1 - T)$, i.e. one minus the tax rate (just like WACC)

29 June 2015

Question: How long did it take the Dow Jones Industrial Average (DJIA) to recover from the depths of the lows during the Great Depression?

NY banking watchdog sinks teeth into new benchmark manipulation scandal – Pg. 1

- New York's banking regulator is probing an emerging benchmark trading scandal relating to the suspected manipulation of US interest rate swaps, ...
- BaFin found that a New York trader tried to rig Isdafx in 2010 to help the bank's position at the expense of fund management client Pimco. The regulator only became aware of the issue after Pimco complained, ...

Rate rise 'in play' as jobs market holds, says New York Fed chief – Pg. 2

- A Federal Reserve interest rate increase will be "very much in play" at the central bank's September meeting if the recent strengthening of the US economy continues, ...
- Mounting evidence of recoveries in Europe and Japan had also reduced the economic divergence between the advanced economies – even if Greece remained a "huge wild card"...
- US growth stalled in the first quarter, in part because of bad weather and a port strike, derailing arguments for a rate hike as soon as this month
- A 15% surge in the trade-weighted dollar has dragged on trade data and on inflation, complicating the Fed's rates deliberations
- Over the longer term, if yields failed to budge the Fed could easily lift rates faster if needed to lift market rates, ...

China cuts rates to calm rattled market – Pg. 4

- China's roller-coaster stocks will again be under the spotlight after the central bank cut benchmark interest rates to a record low at the weekend, a move interpreted by analysts as an attempt to temper last week's market meltdown
- The People's Bank of China appeared to respond on Saturday, when it cut the one-year lending rate by 25bps to 4.85% - its fourth cut since November – and lowered the amount of reserves certain banks are required to hold by 50bps
- China's stock market is widely seen as driven by policy at least as much as company fundamentals
- The one-year deposit rate will similarly be lowered 25bps to 2%

Answer: Approximately 25 years

27 June 2015

Question: If you need a \$500,000 mortgage for 30-years and the most you can pay for Principal and Interest per month is \$2,500.00, what is the maximum interest rate you can accept?

Deutsche's Jain suspected of lying – Pg. 1

- Mr Jain, who stepped down as joint chief executive this month, is expected by BaFin of having "knowingly made inaccurate statements" in a 2012 interview with Germany's Bundesbank about the benchmark-setting process (Prof Note: Mr Jain should have worked for NBC, in this case he would simply have been reassigned to another position)

Gay marriage ruling helps shape a nation's future but also galvanizes opponents – Pg. 3

- Until 2013, the US had a law in place, the Defense of Marriage Act, that allowed the refusal of federal marriage benefits, such as social security, to legally married same-sex couples
- ...writing a sweeping, 5-4 opinion that emphasized gay and lesbians' quest for "equal dignity under the eyes of the law". "It would misunderstand these men and woman to say they disrespect the idea of marriage. Their pleas is that they do not respect it, respect it so deeply that they seek to find its fulfilment for themselves. Their hope is not to be condemned to live in loneliness, excluded from one of civilization's oldest institutions" (Prof Note: Perhaps I am missing something but legally I see marriage as a contract between two individuals. Given the illegality of discrimination, I do not know why this has taken so long. Two consenting adults should be able to enter a contract. When there is no emotion, seems fairly straightforward, at least to me.)

Answer: f clx, 500000 chs pv, 30 g n, 2500 pmt, i...0.3656 ... 12 X... 4.3871% (answer: 4.3871%)

26 June 2015

Question: A young couple gets married, purchases a house and conceives a child on the wedding night/day (busy night/day!). The house has a \$400,000 mortgage, 4.50% interest rate and is a 30-year fixed mortgage. What must they couple pay each month to have the house paid off in 19 years, i.e. when the child first leaves for College?

Gates open Microsoft co-found to pump \$2bn into green technologies – Pg. 1

- Mr Gates, who is listed by Forbes as the world's richest person with a net worth of almost \$80bn, said he had invested directly in about 15 companies and indirectly in another 30
- Describing himself as a "double bottom line" investor, Mr Gates said he was looking for a societal benefit as much as any financial return

US household spending points to rebound – Pg. 4

- Spending by US households jumped by the most in nearly six years in May, lifted by stronger incomes and reinforcing evidence of a second-quarter rebound in the economy
- Expenditure rose by 0.9%, far quicker than the 0.1% rise in April and the strongest rise since August 2009
- The apparent reluctance of US consumers to spend the savings from the oil price drop has perplexed officials at the Federal Reserve and added to calls for caution on plans for higher short-term interest rates
- Incomes increased 0.5% in May from the previous month, or 4.4% from a year earlier, underpinning signs that a stronger labour market is leading to improved wages. The personal saving rate dropped to 5.1% in may, compared with 5.4% in April

Supreme Court backs housing bias lawsuits – Pg. 4

- Discrimination lawsuits in housing cases do not have to prove intentional bias against minorities to be considered by the courts,upholds a strategy long supported by civil rights groups

US bond issuance set for sizzling summer – Pg. 22

- Uncertainty caused by Greece – as well as lower liquidity in secondary markets and the volatility of German Bunds – is causing a backlog of deals to clog banks' pipelines
- Uncertainty has not affected dollar-based debt sales...
- For the moment, the euro and US market are diverging: dollar corporate bonds stand at a year-to-date and half-year record high, whereas the euro market's activity is 6% lower on the same point last year,...
- This is the second instance of European debt markets freezing in as many months. During May, a sudden rise in government debt yields, which many corporate bonds are priced off, resulted in issues delaying deals
- A further complication added by investors concerned about bond market liquidity

Answer: F Clx, 400000 chs pv 4.5 g l 19 g n pmt...2,613

25 June 2015

Question: Where in the world is Mario (Advanced Pro Forma from Hopkins)?

German hotel group offers ultimate luxury – the chance to drop off the grip – Pg. 1

- A silver switch next to the beds in the Villa Stephanie spa resort in Baden-Baden activates a copper grip in the walls to block wireless internet signals
- So far about half his guests have opted, as some point during their stay, to kill the internet, prompting plans to extend the system to other hotels
- He predicted the technology would be common in luxury homes within five years (Prof Note: ...and why individuals cannot turn off devices?!)

OECD warns of threat to pension funds and insurers – Pg. 3

- Retirement funds and life assurers are in danger of being unable to keep their promises to pensioners and policyholders due to rock-bottom interest-rates, ...
- Ultra-loose monetary policy poses "serious problems to the solvency" of pension schemes and insurers as they struggle to produce enough income to fund their obligations, ...
- The warning is among the starkest yet about how institutions from Germany to the US can generate sufficient returns to meet their obligations without taking on extra risks
- The OECD raised the prospect the funds could be forced to cut payouts to retirees, saying they may have to "renegotiate" their promises to remain sustainable (Prof Note: This is why I stress so strongly personal retirement planning.)

Answer: The last "sighting" was Salt Lake City. It is on good authority he is headed to Yellowstone!

24 June 2015

Question: \$525,000 loan, 30-yr, 4.25%, and couple pays \$4,000/mo consistently. How long does it take to retire the loan (years)?

Price falls add to China slowdown – Pg. 6

- Falling prices in China are helping mask a significantly worse economic slowdown than official figures suggest
- An analysis of nominal GDP growth rates shows that the Chinese economy slowed from quarterly year-on-year expansion of nearly 20% in 2011 to just 5.8% growth in the first quarter of this year
- In contrast, national output fell from 9.5% to 7% over the same period using inflation-adjusted real GDP growth rates, indicating a much smoother and more gradual “soft landing” for the world’s second-largest economy
- ...GDP deflator turned negative in the first quarter of this year, which helped to flatter nominal GDP growth of 5.8% and provide a headline real GDP growth figure of 7%, which is also Beijing’s official growth target for this year
- Average revenue growth for listed companies slumped for nearly 30% expansion in the first quarter of 2011 to just 0.7% in the first quarter
- By contrast, Chinese equities have been caught in a raging bull market. In spite of a 13% decline last week the benchmark Shanghai Composite index is still up by more than 125% from a year ago, following Monday’s rebound of 2.2%

Moody’s sets out shake-up for clearing houses – Pg. 20

- The credit quality of clearing houses involved in derivatives and whether they are a potential source of systemic risk is triggering a reassessment of the industry by Moody’s ...
- Clearing houses have assumed a crucial role within the massive over-the-counter derivatives industry in the wake of the financial crisis. Regulators have mandated that derivatives move into clearing houses, so that the central authority can collect collateral from entities involved in a trade. This helps cover potential losses should a counter-party default, with the aim of reducing credit risk and averting the kind of turmoil that erupted with the failure of Lehman Brothers in 2008
- ...some observers have warned concentrating risk in one place increases the systemic consequences should a clearing house fail, leaving taxpayers on the hook in a crisis

Bank of China in four currency bond sale – Pg. 22

- Bank of China is poised to launch the world’s first multibillion four-currency bond deal in an eye-catching effort to provide funding for China’s so-called new Silk Road infrastructure projects
- The bank plans to raise at least \$3bn by offering bonds in US dollars, euros, Singapore dollars and renminbi, ...
- The so-called new Silk Road is aimed at boosting links and commerce between China and countries on the routes by providing infrastructure and increasing financial and trade ties
- The bonds in each currency are expected to be issued in “benchmark” size
- The bank is in the vanguard of the big Chinese banks’ desire to expand overseas by following their clients. About a fifth of its pre-tax profits come from outside the mainland, making it by far the most international of China’s big four,...

Answer: 177 months or 14.75 years

23 June 2015

Question: What is the current Federal Discount Rate, i.e. the Discount Rate?

Georgia lacks cure for 'Obamacare' complaint – Pg. 3

- To the law's detractors, this stretch of rural Georgia is instead an epicenter of its shortcomings, driving up already high insurance premiums and making it harder for middle-class families to afford cover in an area where expensive, chronic conditions such as obesity and cancer are common
- One thing is certain: no one knows what will happen if the nation's highest court invalidates the subsidies designed to make it possible for poor and low-income families to purchase cover in Georgia through the federal market place "Obamacare" set-up
- The Supreme Court will rule this month on whether consumers in the 34 states without their own exchanges, including Georgia, should be eligible for the tax credits aimed at making cover under the ACA affordable
- ...healthcare system where the emergency room has long been the main – and only – point of care for many of the estimated 30m-plus people who still do not have health insurance,...

US appetite for hostile takeovers hits post-crisis high – Pg. 15

- Nearly \$108bn in potential deals were rejected over the weekend amid a boom in US hostile takeover attempts not seen since before the financial crisis
- The rejections mean the number of hostile-deals launched by US companies since the start of 2015 has doubled since the same period last year, from 20 to 40, ...
- Cheap financing has been an enormous incentive to strike deals now,...

Answer: 75bps

22 June 2015

Question: What is USD 30-day Libor?

UK ringfence rules hand foreign banks cross-selling advantage, says RBS head – Pg. 11

- British banks far being blocked from cross-selling products to their clients under ringfencing rules that hand a big advantage to foreign rivals,
- Foreign banks, such as JPMorgan Chase, will be exempt from the ringfencing rules, so face fewer cross-selling restrictions and could pick up more business, such as interest rate swaps...

Bond and equity fears raise sell-off risk – Pg. 12

- Growing worries over equity valuations and fears a bubble in bonds is about to collapse are sparking greater risks of a violent sell-off this summer in international stock and fixed income markets

- Two out of three global fund managers and market analysts think developed world equities are overvalued, while three out of four say there is a bubble in bonds...
- More than 60% fear developed world equity markets are overvalued, which is the highest number recorded in the quarterly valuations survey since it was launched three years ago
- Several factors – from Greece, expectations of US rate increases for the first time in a decade, worries over Chinese asset prices and the lack of liquidity – could also conspire to undermine sentiment

Answer: About 19bps (depends upon the week)

20 June 2015

Question: What is the lesson that NBC has demonstrated to Roger Staiger by allowing Brian Williams to return?

China growth slowdown takes bit out of Hershey – Pg. 8

- It expects net sales for the year to grow by 2.5-3.5%, compared with the guidance it gave just two months ago of 4.5-5.5%
- Hershey ramped up its presence in Asia's largest economy with the acquisition of Shanghai Golden Monkey in 2013, aiming to capitalize on the country's growing middle class

China tumbles to worst week in years – Pg. 11

- Chinese stocks have recorded their worst week since 2008 as investors fret that China's world-beating equity rally has run its course
- A rift has emerged between foreign and Chinese investors and analysts, with offshore investors increasingly bearish
- Beyond rich valuations, efforts by regulators to damp down an explosion in margin lending have also weighted on sentiment. The securities regulator has published draft rules that would limit the amount of loans brokerages could make to sock investors to four times net capital

Answer: Is it ok to lie and misrepresent. Just do not get caught until you are at a senior level and then you will be forgiven and provided a second chance. NBC blew an opportunity to demonstrate accountability in reporting. It is a sad day, in my opinion, in the U.S. If the news agencies do not hold truthful reporting as a standard, why should financial institutions expect ethics? Perhaps we need an Ethics I and II in graduate programmes?!

19 June 2015

Question: An individual with a credit score is 643. Honda offered 0.9% financing. What is the best rate that was offered to this individual?

'Gradual' is the word as Yellen strives to assuage markets – Pg. 2

- ...upwards moves, when they eventually come, will be "gradual", ...

- The Fed wants to assure markets that it will pursue a gentle tightening path that minimizes the risks of spikes in market rates, or a sell-off in global financial markets
- Some “cyclical weakness” remains in the labour market even after recent falls in unemployment. Continuing effects of the dollar surge will hang over US growth and inflation
- Even by 2017 the median projected level for the base-level Fed funds rate remains 2.875% - far below the 3.75% level currently considered by most FOMC members to be the longer-run norm

A bloated Fed prepares to shape up – Pg. 9

- ...US central bank will not raise the crucial Federal Funds rate this month
- ...second argument is under way about how the Fed will unwind the extraordinary technical experiments it has launched since 2008.
- There are at least two important issues at stake. The first is the question of what the Fed plans to do with the assets sitting on its balance sheet. Until the onset of the 2008 financial crisis, these totaled about \$1tn, mostly in the form of government bonds. The balance sheet has since increased to more than \$4tn
-a third of the Treasuries mature in 2018. So one question now subject to fierce debate is whether the Fed will be forced to embrace balance sheet activism just to avoid market shocks
- The second, related, issue is what happens to the funds that private banks have parked as spare reserves at the central bank in recent years
- In the five years before the 2008 crisis, these “reserves” were tiny, just \$11bn on average each day, partly because the Fed did not pay interest to banks
- But by 2014 the reserve balance had risen to \$2.6tn and the Fed pays 25bps of interest

Answer: 5.49% Credit scores matter!!!

18 June 2015

Question: A poor credit borrowed \$30,000 for 6 years at 5.49%. A high-quality borrower can borrow the same amount from Honda at 0.9%. What is the difference per month in the two payments?

Funds stand to benefit from regulatory rift – Pg. 16

- A global effort to label the biggest asset managers as “systemically important” and subject them to greater scrutiny is in jeopardy after the world’s market regulators hit back at the plans
- The FSB is due to publish its methodology around designation before the next G20 summit in November. Similar labels assigned to lenders and insurers have resulted in more rigorous scrutiny, higher capital and liquidity requirements and stress tests

Fitch warns of growing repo threat – Pg. 20

- An important source of short-term funding for banks remains vulnerable in the event of substantial bond-market turmoil, ...

- Since the financial crisis regulators have sought to reduce banks' reliance on short-term funding via repurchase agreements. In a "repo", banks borrow money from investors and pledge their bonds as collateral. The Banks repurchase the bonds at a later date and return cash to investors, usually money-market funds
- Banks and investors are increasingly concerned about swings in bond prices as markets brace for interest rates to rise this year. Corporate bonds are renowned for being difficult to buy and sell once they have been initially issued, and in recent years the market has experienced substantial growth
- The current era of low borrowing costs has spurred US companies to sell debt, and the outstanding corporate bond market totals about \$8tn, up from \$6tn at the end of 2009

Answer: \$61.82

17 June 2015

Question: How much more will she pay over the life of the loan due to her credit score?

Fed's high-wire act takes on fresh hazards – Pg. 6

- The Federal Reserve's judicious communication is always a high-wire act.
- ...difficult task in crafting the message the central bank intends to send at the post-meeting press conference: too hawkish and markets could shudder violently, and too dovish and it could exacerbate complacency over the inevitable tightening
- ...the odd currently favour September – and markets already choppy, the ability to do so is far more limited than has been the norm
- In a rare intervention the IMF recently advised the Fed to wait until early 2016 for a return to more normal monetary policy

Greenberg victory raises Fannie-Freddie stakes – Pg. 14

- Since they came under pressure in 2008 it has become received wisdom that Fannie and Freddie, so-called "government-sponsored enterprises", GSEs, represent the worst kind of "privatized profits and socialized losses"
- The Washington-based institutions guarantee home loans. They operated as public companies but with the implicit backing of the US government, a feature that allowed them to sell debt cheaply to buyers, including the Japanese and Chinese governments
- The US government bailed them out in 2008 with a guaranteed capital infusion of up to \$200bn and demanded a 10% dividend
- In 2012, officials said in later court filings that they feared Fannie and Freddie would face mounting losses, be unable to pay the dividend and enter a "death spiral"
- So they changed the terms. No longer would the GSEs pay a dividend, they would just see all their profits "swept" to the government
- By the end of June, Fannie and Freddie will have handed over \$230.8bn to the US Treasury, but that does not count as a repayment for their bailout and continues indefinitely

All eyes on Yellen as she prepares her best shot – Pg. 24

- Ms Yellen has impressed on the market how economic data are driving Fed thinking
- Ms Yellen is timing her public appearances carefully. She is not planning to attend the annual get-together of central bankers in August at Jackson Hole, Wyoming, which puts her anticipated half-yearly testimony next month to the Senate Banking Committee firmly in the spotlight.
- The market is losing faith in some of the certainties of the past

Answer: \$4,451.19

16 June 2015

Question: Traditionally, how is the gross sales price of a real estate asset estimated in year 10?

IMF fears default and consequences for its reputation – Pg. 2

- The IMF is growing frustrated with both Greece and its European creditors and has begun to prepare for the country's debt crisis to take another turn for the worse
- Eurozone governments have strenuously resisted any debt restructuring, arguing any discussion of debt relief should be excluded from the current negotiations
- The IMF's growing concerns are based on both a fear about what the economic consequences of a Greek default might be, but also what it would mean for the fund's own standing as new emerging market challengers are being born
- The IMF is already making contingency plans for a Greek exit
- Greece is also now by far the fund's largest debtor, ...
- Were Greece to miss any of those payments it would become the first developed country in the fund's history to go into arrears. Already, it is employing a loophole last used by Zambia in the 1980s to "bundle" its June payments, after discovering a wrinkle in the fund's rules

Central banks look at how far sub-zero rates can fall – Pg. 7

- ..as the risk of deflation has pushed central banks in the Eurozone, Denmark, Sweden, and Switzerland to venture below zero, the question has shifted from whether negative rates are possible to how low they can go
- Critics fear the unprecedented experiment of negative rates could have unwarranted side-effects, including the formation of asset bubbles and deep disruption to the operation of the banking system
- Economists say that the possibility of negative rates arises because there are costs to storing and insuring cash. Savers will continue to keep their money in a deposit so long as this costs less than moving it into a safe

Dividend payers suffer in run-up to Fed move – Pg. 24

- ..search for yield in areas of the equity market illustrates the scale of demand for income streams that exceed the returns from bonds. But the trend has shifted, with utilities and Reits being punished by a slide in Treasury prices that has pushed yields on 10-year US

- government paper to their highest since September, and well above the S&P 500's dividend yield of 2%
- Utilities and Reits tend to move in tandem with bonds and have registered substantial corrections since January
 - Every Reit in the S&P 500 has declined since January 28...
 - ...price/earnings metrics for utilities and Reits have moderated

Corporate issuance of perpetual debt soars – Pg. 24

- Global issuance of corporate bonds that may never be redeemed has surged to record levels as companies lock in finance at historically low interest rates
- The bonds have accounted for 3.4% of total corporate issuance, also a record
- Chinese groups accounted for almost half the total

Answer: Net Operating Income of year 11/Capitalization Rate

15 June 2015

Question: What is a sukuk bond?

US bank and fund chiefs summoned to talks over bond market liquidity fears – Pg. 15

- A US financial regulator has summoned senior executives from banks and asset managers for two meetings to explore potential solutions to a liquidity crunch confronting bond markets
- One of the measures the financial industry will propose is introducing delayed reporting requirements when trading big blocks of debt, a move that would run counter to the trend towards increased transparency in financial markets
- US corporate bond trades have to be reported within 15 minutes to Finra's Trade Reporting and Compliance Engine, or Trace, a rule introduced in 2002 to shed some light on the traditional murky debt trading world

Saudi Arabia opens up its \$560bn stock market – Pg. 16

- Saudi Arabia's stock market is opening to foreign investors, marking a step forward in the oil-rich kingdom's economic reform efforts that could usher in a rush of overseas investment
- From today, the Middle East's biggest economy will allow direct market access to large overseas investors with more than \$5bn in assets under management as the conservative kingdom continues a gradualist approach to financial reform
- Up until now, foreign firms have been using swap instruments to gain limited access and account for \$9bn, or 1.6%, of the overall market
- The government also said it is also looking to encourage the listing of Islamic bonds, known as sukuk, later this year to help companies raise money more efficiently as state finances and banking liquidity come under pressure from lower oil prices

Answer: Islamic compliant debt instrument which pays no interest but earns yield through profit.

13 June 2015

Question: You know that Blue Star airlines is going to fall in value but do not know when through your calculations. What financial strategy that can best profit from this analysis?

Strauss-Kahn acquitted in sex parties case – Pg. 4

- The ruling brings an end to the legal strife of Mr Strauss-Kahn, which began in 2011 when a New York hotel chambermaid accused him of sexual assault, effectively ending his glittering career
- Charges in the US were eventually dropped and he later settled with the chambermaid out of court. Another charge of attempted rape was then brought in France, but also dropped.
- This was the final case against him
- Mr Strauss-Kahn was mocked in the French press for saying he rarely attended sex parties because he was busy “saving the world”. He said that he went “only” about four times a year between 2008 and 2011
- (Prof Note: I await the move, “50,000,000,000 shades of Strauss-Kahn”)

Zimbabwe ditches worthless currency – Pg. 4

- The Reserve Bank of Zimbabwe said it will begin a process to “demonetize” its all-but-worthless currency on June 15.
- Within that window, the notes can be exchanged for US dollars. After that they will be worthless, which is not so different from their value now: the RBZ said that accounts “with balances of zero to Z\$175quadrillion will be paid a flat US\$5”
- “Hyperinflation” does not begin to explain the monetary problems in Zimbabwe, which denominates currencies with 15 zeros
- To purchase goods many Zimbabweans were largely dependent on access to US dollars and the South African rand that came through remittances sent by migrant workers
- The IMF forecasts annual growth of 2.8%, down from an estimated 3.2% in 2014, but some economists warn that the country is at risk of slipping back into recession

Biggest weekly outflows since crisis – Pg. 15

- Emerging market funds have suffered their biggest outflows for this week since the financial crisis, as investors pulled billions of dollars from Chinese equities
- Emerging markets have come under increasing pressure recently as the US dollar has strengthened – something that has often led to the underperformance of EM assets
- Many developing nations are also in the midst of an economic slowdown, as Chinese demand for raw materials wanes and domestic credit booms grind to a halt

Answer: Short the stock or potentially short a futures. Less leverage with shorting the stock but less expensive to maintain position over what could be a longer period of time.

12 June 2015

Question: You know that Blue Star airlines is going to fall in value in the next 100 days through your calculations. What financial instrument can best profit from this analysis?

IMF quits Greece talks amid 'air of unreality' – Pg. 2

- When a Greek counteroffer finally arrived on Monday evening, EU officials were even more stunned. Instead of proposing a redistribution of cuts, as Mr Tsipras had promised, Athens wanted to renegotiate lower budget surpluses
- Berlin has been adamant throughout the crisis that the IMF – whose technical skills and rigour it values over those of the commission – should stay full involved. The IMF's concerns grew in part because of the increasingly political nature of the discussions
- According to IMF calculations, putting Greece's economy on a sustainable path now requires, at least, an extension of maturities on Greece's outstanding debts

Retail sales growth increases prospects of rate rise this year – Pg. 3

- The case for a second-quarter recovery in the US economy – and a rate rise from the Federal Reserve this year has been boosted by retail sales data
- ...plenty of signs of life in the US economy, with almost all categories seeing gains in May and the US census bureau revising up previously weak data for March and April
- One concern for economists has been what appeared to be more thrifty behavior by US consumers in recent months and years, with some raising the possibility of a long-term change in saving and spending patterns

Slim prospects of Eurozone securitization – Pg. 20

- In Europe, the market for securitization is dwindling, a cause for concern at the highest levels. The market's weakness comes despite a ECB purchase programme launched last year, and undermines European policy makers' attempts to push for more capital-market – rather than bank-based – finance for the economy
- Securitization involves taking assets from a bank's balance sheet, packaging them up as securities and selling these on to investors. Covered bonds work similarly, except that the underlying assets are kept on the bank's balance sheet, meaning that the borrower has "dual recourse" to both the assets and the bank itself
- A crucial distinction between covered bonds and securitization is that ABS can be deployed across a range of assets, including mortgages, car, credit card and even small and medium-sized company loans. Covered bonds are overwhelmingly used with mortgages
- Securitization was never a deeply-rooted tool for European banks in the first place...
- The capital charges for holding covered bonds, by contrast, are lower
- While ABS may create more work for banks, they are also a potential "capital management" tool. ABS enables banks to shift assets away from their balance sheets while retaining "skin in the game", contributing to a kind of "disintermediation" that supposedly frees them up to deploy their expertise in originating loans without taking on too much risk at the same time

Answer: Put Option provides high leverage in a finite period of time.

11 June 2015

Question: Beta measures what?

Rich countries to resume growth role as developing nations stumble – Pg. 1

- Developing countries are facing a “structural slowdown” likely to last for years and are ceding their role as the world’s growth engine to more mature economies such as the US, ...
- ...forecast for global growth this year to 2.8%, partly because the much-anticipated benefits of lower oil prices have been limited
- ...developing economies such as China must confront an era of slower growth
- The shift is already having consequences for rich economies. The World Bank has lowered its growth forecasts for this year in high-income countries such as the US and UK, which it expects to expand 2.7% and 2.6%, respectively
- ...raised outlook for India, which at 7.5% is set to be the fastest-growing big economy
- ...Brasil’s economy to contract 1.3% this year from January forecast of 1% growth

The Fed risks inflating another housing bubble – Pg. 9

- The perception that the US is a safe haven for international buyers has long helped drive up American property values
- ...the dollar...is now viewed as a safe store of value given the US economy’s relative performance over the past year
- ...developing economies are sputtering. Investors are shying away from countries such as China, Brazil, and Russia where growth prospects, once bright, are increasingly lackluster. They are happy to pay to park their money in US concrete
- Across the country,, house prices are rising at a pace of about 7% a year. Prices are on average just 10% below the level they reached in 2006; if they keep going up at the current rate, they will surpass that peak sometime in 2016
- In housing, you can look at the average ratio of house prices to earnings. It is nearly 20% higher than the average level of the past 30 years, having climbed about one-third of the way from the post-crisis trough to the peak reached in 2006
- Or you can look at rental yield, which is noticeably lower than its 30-year average. This suggests that house prices are at least frothy
- Typical rates on 30-year mortgages ranged from 5.5 to 6.2% during that period. That compares with a current mortgage rate of 3.9%. by keeping rates near zero, the Fed has strongly stimulated housing demand

German borrowing costs back above 1% - Pg. 24

- The sell-off in Europe radiated across global bond markets, pushing benchmark 10-year bond yields in the US, France, Spain and the UK to their highest point so far this year and marking an abrupt turnaround in what has been a long-running rally

Answer: Systemic Risk

10 June 2015

Question: What is multicollinearity?

Senators urge IMF to punish China over cyber attack – Pg. 2

- The IMF is this year due to decide whether to include China's currency in the basket used to determine its own quasi-currency, the Special Drawing Rights.
- The US Treasury continues to insist that the renminbi is significantly undervalued and that Chinese exporters are benefiting from a big competitive advantage as a result (Prof Note: And the U.S. does not benefit from its status as the world's reserve currency?!)

GE accelerates plan to sell lending operations – Pg. 12

- ...returning \$2.5bn to its parent from the sale, part of the total of \$35bn that GE plans to raise from the disposal programme
- It is the largest disposal for GE since the company agreed the sale of \$26.5bn worth of property assets to Blackstone and Wells Fargo in April
- That deal was announced at the same time as GE launched its radical plan to offload about three-quarters of GE Capital, its financial services division

Canada to feel pinch in long-term production growth after price fall – Pg. 15

- The collapse in crude prices will pinch Canada's long-term oil output growth by more than a million barrels per day, highlighting the lasting impact of energy companies' capital spending cuts, ...
- ...Canada will produce 5.3m barrels per day by 2013, down from a forecast of 6.4m b/d published a year ago...

Answer: In multivariate regression when there is high correlation between the "independent" variables. The test is generally a correlation greater than 0.7.

9 June 2015

Question: Discounting using a zero rate answers which question?

Brazil faces tricky balancing act to avoid extending recession – Pg. 2

- South America's largest economy faces a difficult balancing act to avoid a potentially disastrous spiral of economic contraction as it seeks to control inflation
- Brazil successfully rebounded in 2003 from a downturn partly caused by the election of Mr Lula da Silva
- ...predicting a 1.2% contraction of GDP in 2015, rebounding to grow 1% next year and just 1.9% in 2017

Banks urged to raise capital in face of rate risk – Pg. 6

- Banks will have to put aside more capital to deal with a rise in interest rates from their ultra-low levels, ...
- Even though higher rates are generally better for bank profits, low rates reduce the cost of bank's funding, and are especially beneficial if banks have already issued lots of loans at

- fixed, higher rates (Prof Note: Not true and rarely would I disagree with the FT...it is the spread that benefits banks. If short-term rise and long-term remains the yield curve flattens and Staubach may say, "Go Long" but Staiger will say, "Go Short!")
- The adjustment to higher rates is always initially painful and is likely to be particularly so in this case, since some banks have adjusted their other holdings, such as bonds, because of a prolonged term of low rates
 - The Basel Committee is considering two approaches – to increase mandatory minimum of capital banks must hold to deal with the risk of interest rate changes, or to allow banks to work out their specific exposure to the risk of interest rate changes

Japan's upward growth defies market forecasts – Pg. 7

- Japan's economy grew at an annualized pace of 3.9% in the first quarter of 2015 as revised data showed the best performance since the introduction of last year's consumption tax rise
- The figures were revised up from an initial estimate of 2.4%, and easily beat market expectations of 2.8%, with a much stronger number of business investment
- The strength of growth will encourage the BoJ and makes it less likely to expand the ¥80tn-a-year programme of asset purchases aimed at ending two decades of on-off deflation
- If growth remains above the economy's long-run potential, it will gradually use up spare capacity and unemployed workers, eventually turning into a higher level of inflation

M&A rise spells gloom for US corporate bonds – Pg. 24

- A testing May has turned into a torrid June for the US corporate-bond market, vaporizing returns and sending borrowing costs higher.
- Junk bonds, somewhat insulated by the fierce moves in benchmark government debt, have on the whole performed better, but the yield of BoAML's main index for the market has climbed from 6% at the start of June to almost 6.3%
- Most M&A deals are by companies rather than private equity firms, relatively conservatively structured and financed by less debt and cash than in past M&A booms,...

Answer: Do you get your money back!

8 June 2015

Question: How many district banks are there in the Federal Reserve System?

US struggles for strategy to contain China's island building – Pg. 3

- China's efforts to dredge new land on remote coral atolls in the South China Sea have left the US struggling to come up with a response
- For Washington, Chinese land-building has helped make allies of former adversaries now fearful of military domination by an assertive China
- ...there is a limit to how far countries in the region are willing to present a united front to China, which has reclaimed 2,000 acres of land in the past 18 months, far outstripping all other claimants combined,...

- China claims 90% of the waters of the South China Sea, a position contested by neighbours including Vietnam, Malaysia and the Phillipines
- The second problem is that each of these countries has occupied its own islands, and some are doing their own land reclamation

Banks' post-crisis legal costs hit 200bn (sterling) – Pg. 15

- New regulatory framework may present another litigation risk. The creation in 2010 of the Consumer Financial Protection Bureau in the US, for example, has caused many banks to wonder about “behavior that might be considered harmful today that might not have been five years ago” ...

Answer: 12

6 June 2015

Question: What is considered the leading Federal District Bank?

Robust US jobs numbers feed fears for long summer of bond market volatility – Pg. 1

- While the unemployment rate ticked up slightly to 5.5%, the US created 280,000 jobs in May, adding to evidence that an economic downturn this year was a temporary blip in the US recovery
- Annualized wage gains were the strongest in nearly two years and the share of the US population in work hit a post-recession high of 58.4%, reinforcing the case for the Federal Reserve to lift interest rates this year
- The German 10year Bund yield closed yesterday at 0.84% - almost double its level at the start of the week - ...

Dollar rallies after US jobs data beat forecasts – Pg. 11

- The dollar rallied yesterday after stronger-than-forecast jobs data reignited the debate in the markets on the probable timing of a US rate rise
- The euro resumed its dizzying drop after the data, falling 1% against the world's reserve currency to \$1.1133.

Answer: New York Federal Reserve

5 June 2015

Question: Describe the purpose of an investment banking house.

IMF warns Fed that its credibility is at risk if an early rate rise sparks volatility – Pg. 1

- The IMF has urged the Federal Reserve to wait until next year to raise interest rates, cautioning that the US central bank's credibility was at stake and that there was too much uncertainty to justify a much-anticipated lift-off

- The IMF said the US economy should expand 2.5% this year despite a contraction in the first quarter, adding that “the underpinnings for continued growth and job creation remain in place”
- A rate rise would have momentous consequences beyond the US. Central banks in emerging markets are braced for the possibility of extensive capital outflows, as investors pull their money away from Latin America and Asia and return it to higher-yielding US assets
- A Fed rate rise could lead to a sharp appreciation of the dollar, which would badly hit emerging market companies with dollar-denominated debt.

UK’s jobless welfare claimants hit 30-year low – Pg. 3

- Britain’s culture of welfare reliance has been transformed, with the proportion claiming out-of-work benefits at its lowest for 30 years,...
- Having peaked at 17% in 1993, it now stands at 10%, its lowest since the 1980s
- Labour market participation has risen steadily in the UK since the mid-1990s, especially among women and older workers
- The US, by contrast, has experienced steadily declining labour market participation, ...
- More and more of those not in work in the US are not even looking for work...

Germany set for derivatives clearing – Pg. 18

- The office that manages German’s government debt issuance is set to follow the call from global regulators for stronger derivatives standards
- Clearing houses stand between users of derivatives and are designed to reduce the risk of losses in the event that an entity cannot stand by its trades
- The role of clearing houses in the over-the-counter industry has grown as regulators have tried to prevent a repeat of the derivatives turmoil after Lehman Brothers failed in 2008
- Germany will join Sweden in a minority of sovereign debt issuers that use clearing, raising questions about why others are not complying with rules that they have written for banks and investors
- The use of interest rate derivatives allows a sovereign to “swap” the fixed rate of long-dated bonds into a shorter, floating rate, minimizing the chances of the portfolio being adversely affected by large changes in market yields
- Direct clearing members are required to post collateral to a clearing house to cover losses on trades in the case of default. They also contribute to a mutualized default fund

Answer: (1) Design sellable securities, (2) Buy securities from corporations, and (3) Resell to ‘savers’ (broker transactions)

4 June 2015

Question: What is the difference between the spot market and the futures market?

OECD slashes global growth forecast – Pg. 2

- The OECD group of mostly rich nations has slashed its forecasts for global growth, as it warns that weak investment and disappointing productivity risk keeping the world economy stuck in a “low-level” equilibrium
- ...expects the global economy to expand this year by 3.1%, a sharp downgrade from last November’s forecast of 3.7%
- The US saw a big negative revision for this year, after the economy unexpectedly contracted by 0.7% in the three months to march. The OECD cut its forecast by a third, to 2% from 3.1% seven months ago. China was also downgraded: it is now expected to grow this year by 6.8%, from 7.1% in November

Hedge fund billionaire gives \$400m to Harvard – Pg. 4

- John Paulson, the hedge fund manager famed for betting against US housing in 2007, has made the largest donation yet to Harvard University, giving \$400m to expand its School of Engineering and Applied Sciences
- Harvard, whose \$36.4bn endowment is the largest among US universities, ...
- Harvard’s endowment had the lowest investment returns among Ivy League institutions in its most recent financial year, growing 15.4% against 20.2% for top-ranked Yale

Euro rebounds on ECB inflation forecast upgrade – Pg. 22

- Currency traders rediscovered their appetite for euros after 10-year Bund yields moved sharply higher as the ECB raised its 2015 inflation forecast and left growth projections largely unchanged
- The inflation forecast upgrade to 0.3% in 2015 followed publication of Eurozone data showing strong retail sales and another fall in unemployment across the region
- The single currency’s moves are helping to drive down the greenback. The dollar index, which measures the unit against a basket of its peers, is down 2.25% so far this year

Answer: In the spot market, trades are executed immediately, i.e. real time. In the futures market, which is a derivatives market, trades are agreed upon today but settled at later dates in the future.

3 June 2015

Question: For an investment of \$6.0m, Trisha can earn a \$2.0m at the end of the first year and \$5.0m at the end of the second year. What is Trisha’s return (IRR) on the investment (must complete by hand showing all work)?

IMF warns of damage caused by needless austerity policies – Pg. 3

- Governments that face lower risks of a sovereign debt crisis are needlessly damaging their economies if they impose harsh austerity programmes simply to pay back creditors more quickly, ...
- The study comes as high-income countries debate how to reduce high levels of government debt accumulated as a result of the crisis. Public debts in advanced economies have risen, on average, from 53% of national output at the end of 2007 to almost 80% at the end of 2012

- ...for governments with a “safe” level of debt – including the UK, Germany and the US – the advantages of the extra insurance from cutting the national debt are relatively small, as investors will continue to lend cheaply

Bernanke blames Congress for China’s AIIB – Pg. 4

- Beijing was pushed into launching the Asian Infrastructure Investment Bank by US lawmakers’ refusal to give China greater clout in existing multilateral institutions, Ben Bernanke has said
- America’s legislature blocked a 2010 IMF agreement to shift 6% of quota – and voting rights – to emerging economies, which Mr Bernanke believes would have “better reflected the increasing role of China” and other nations
- The AIIB, which will be capitalized at \$100bn, now has 57 members, including most big European economies
- Mr Bernanke also said too much attention was being focused on the internationalization of the renminbi which was as much a matter of “national prestige” as of practical economic value. In reality, he said, the Chinese currency’s share of global reserves was “very tiny”, and even its share of trade settlement was “modest”

British Land taps convertible bond demand – Pg. 18

- Global sales of hybrid bonds, which include convertible bonds among others, is running at a pace not seen in seven years since 2008, with \$95bn sold this year, up from \$51bn in 2010
- As investors look to ride the boom in convertibles, they have also pumped money into exchange traded funds that track the asset class, at a record pace
- The market for convertible bonds has been boosted by rising equity prices, and monetary easing by global central banks has helped fuel powerful stock market rallies since the financial crisis
- Global equity markets have touched new record highs this year from the US S&P500, to Germany’s DAX Index, which has in turn supported the resurgence in convertible bond issuance
- British Land said it would pay a coupon of between 0% and 0.5%, which is extremely low even in the current low yield environment

Answer: 9.00%

2 June 2015

Question: How many Libors are there?

US dealmaking smashes records set in dotcom and debt booms – Pg. 1

- The overall value of deals in US bound mergers and acquisitions activity amounted to \$243bn in May compared to \$226bn during the same month in 2007 and \$213bn in January 2000, ...
- The M&A boom has come amid a borrowing binge by US companies, as treasurers lock in cheap, longer-term funding ahead of an expected interest rate rise by the Federal Reserve

- Average company bond yields have halved since 2007 to about 3% in the US, and there has been more than \$100bn of corporate bond issuance every month for the past four months - ...
- Global issuance of collateralized loan obligations – bundles of loans made poorly-rated companies that are sold in slices to investors -
- Any Fed moves to increase interest rates could dent the plans of corporate dealmakers, however, and hurt some of the riskier companies laden with buyout debt. S&P's predicted that its gauge of defaults for lowly-rated companies would rise from 1.8% in March to 2.8% by March 2016

Growth too slow for rate rise, says Boston Fed chief – Pg. 4

- New estimates of GDP on Friday showed the US economy shrank at an annual rate of 0.7% in the first quarter of 2015
- In each of the previous tightening cycles real GDP growth in the US had been above 3%...
- Among the problems he saw....was the fact that private consumption had not yet returned to its pre-crisis levels. Scarred by the crisis, consumers were still saving more than before and it was not clear whether that was a short-term effect or marked a return to longer-term patterns

Banking turned on its head by negative rates – Pg. 7

- Stashing cash in secret vaults is the sort of activity usually associated with criminals
- The reason is that they are fed up with having to pay banks simply to park their money in regular accounts and are considering making mass withdrawals,
- Welcome to the Alice in Wonderland world of negative interest rates, a topsy-turvy universe where central bankers are so alarmed at the prospect of weak inflation that they have cut borrowing costs below zero, in effect charging financial institutions to leave their accounts in the black
- The ECB last June became the first large central bank to head down the rabbit hole and now imposes a levy of 0.2% a year on deposits that Eurozone banks park in its coffers

UK Housing – Pg. 9

- The problem is acute: the average UK home now costs a first-time buyer five times their income, up from 2.8 times in the early 1980s. That has in turn fuelled demand for rented accommodations, pushing up the costs and eating up increasing amounts of state subsidy
- Social landlords build around a fifth of Britain's new homes, and more than half of their incomes comes from housing benefits
- Around a third of households in any developed economy need some form of financial help with their housing costs
- In 1975 more than 80% of UK government involvement in housing was focused on increasing supply – building new homes. But by 2000 the vast majority of Britain's housing market subsidies went towards supporting demand, rather than supply....

Rate rigging was common practice, Libor trial hears – Pg. 19

Answer: 35: 5 currencies and 7 maturities

1 June 2015

Question: What is contributed capital on a balance sheet?

US security agency faces loss of electronic spying tools – Pg. 4

- The US Congress has struggled to pass legislation to ensure the NSA can continue to access the phone records of millions of Americans after a court ruled that the existing programme – exposed by the NSA whistleblower Edward Snowden – was illegal
- Mr Obama has stepped up pressure on Congress to pass legislation before the May 31 midnight deadline,
- The House of Representatives has passed the so-called USA Freedom Act, which would permit some of the spying powers contained in the soon-to-expire Patriot Act that was passed in the wake of the 2001 terrorist attacks
- Two other programmes are at risk. One involves the ability to track “lone wolf” terrorism suspects, while the other allows the NSA to monitor calls from people who frequently discard mobile phones

New rules and fines prompt US banks’ retreat from \$9.8tn home loan sector – Pg. 15

- Non-bank lenders have overtaken US banks to grab a record slice of government-backed mortgages, after regulatory curbs on risk-taking and billions of dollars in fines forced mainstream providers to retreat from the \$9.8tn home loan market
- So-called shadow banks such as Quicken Loans, PHH and LoanDepot.com accounted for 53% of government-backed mortgages originated in April – almost double their share in April 2013
- Shadow banks perform bank-like functions, such as lending, but are subject to lighter supervision because they are funded by professional investors rather than retail depositors protected by the government insurance schemes

Stealth pays off for Wells Fargo – Pg. 18

- Wells Fargo is quietly building the biggest investment bank no one has ever heard of
- ...top 10 investment banking fee-earners for the first time...
- In the years after Wells bought Wachovia in early 2009 – a deal that transformed the size of its investment bank – much of the growth came as a result of hiring

US fund managers fight back against claims by regulators that they pose a systemic risk – Pg. 19

- Fund managers argue that they do not pose systemic dangers to financial stability because they do not take deposits, guarantee returns or face the risk of sudden failure like a bank

Endowments desert private equity – Pg. SF1

- US endowments with more than \$1bn in assets but their allocation to 12% in 2014, from 15% a year earlier,...

- Private equity houses bought companies for an average enterprise value of 10 times their earnings before interest, tax, depreciation and amortization last year

Answer: Reflects funds invested by shareholders for ownership interest.

30 May 2015

Question: How many assets does it typically take to fully diversify a portfolio?

Strong dollar and weather take toll on US recovery – Pg. 3

- The US economy contracted in the first three months of this year, ...
- The commerce department said the economy shrank 0.7% on an annualized basis in the first quarter. That is much weaker than the 0.2% growth the first estimate showed
- It also highlights the effects a strong dollar has been having on the economy. A weaker performance from US exporters, as well as a slower stockpiling of inventories by companies than first estimated, was largely responsible for the downward revision
- Yesterday's revision showed that the pace of household spending dipped to 1.8% from an initial estimate of 1.9%. However, that is down sharply from the 4.4% rate in the final quarter of 2014
- ...Canada's GDP shrank by 0.6% at an annualized rate during the first three months of the year, against forecasts for a small rise of 0.3%, as weaker oil prices had a more severe impact than expected

Brazilians cut back as high inflation and job losses bite – Pg. 3

- Brazilian families have cut annual spending for the first time in more than a decade as a combination of high inflation and rising unemployment begin to hit the country's economy
- Household consumption fell 0.9% in the first quarter from the year-before period – the first annual decline since the third quarter of 2003, ...
- Consumers have driven growth
- Overall, Brazil's economy contracted 0.2% in the first quarter from the previous one – a better than expected headline number, but largely because of a 4.7% growth in agriculture and higher exports, aided by a weaker currency

Answer: Rough number....30

29 May 2015

Question: What is the size of the residential mortgage market in the U.S.?

Unrepentant Fuld blames Washington for Lehman collapse and global crisis – Pg. 1

- ...even after almost seven years, there is still ill-will to the Lehman boss, particularly from employees – some whom saw their life-savings wiped out in the largest bankruptcy in US history

- Mr Fuld showed no sign of contrition over the demise of the bank, which he led from 1994. The crisis was “a perfect storm...” he said, “but it starts with the government.”
- It paved the way for unsuitable borrowers to buy homes, caused an interest rate shock and then unfairly “mandated” the bankruptcy of Lehman while saving competitors
- He insisted Lehman was still solvent when it placed into bankruptcy, citing the bank’s \$28bn of equity capital, a capital ratio of 11% and unencumbered collateral of \$127bn

Manhattan’s towering glory struggles for tenants – Pg. 2

- A few months after the property developer Larry Silverstein bought the least to New York’s Twin Towers in 2001, his \$3.2bn investment was reduced to rubble by al-Qaeda’s 9/11 attack
- This week, the observation deck atop the 1,776ft One World Trade Center – the tallest building in the western hemisphere – will open to the public
- More than a third of One World Trade Center’s office space remains empty six months after it was opened
- Big banks and financial services companies took up more than half the space in old World Trade Center, but having moved elsewhere after the 2001 attacks, few are being lured back
- Space at One World Trade Center runs from \$69 per sf to \$100 for the upper levels. Even though tenants are offered tax incentives for moving to the trade centre, which give a discount of \$6-\$8 per sf, rents there are still well above the average \$55 per sf for downtown
- This higher rent is partly because of the its price tag. At \$3.9bn, One World Trade Center is one fo the most expensive buildings ever constructed
- The other planned towers have a similar dilemma: 3 World Trade Center is priced at about \$2.5bn, 4 World trade Center about \$1.9bn, and 7 World Trade Center about \$700m, while 2 World Trade Center is on hold until tenants can be secured

Low growth and Fed fears hit investment in emerging markets – Pg. 2

- Capital flows to emerging markets will fall to their lowest level since 2009 this year, hit by disappointing economic growth in many Ems and by the prospect of rising US interest rates, ...

China stocks in dramatic plunge – Pg. 11

- This year’s stunning rise in Chinese share prices experienced a dramatic shift in fortune yesterday, with the Shanghai market recording one of its steepest declines in 15 years
- The Shanghai market...tumbling 6.5%, which was the 10th largest in the past 15 years

Derivatives rules squeeze building societies – Pg. 18

- Tougher derivatives regulations are threatening to make it harder for UK building societies to provide fixed-rate mortgages to home buyers
- Building societies account for about 20% of the 1.3tn (sterling) mortgages in the UK. About two-thirds of that is fixed rate...

- Building societies tend to fund fixed-rate mortgages for up to five years by using savings and deposits. This funding model creates an interest rate mismatch because they receive fixed rates on mortgages and pay out variable rate on their other products
- In the event of rising interest rates, a building society receives less income as payments from mortgages remain fixed while they pay savers more

Answer: \$10.0tn

28 May 2015

Question: Why is the NPV function, i.e. “=NPV()”, in excel incorrect?

BoJ accounts reveal anxiety over effect of QE exit – Pg. 6

- According to its annual accounts, the BoJ is keeping 25% of last year’s profit as capital, instead of the legally required 5%. Last year it withheld 20%
- The BoJ kept 25% and paid the rest to the government
- When interest rates rise, central banks such as the US Federal Reserve may suffer losses on bonds they bought to stimulate the economy at a time when interest rates were low
- The Fed earned eight times as much from a balance sheet of similar size because it bought securities at higher interest rates
- If the BoJ was to raise interest rates from zero to 3% - consistent with success in hitting its 2% inflation target – it would likely to suffer several trillion yen a year in operating losses

Germany outpaces US in economic ‘wellbeing’ index – Pg. 6

- In China, rapid economic growth is being hindered by pollution and other factors and translating only slowly into broader economic “wellbeing” while in India, Asia’s new growth champion, progress has been even slower
- The US comes in at number 17 “primarily because of its weak showing in income equality”
- Despite the longstanding view that the US is a land of opportunity it turns out, that it is below average in its ability to convert both wealth and growth into a broader well-being

Buybacks and dividends set to top \$1tn – Pg. 22

- US companies are bolstering their earnings as the share buyback boom shows little sign of ending
- US companies are sitting on huge cash piles and the subsequent lackluster economic recovery has made them reluctant to spend on expanding operations. IN turn, they have directed money to buybacks and dividends with pressure from activist shareholders advancing the trend
- The scale of repurchases is bolstering earnings: one in five S&P 500 companies has raised earnings by at least 4% for each of the past five quarters...
- Share buybacks offset options granted to employees, but companies in recent years have also bought back more than they need to protect earnings. While repurchases can boost earnings per share, they do not represent an increase in the profitability of the business – the same essential level of profits is just split among fewer shares

- Much of the money for dividends and buybacks has come from cash reserves bloated by fatter profit margins thanks to cost-cutting, but many companies have turned to bond markets to raise money cheaply for equity investors

Inadequate nest eggs prompt fears of a crisis – Pg. SR1 – 3

- The Federal Reserve's Survey of Consumer Finances shows that those aged 55 to 64 with retirement savings reported a median sum of \$103,200 in 2013. That could provide less than \$400 a month for retirees at today's longevity rates,...
- ...more than half of working-age households will not have saved enough to maintain living standards

Answer: It discounted to $T = -1$ (minus one, i.e. one period prior)

27 May 2015

Question: What is Roger's latest travel story?

IMF makes significant shift with vote of confidence in renminbi – Pg. 1

- The IMF has declared that China's currency is "no longer undervalued", marking a significant shift after more than a decade of criticism of Beijing's tight management of the renminbi
- The move amounts to a big vote of confidence in Beijing and the renminbi at a critical time. It also puts the IMF at odds with the biggest shareholder, the US, which insists that China continues to draw an unfair trade advantage from a renminbi that it considers "significantly undervalued"
- China has publicly expressed its desire for the renminbi to join the dollar, yen, euro, and pound sterling in the SDR basket – a move that would see it recognized as an official reserve currency

Consumers keep fuel savings securely in their pockets – Pg. 2

- After rebounding at the end of 2014, retail sales in the world's richest economies have fallen on a monthly basis in the first three months of this year
- A separate factor hitting the rebound of consumption in the rich world has been uncertainty over the strength of the recovery coupled with the high levels of debt.
- In the US, over the most recent quarter, the saving rate of Americans rose by 0.9%, an unusually large increase. Households may have held back because of weak wage growth, coupled with worries that the energy price drop will reverse
- Real disposable income has risen 4% nationally over the past four quarters....

Recovery in US urban economies reveals patchwork of fortunes since recession – Pg. 4

- Nearly half of the biggest US metropolitan areas have yet to recoup all the jobs lost from the Great Recession and almost a third have failed to return to previous levels of output, ...
- Economic activity across the US is nearly 10% above its pre-recession peak and employment is 3.8m higher

- The recession was initially most devastating in real estate and financially focused parts of the US, whereas areas with large government, higher education or health sectors were better insulated
- Ms Yellen argued last week that the housing blight is set to fade, pointing out that the share of mortgages that are underwater has fallen by a half nationally between 2011 and 2014

Central bankers pray for a US dollar rebound – Pg. 18

- Many central banks around the world are watching whether the US dollar can regain momentum and help stimulate their slowing economies via a powerful stimulus tool – currency depreciation
- More than ever countries are relying on weaker currencies to boost their growth prospects in the low global interest rate environment
- Norway, Canada, Australia and New Zealand are among countries whose central banks are on a path of monetary easing but would prefer a stronger US dollar to help avert slowing economic activity
- Signs of a more dynamic US economy came last week with favourable housing and inflation data

Fed eyes controls before beginning its descent – Pg. 20

- Allowing assets to roll off automatically as they mature could lead to a jagged path of balance-sheet reduction. A third of the Fed's Treasury portfolio, about \$785bn, comes due by the end of 2018, ...
- Other analysts say the Fed should sell off assets to shrink its balance sheet more rapidly – a possibility discussed at the March meeting, at least for bonds maturity soon

Answer: Unbelievable...the plane lands and my duty free is in the overhead. I turn to get something, look back, and the duty free is gone. As the Deans at Hopkins and Georgetown can attest, I know how to throw a fit. A fit was thrown!!! The three young people removed their jacket (why they had a jacket in DC at this time of year is a mystery) and there was my duty free beneath their jacket. Of course they apologized as they "did not know it was mine". Oh pullleeezzzz...I will bring a bag label in the future and label my duty free! Thieves!!!

26 May 2015

Question: Where is Bacardi Rum distilled?

Asia overtakes Europe as hub for billionaires while US stays top of the pile – Pg. 2

- The overwhelming majority of billionaires lived in the US and Europe until 1980, with a minority of entrepreneurs creating their own wealth
- But the US and Asia have become the main centres of great wealth creation over the past decade, with Europe "faring less well"
- Some 47% of self-made billionaires were resident in the US in 2014, compared with 36% in Asia. Europe sits in third place with 17% of the self-made billionaire population

- Entrepreneurs in the US have amassed their fortunes by driving the global revolution in finance and technology, while Asia's tycoons have spurred the region's industrial and consumer sector growth
- In the US, the financial services sector is the dominant source of new fortune, spawning 30% of self-made billionaires in the country since 1995

Brazil's currency woes and worsening recession deal blow to growth hopes – Pg. 6

- Brazil's economy is expected to contract by nearly one-quarter this year in dollar terms due to a depreciating currency and a deepening recession,...
- Brazil's economy is facing a hangover with the end of the commodities supercycle and government efforts to prolong consumption and credit-led boom
- Much of the expected fall in Brazil's economy in dollar terms this year is due to a projected depreciation of about 21% in the real against the dollar...
- Brazil's real was the worst performing significant emerging market currency after Turkey's lira....
- ...Brazil's economy would contract by 1.2% this year in local currency terms compared with a year earlier, which would be its worst performance in 25 years
- The central bank, meanwhile, is increasing interest rates to try to quell inflation, which has breached the top of its range of 4.5%, plus or minus 2%. The planning ministry estimates inflation will end the year at 8.26%

The Waiting game – Pg. 9

- Even as manufacturers adopt automation as part of their fightback against offshoring to Asia, productivity growth across the economy is at a near-standstill
- Economists are increasingly alarmed because slower improvements in efficiency will lead to a fall-off in living standards and less-solid public finances
- In the medium term, productivity growth is the most important driver of prosperity
- Janet Yellen, the Federal Reserve chair, raised America's "relatively weak" productivity in a speech last week and urged new measures to strengthen education, boost entrepreneurship and lift capital investment
- In the US, the most efficient of the major economies, productivity growth began to ebb in 2005.

Answer: 80.0% Puerto Rico, 20.0% Mexico

25 May 2015

Question: What is the population of Puerto Rico?

Greece warns IMF of repayment default unless bailout deal is done – Pg. 1

- Greece has again threatened to default on 1.6bn (sterling) in loan repayments to the IMF in June without a bailout deal with its creditors
- The government has ruled out a domestic default on payments to Greece's 2.9m pensioners and 600,000 public sector workers, saying they have first claim on its shrinking resources

Emerging markets braced for Fed rate rise – Pg. 4

- The timing of this momentous event remains uncertain, and disappointing data since the start of the year has made US monetary policy makers more cautious than they were just a few months ago. However, Janet Yellen, remains confident the economy will strengthen and rates are likely to go up this year
- ...economists believe a rate rise is bound to provoke large capital outflows away from Latin America and Asia
- Their first line of defence includes interest rates, which central bankers can increase to persuade investors to stay put rather than moving their money to the US
- The scope for monetary tightening differs across emerging markets: most oil consumers, such as India, have cut interest rates in the past few months, as lower energy prices have pushed down inflation. Meanwhile, other countries such as Brazil have had to increase borrowing costs in a response to soaring inflation
- Since the Asian financial crisis in the late 1990s, emerging markets have cumulated large war chests of reserves, which now amount to \$7.74tn....central banks stand ready to reply them, as they did at the height of the global financial crisis
- Economists are skeptical that using foreign reserves to buy domestic currency during a sharp sell-off can do much to stop a rout. Investors know that the central bank only has so much foreign currency it can use, and can test this limit by continuing to sell and thus put policy makers under pressure
- A more dramatic step would be to introduce capital controls, which limit the ability of foreign investors to pull out their money during a crisis. These measures have been frowned upon by internal organizations, but have acquired greater legitimacy since the IMF became more open to their use in 2012

Banks' fitness to run pensions disputed after forex penalties – Pg. 15

- Banks facing enforcement actions often need exemptions from regulatory agencies to engage in certain activities, such as raising capital or advising pension funds, and those waivers are often granted

Shadow banks urge easing of loan caps – Pg. 16

- Since the financial crisis, regulators have made it more difficult for the biggest banks to hold loans to the most debt-laden companies, pushing much of this activity into tax-free investment vehicles known as business development companies (BDCs)
-support to small and midsized companies – the engine of the US economy – could be even stronger, if regulators changed decades old rules requiring them to hold \$1 in equity for every \$1 they borrow. A new bill, due to be presented to Congress in coming weeks, would allow BDC to borrow up to \$2 for every \$1 of equity

Answer: \$3.5m

23 May 2015

Question: What are the four dimensions of money, according to Roger?

China boosts US economy with 80,000 full-time jobs – Pg. 2

- Chinese investments now support about 80,000 full-time jobs in the US, a fivefold increase in the past five years and an apparent reversal following decades of American complaints over manufacturing jobs being outsourced to China
- The study predicts Chinese investment in the US could increase to between \$100bn and \$200bn by 2020, creating 200,000 – 400,000 jobs
- But the report found many investments saved target companies from bankruptcy, most acquisitions led to expansion and examples of downsizing were rare. It also found a significant acceleration in Chinese investments in US manufacturing and service sector projects in the past 18 months
- The current level of Chinese direct investment in the US is roughly on par with that of Japanese companies in the 1980s, ...

Yellen points to rate rise this year if recovery continues – Pg. 2

- The US economy is likely to strengthen following a first-quarter setback that was heavily influenced by fleeting factors such as bad weather, ...
- ...given the lags involved in setting monetary policy, the Fed could not afford to delay tightening until employment and inflation were back at its objectives, given the risk of the economy overheating
- ...households' real disposable income had risen almost 4% in the past four quarters, ...
- Housing sector activity was likely to improve only gradually given the lasting impact of the downturn, while businesses were still proving reluctant to invest given many had not had sufficient confidence in the “strength and durability of the recovery”
- One longer-term worry, however, was weak productivity data

Dollar gains led by fresh rate expectations – Pg. 11

- The dollar made progress yesterday, ending a strong week on a high after stronger than expected inflation data reinforced prospects for a rate rise this year by the US Federal Reserve
- Core inflation in the US, which strips out volatile energy and food prices, rose to an annual 1.8% in April, from 1.7% in March, prompting a rise in Treasury yields as prices fell, while the dollar erased earlier losses to climb 0.9%, as measured against a basket of its chief rivals
- The single currency was down 3.8% against the dollar over the week, at \$1.1016 and lost 2.3% versus sterling...

Answer: (1) Magnitude (Quantity), (2) Direction (timing), (3) Colour (currency), and (4) Location

22 May 2015

Question: The categories on a balance sheet are ordered according to what?

Saudi kingdom built on oil envisages ending the use of fossil fuels by 2050 – Pg. 1

- The statement represents a stunning admission by a nation whose wealth, power and outsize influence are predicated on its vast reserves of oil
- ...the kingdom planned to become a “global power in solar and wind energy” and could start exporting electricity instead of fossil fuels in coming years
- Saudi Arabia has long said it plans to use more renewable power

Russian economy will bounce back, says IMF – Pg. 4

- The Russian economy is set to contract by 3.4% this year but will rebound in 2016,...
- The fund said it expected Russian inflation to fall from its current level of around 16% to 12.5% by the end of the year

Demand for assets loads up infrastructure risks – Pg. 20

- Capital is flowing from the world’s pension funds into the tarmac, concrete and metal of its roads, utilities and ports at an extraordinary rate, and it is putting an increasingly high premium on the steady long-term cash flow provided by these assets
- The weight of capital chasing assets is so great it is also reducing returns on infrastructure
- The biggest pension funds investing in infrastructure, based in Canada and Australia, often look for returns of 6 to 8%, in nominal terms...

European payouts set to gain ground on US – Pg. 22

- The widest gap between shareholder payouts in Europe and the US for 13 years may start closing say analysts as the culture of boosting dividends and buying back shares gains momentum among leading companies in the Eurozone
- Shareholders in US companies have benefited from aggressive monetary easing by the Federal Reserve
- US companies spent 52% of cash flows on direct shareholder payouts during 2014, with 28% allocated to buybacks and 24% devoted to dividends

Answer: liquidity

21 May 2015

Question: Name four sources of Financial Statement information?

Six big banks fined \$5.6bn over rigging of forex markets – Pg. 1

- ...FBI said involved criminality “on a massive scale” (Prof Note: ...but yet the shareholders are held responsible. Who is going to jail?)
- Four of the banks agreed to plead guilty to conspiring to fix prices and rig bids in the \$5.3tn-a-day forex market, in what they hope will draw a line under one of the biggest cases of misconduct in banking since the global financial crisis
- The revelation that traders colluded to move around currency exchange rates was particularly embarrassing for the banks because it occurred after they had paid billions of dollars to settle claims that their traders had tried to rig LIBOR

Prospects of near-future rate rise recede as recovery doubts grow at Fed – Pg. 1

- Doubts about the strength of the US recovery appeared to grow among Federal Reserve policy makers in their latest rate-setting meeting as soggy economic data further reduced the prospect of a rate rise in the near future
- The Fed this year dropped its pledge to be “patient” before raising rates, shifting to a new footing where it can tighten policy as soon as it decides the economic outlook is strong enough to justify a raise
- The key question now confronting the central bank is how much of that slowdown reflects anomalous factors such as a port strike and bad weather, and whether a sharp rebound is in the offing

British poverty rate below EU average – Pg. 2

- Britons are more likely to enter and then escape poverty than most other Europeans...
- Almost a third of the British population – more than 19m people – dipped below the poverty line for at least one year at some point between 2010 and 2013. The figure was higher than the 25% average across the EU as a whole and was exceeded only by Greece and Latvia
- Poverty is defined as living in a household with disposable income below 60% of the national median, while persistent poverty is defined as being poor in the current year and at least two of the three preceding years

State investors bulk up on real estate – Pg. 20

- Since the global financial crisis, monetary policy makers have driven borrowing costs to historic lows, but their actions have made it harder for those in public sector dealing rooms to generate returns on assets they manage
- A positive balance of global public investors expected to increase their allocations to fixed income assets

Muni alarm sounds as pensions are put first – Pg. 20

- Chicago, the third-largest city, became a junk-rated issuer last week when Moody’s cut its credit ratings on concerns about unfunded pension liabilities
- Puerto Rico’s pension is funded at just 5%
- Governments have been poor managers of their pensions for some time, but the financial crisis and ensuing recession lifted the veil on chronic underfunding and rosy return expectations
- Pensions are governed by state law, so the reception to change varies

Answer: Annual Report, 10Q, 10K, 8K

20 May 2015

Question: The two types of risks of concern for a portfolio manager are?

Wall St eyes revival of tool blamed for stoking crisis – Pg. 1

- Wall Street is focusing efforts on building up single name credit default swaps, a derivatives contract that tracks the risk of a default by a company that sells bonds
- The demise of CDS has exacerbated the liquidity drought across the broad credit market and dealers argue that a liquid derivative alternative will benefit the buying and selling of corporate debt
- Efforts to limit bond market volatility, characterized by the “taper tantrum” in 2013, have focused on improving the ease of buying and selling corporate bonds in the market
- ...fixed income trading remains challenging, driven by banks retreating from their customary role as middle men in bond and credit derivative transactions, due to tougher capital rules
- Less liquid debt markets have results in large money managers sometimes finding it difficult to buy a particular bond they want to own. A credit derivative contract provides an alternative method for gaining exposure to a particular company, without having to own its bonds

China hit by record rate of capital outflows – Pg. 2

- Capital is flowing out of china at a record pace, sparking fears over financial stability and complicating efforts by the central bank to support a slowing economy with lower interest rates
- As falling commodity prices slashed the country’s import bill, it recorded a \$79bn current account surplus – the largest in nearly five years

Osborne sees good news in deflation’s return to UK after 55 years – Pg. 3

- The UK has slipped into deflation for the first time in more than half a century,...
- Prices fell by 0.1% in the year to April, a record monthly low for the consumer price index created in 1996. The best comparable data suggest this is the lowest UK inflation reading since 1960
- UK households have suffered from falling real wages over the past few years.
- The BoE and most economists expect inflation to remain close to zero over the summer before rising again at the end of the year, when the impact of lower oil prices starts to fall out of the year-on-year calculations

Answer: Unsystematic and Systematic

19 May 2015

Question: What is the Longest Highway in the world?

Oil slide puts more than \$100bn of projects on ice amid output fears – Pg. 1

- More than \$100bn of spending on new projects by the world’s energy companies has been slowed, postponed or axed following the oil price plunge, evidence of the drastic industry action that will curb output in coming years
- ...thousands lose their jobs and led to a slowdown in the US shale boom
- After reaching \$115 a barrel last June, the price of oil plummeted to a low of \$45 in January, as surging output of US shale oil and softening demand in Asia stoked a glut in the market

Financial chiefs urge action as instability fears rise – Pg. 2

- A group of leading financial executives has urged authorities around the world to bolster their crisis-busting arsenals amid fears that ultra-low interest rates have increased the risk of financial instability
- Macroprudential tools used to guard against dangers such as overvalued property assets, in theory reducing the need for authorities to raise interest rates to rein in investor exuberance. Among the most developed are counter-cyclical capital requirements on banks and caps on amount customers can borrow relative to their incomes
- This month, Janet Yellen, ...said that share prices were “quite high” and that there was a risk of a sharp jump in longer-term bond yields, while arguing that overall financial risks were contained

EU money funds look to corporate debt – Pg. 22

- European money market funds have increased their exposure to short-term corporate debt in a move that underlines a changing universe of supply and the ever more difficult hunt for yield
- Companies accounted for 14% of issuers in euro-denominated money market fund portfolios, at the end of the first quarter – more than twice the level of a year ago, ...
- Money market funds typically invest in highly rated debt that matures in up to 397 days. They aim to provide investors with liquidity – allowing them to withdraw funds easily – and modest returns, which have come under pressure as central bank rates and bond yields have turned negative
- The rise of corporate exposure in euro-denominated funds – which Fitch deemed “unusual” – is closely tied to a reduced supply of unsecured paper issued by financial institutions, which still accounts for most of the assets held in money market fund portfolios
- Extremely low borrowing costs – fuelled by large asset purchases by the ECB – have made it more attractive for companies to issue debt in the single currency

Answer: Trans-Canada Highway, approximately 4,860 miles (7,821 kilometers)

18 May 2015

Question: What new expression did I just learn in Canada which means, “prime location?”

Pledge to speed reforms as India grows confident of overtaking China – Pg. 1

- India is on track to overtake China with annual growth of more than 8% as the government starts its second year in power by speeding up plans for economic reform and pledging to resolve tax disputes with investors, ...

Asia drives investment surge by emerging economies – Pg. 4

- Foreign direct investment by emerging economies surged almost a third last year as companies sought opportunities abroad to make up for slowing domestic growth...
- ...emerging economies are becoming rivals to the US and Europe as a source of investment

- The surge was driven almost entirely by Asian investors, ...
- China was second only to the US in the national league tables for foreign direct investment...

Saudi oil sales to US at post-crisis lows – Pg. 11

- ...highlighting the shale boom and fast-growing imports from Canada
- The US has bought an average of less than 1m barrels a day of Saudi crude over the past year, weekly and monthly US government data show
- The kingdom has been compensating for the sales dip by accelerating its pivot to Asia, as China vies with the US as one of the biggest buyers of Saudi crude,
- As recently as 2013, the US imported an average of more than 1.5m b/d
- ...rising imports from Canada appear to be the other driving force behind the need to bring in less crude from the Middle East
- Saudi Arabia remains the second biggest oil exporter to the US after Canada, and owns stakes in refineries and petrochemical plants in the country

Securitization industry attacks disclosure plan – Pg. 12

- Europe's struggling securitization industry has voiced frustration over new regulatory recommendations, in the latest sign of the market's difficulties in the wake of the financial crisis
- The global industry faced an existential crisis in the aftermath of the financial crisis of 2007, in which US subprime mortgage-backed securities played a significant role. But while the US market, which is larger, has recovered, the market for European asset-backed securities remains weak

Answer: "Centre Ice", i.e. I want a table that is 'center ice'

16 May 2015

Question: When did O'Canada officially become the national anthem for Canada?

China orders banks to keep lending to insolvent provincial projects – Pg. 1

- It explicitly banned financial institutions from cutting off or delaying funding to any local government project started before the end of last years and said any projects that were unable to repay existing loans should have their debt renegotiated and extended
- Analysts point out that almost every economy in history which has seen a debt build-up that rapid has experienced a financial or growth crisis

California's economy roars back as deficit vanishes – Pg. 4

- The road to recovery for the US's most populous state has been paved by an influx of tax revenue, thanks to a levy on the wealthy that Mr Brown backed in 2012 and years of spending cuts
- S&P's, Moody's and Fitch all upgraded the state's credit ratings in the past year
- Personal income growth will exceed the rest of the country to the end of 2017, ...

Relief follows easing of US profit fears – Pg. 11

- Fears that profits at the largest US publicly traded companies retreated significantly during the first half have eased, after a string of better than expected results, including from groups in an energy sector hit by the oil price rout
- For S&P 500 companies, blended earnings – a measure of quarterly results already announced and projections for the 40 or so in the coming months – are set to grow 0.2% in the quarter from a year earlier, compared with projections at the beginning of April for a fall of as much as 4.8%...
- Revenues, meanwhile, were lackluster and are expected to deteriorate in the second quarter,
- A so-called profit recession, in which earnings fall for two consecutive quarters, has also not been ruled out

Answer: 1980

15 May 2015

Question: Where was the soundtrack for Rudolph the Red Nosed Reindeer recorded?

Draghi warns central banks against ‘blind’ risk-taking – Pg. 1

- Central banks have faced criticism that their response to the financial crisis is stoking asset-price bubbles and increasing inequality
- Mr Draghi argued that while the impact of QE on asset prices and economic confidence has been substantial, what ultimately mattered was what happened to investment, consumption and inflation in the Eurozone
- There was no inflation in the Eurozone in the year to April 2015. The ECB targets a level of below but close to 2%

Democrats warn of return to lax bank lending – Pg. 2

- The debate centres on a category of loans called “qualified mortgages”, which protect lenders from lawsuits in the event of a default as long as the loan meets criteria meant to ensure the borrower’s ability to pay
- ...the bill would remove a debt-to-income requirement, which means loans are only eligible for qualified mortgage status if the borrower’s debt expenses add up to less than 43% of monthly income

Asean’s big three hit by shopping slowdown – Pg. 4

- Household debt, sluggish wage rises and political uncertainties are dragging on spending growth in Thailand, Indonesia and Malaysia
- Indonesia’s economy, Asean’s largest by far, slowed to its lowest pace of annual growth in more than five years in the first quarter of this year, driven in part by a fall in government spending and flat consumer demand

- Thailand, the region's second-biggest economy, has seen consumer confidence steadily decline alongside rising household debt. Malaysia, number three in Asean, has recorded weak manufacturing wage growth and credit card spending
- One big drag on consumer spending is rising household debt in countries such as Thailand and Malaysia

Sale of 30-year US Treasuries disappoints – Pg. 18

- Rising expectations of inflation have helped drive the yield on 30-year US government bonds back from below 2.50% at the start of April
- The 30-year debt was priced at a yield of 3.044%, slightly higher than the 3.023 expected by primary dealers
- One factor weighing on the Treasuries could be the heavy issuance of longer-dated corporate debt

Answer: Toronto, Canada

14 May 2015

Question: What is the population of Canada?

Saudi Arabia sees success in fight to retain dominance of global oil – Pg. 1

- The kingdom's production rose to a record high of 10.3m barrels a day in April and there is no sign that it plans to reverse its policy at next month's meeting of Opec,...
- ...the Saudi official said he expected the kingdom to maintain its dominance of global energy, despite the growth of alternatives to fossil fuels and competition from rival oil producers within Opec and beyond

Economies in emerging markets slow to levels not seen since aftermath of financial crisis – Pg. 3

- Growth in emerging markets has fallen to its slowest pace in six years, returning to levels not seen since the aftermath of the global financial crisis, ...
- ...gdp across emerging markets fell to 1.6% in the three months to the end of April compared with the previous three months, down from 1.9% in the three months to March
- The downturn was strongest in Latin America, led by negative growth in Brazil. The pace of GDP growth was strongest in emerging Asia, although there, too, the IIF's indicator suggested the pace had slowed sharply

First-quarter data deepen conundrum for the Fed – Pg. 4

- The US economy grew a meagre 0.2% in the first three months of the year, confounding analyst forecasts for an annualized expansion of 1% and making a June rate increase by the Fed appear less likely
- But the regularity of first-quarter slowdowns in recent years has raised questions over how good a job the seasonal adjustments are doing. From 2010 to 2015 growth in the first-quarter GDP has averaged only 0.6% as against an average 2.9% in the remaining quarters

Banks still struggling with finance ethics – Pg. 13

- Nearly half of the world's biggest financial institutions are still not doing enough at board level to address risk management and bonuses, even as regulators clamp down
- ...the UK, which has introduced a criminal offence of recklessly mismanaging a bank in an attempt to hold the highest echelons of management to account, has some of the toughest laws on remuneration in the world

'Fragile five' currencies down to three or four – Pg. 20

- The sell-off in Asian currencies this week was a reminder of the nervous agitation among investors in emerging markets, driven by uncertainty over the timing of US Federal Reserve interest rate rises
- Among the fragile five, India's current account deficit is smaller than its sustainable level, while Indonesia's is very close. But Brazil, South Africa and Turkey are running deficits far beyond their sustainable levels

Answer: 32,000,000

13 May 2015

Question: How many oceans border Canada?

Cash-starved Athens forced to raid IMF reserves for loan payment to – the IMF – Pg. 1

- Athens drew 650m (euro) from its holdings of the IMF's Special Drawing Rights to make the loan payment and also give it room to disburse nearly 1bn (euro) today to pay public sector salaries
- Like very IMF member, Greece is allocated a stock of SDRs – the IMF's own notional currency – but they are rarely tapped
- Although IMF members are allowed to use the account at their own discretion, it is highly unusual to use the funds to repay the IMF itself
- Members are required to pay a nominal interest rate to the IMF on the gap between their actual SDR holdings and their allocation, making this week's move by Athens the equivalent of taking out a low-interest loan from the fund to pay off another

IMF warns on growing role of financial sectors – Pg. 4

- The role of the financial sector in the US, Japan and other advanced economies has grown too big, the IMF has warned
- A study by IMF economists found that emerging economies need to learn lessons of the 2008 global financial crisis and avoid allowing their banking systems and financial markets to grow faster than regulators can keep up with
- The study found that economies such as Ireland, Japan and the US have already crossed a line when financial sector expansion started to have a smaller impact on growth that turned negative

Move to lift bank 'Sifi' threshold to \$500bn – Pg. 13

- ...the threshold for banks to be designated “systemically important” would be raised significantly from \$50bn to \$500bn
- ...the Fed would retain the right to apply its enhanced supervision to banks between \$50bn and \$500bn in assets

Answer: Three (3)

12 May 2015

Question: When was the FDIC created?

Beijing ponders real-economy conundrum – Pg. 4

- China’s third interest rate cut in six months signaled the central bank’s commitment to pushing back against deflation and its impact on real borrowing costs
- But what is less clear to analysts is the extent to which lower rates – and a host of other easing measures – can solve the conundrum that has bedeviled many a central bank: how to ensure looser monetary policy translates into a greater flow of funds into the real economy

Five banks set to pay more than \$6bn to settle forex manipulation claims – Pg. 13

- The highest fines will be borne by the UK’s Barclays, which is expected to pay about 2bn (sterling)
- Subsidiaries for the banks are likely to plead guilty to US criminal charges, ...
- ...”implications” for 2012 deals struck by UBS and Barclays that allowed them to avoid prosecution for manipulating the Libor benchmark interest rate

Sterling climbs on rising inflation risk – Pg. 20

- The pound climbed above \$1.56 after the BoE’s Monetary Policy Committee meeting as traders anticipated stronger warnings about investor complacency over inflation
- The BoE, as expected, kept official borrowing rates at 0.5% at its monthly meeting, held over the general election, and attention shifted to its quarterly inflation report due tomorrow after the release of data on industrial output and the labour market
- Market expectations for inflation over the next decade climbed to their highest level since December yesterday, and at 2.75% have risen from January’s low of 2.28%

Eurozone exchange traded funds top \$500bn – Pg. 20

- The total assets of European ETFs rose to \$511bn at the end of April...
- Investor’s loss of confidence in the powerful support mechanism of central bank bond purchases, however, has abated, suggesting that many see the weakening in asset prices as a buying opportunity

Answer: 1933

11 May 2015

Question: What is the greatest adversity you have ever faced and how did you overcome it?

US companies hoard \$1.7tn in cash but tap debt markets to fund M&A – Pg. 1

- Apple, Microsoft, Google, Pfizer and Cisco are sitting on \$439bn of cash – accounting for more than a quarter of the \$1.73tn being held by US groups, ...
- ...4% growth in the cash on corporate balance sheets of the companies it covers, excluding the financial sector, over the past year
- Moody's estimated that 64% of the cash, or roughly \$1.1tn, was held overseas, up from \$950bn, or 57% a year ago
- Cheap borrowing costs have kept companies from dipping into foreign cash, as executives seek to avoid a tax bill on profits earned abroad

Transparency bill risks hobbling Fed – Pg. 2

- The Federal Reserve's ability to give emergency loans to distressed institutions during a crisis would be restricted under legislation being prepared by lawmakers who want to stop "backdoor bailouts"
- The proposed new law – a striking challenge to the Fed from a bipartisan pair of senators – will reignite debate over whether the US succeeded in ending banks "too big to fail" status with its response to the financial crisis
- The Fed contained panic during the crisis by offering emergency loans to institutions facing liquidity crunches. But after the meltdown, Congress introduced the Dodd-Frank Act that outlawed the bailout of individual insolvent companies while preserving Fed powers to provide liquidity to sectors
- It also regulators powers to manage the orderly winding down of big financial institutions that are insolvent and threaten financial stability
- The new bill is rooted in concern among some lawmakers that the Fed is defying the law's intent. They say its proposed implementation plan would neither curb its lending powers nor eliminate the moral hazard created by the promise of government aid
- The Fed is anxious to avoid further restrictions on its emergency lending powers, which derive from section 13 (3) of the Federal Reserve Act
- The draft bill includes three key provisions, ...
- One broadens the definition of "insolvency" used to exclude certain institutions, so that funds only go to those that are still fundamentally healthy
- A second strengthens the requirement that any lending facility is open to a "broad" swath of the market
- A third requires that Fed emergency loans are provided at a "penalty rate" of interest so financial institutions do not get cheap capital
- The Fed has stressed that all of its emergency loans, which stood at \$1.5tn at their zenith, were repaid in full

China cuts interest rates for third time in six months – Pg. 2

- Beijing moved to shore up the slowing Chinese economy last night with its third interest rate cut in six months

- The People's Bank of China, the central bank, said it would cut the benchmark one-year lending rate by 0.25% to 5.1%, effective from today

Answer: The answer is personal. I was told it was a great interview question from someone I respected. Be prepared to answer in an interview.

9 May 2015

Question: one Euro equals how many U.S. dollars?

Rebound in US payrolls leaves Fed on track for September rate increase – Pg. 1

- Hiring by US employers rebounded last month and the unemployment rate fell to its lowest rate since May 2008, in a sign of renewed momentum in the US economy following unexpectedly poor growth data in the first quarter
- Payrolls rose by 223,000 last month, following a gain of 85,000 in March that was weaker than previously estimated,...
- The unemployment rate slid further to 5.4%, taking it closer to the rate the Federal Reserve associates with full employment, and more people returned to the labour force to find jobs (Prof Note: This includes my 70 year old mother!)
- The US economy has added 3m jobs in the past 12 months. ...more people entered the labour force last month, pushing up the participation rate to 62.8% from 62.7% the previous month. However, that still leaves the rate close to the lowest level recorded in more than 30 years

Weak patches visible in better US jobs data – Pg. 2

- ...growth of about 110,000 is needed to hold it steady...
- If the recovery continues, the economy could hit full employment in the second half of the year, teeing up higher rates
- Even now the jobless rate is just one percentage point above the trough of 4.4% it reached in early 2007
- Wage growth is still remarkably tepid, ...average hourly earnings rose 0.1% on the month, leaving the annual rate of wage growth at just 2.2%

Investor tide turns for European funds – Pg. 13

- Rising oil prices and a strengthening euro have prompted investors to pull money out of Eurozone bond and equity funds for the first time since the start of the year
- Europe equity and bond funds were on track to post their first weekly outflows since early January and late December, respectively...
- The shift in fund flows reflects increasing anxiety among investors after a sharp run in the value of Eurozone share and bond prices in recent months
- A shift among investor appetite for riskier US debt was highlighted by a large outflow from the iShares exchange traded fund that tracks US high-yield corporate bonds

Answer: \$1.12

8 May 2015

Question: What is credit enhancement?

Investors caught off guard by worst Eurozone bond turmoil since crisis – Pg. 1

- European bonds gyrated yesterday in the worst bout of volatility since the Eurozone debt crisis, as markets were thrown into confusion over the impact of quantitative easing on Europe's financial assets and economies
- In the space of a few hours the yield on Germany's 10-year Bund jumped 21bps to 0.80%, ...
- With sovereign bond yields, which move inversely to prices, rarely shifting by more than a few hundredths of a percentage point in a day, the volatility caught investors off guard
- German government debt is regarded as a benchmark for European assets and the sharp price movements yesterday ricocheted around markets

Fears rise over Ukraine debt – Pg. 3

- Investors in Ukraine say the country is unlikely to meet its June deadline to restructure \$23bn of debt, putting the war-torn, recession-battered country at risk of default

Signs of recovery as EU employment rises for first time since financial crisis – Pg. 6

- The proportion of 20 to 64 year olds in work crept up from 68.4 to 69.2% between 2013 and 2014, though it remained below its pre-crisis peak of just over 70%
- Europe's stronger economies also saw improvements: employment rates in the UK, Germany and Sweden rose to 76.2, 77.7 and 80%, respectively
- The EU's target to reach an employment rate of 75% by 2020 also seems "a bit out of the question...any time soon"...
- The legacy of the crisis, coupled with an ageing population and governments' unwillingness to introduce politically unpopular structural reforms, have fuelled fears that growth in the region will suffer for years to come

Emerging market capital outflows hit \$600bn as strong dollar takes its toll – Pg. 13

- Emerging markets have suffered bigger net capital outflows over the latest three quarters to the end of March, higher than the \$545.2bn in outflows seen during the crisis-ridden three quarters to the end of March 2009, ...
- Many of the funds that have flowed out were portfolio investments driven by three consecutive quarters of emerging market currency depreciation against the dollar
- This has been the case particularly in countries such as China where a dollar "carry trade" gained popularity in the wake of the financial crisis
- These "carries" – which relied on borrowing in dollars at low interest rates to invest in high-yielding local currency products – have been progressively unwound as the dollar strengthened and the US Federal Reserve adopted a less accommodative tone to its monetary policy

Puerto Rico is running out of dancefloor – Pg. 20

- A large chunk of Puerto Rico's \$73bn debt pile sits with an array of publicly owned companies such as Prepa, an electricity provider. But these entities are not guaranteed by the government and Prepa is in talks to restructure its \$8.6bn of debts

Answer: Process of protecting payment stream to investors which can result from external guarantee or internal structuring.

7 May 2015

Question: How many basis points in a single percentage?

Oil price jump quickens sell-off in international debt markets – Pg. 1

- Oil jumped to its highest level this year, nearing \$70 a barrel and accelerating a sell-off in global debt markets
- Brent, the global benchmark, is now up more than 50% since bottoming near \$45 a barrel in January, boosted by stronger demand, near-record hedge fund buying and a slide in the US dollar
- The US bond market suffered collateral damage, with the 10year US Treasury yield up 4bps to a two-month high of 2.22%

Rising bond yields spark rush for exits – Pg. 20

- Sharply rising long-dated government bond yields are weighing on credit markets, testing the resolve of those who piled into riskier debt this year as the ECB flooded the financial system with money
- The rush for exits comes as Eurozone and US government bond yields rose further yesterday.
- Such a rapid rise in yields has surprised investors and reduced broad fixed income portfolio gains, particularly for bonds that have a lengthy maturity
- In general corporate credit has not fallen as heavily as government debt, which suggests a degree of resilience in the market
- Much of the weakness in the credit market is concentrated among holdings of long-dated bonds, a sector that enjoyed a solid start to the year as investors were encouraged by the ECB's launch of quantitative easing, suppressing borrowing costs

Answer: 100

6 May 2015

Question: What is the current size of assets held by ETFs?

Trade figures raise fears of contraction in US economy – Pg. 1

- The US in March recorded its biggest monthly trade deficit since the 2008 financial crisis, fuelling concerns that the economy shrank in the first three months of the year

- On the one hand the increase in imports was a clear sign of strength in the consumption-driven US economy with imports of consumer goods rising strongly
- On the other hand, yesterday's data make it likely that already anaemic economic growth figures for the first quarter will be revised downwards, ...
- ...how long the slowdown in the US economy will continue...

Payday Top 25 hedge fund earners pocket \$12bn (in a mediocre year) – Pg. 1

- ...hedge fund pay has almost halved from \$221.5bn in 2013 when surging equity markets helped....
- The average fund returned about 3% in 2014, down from 9% in 2013,...
- In both years these numbers underperformed the US S&P500 index, ...

Risks to Eurozone have deepened, warn overseers – Pg. 4

- Some of Europe's most important financial supervisors have warned that risks to the EU's financial system have become more entrenched, despite signs that the Eurozone is experiencing its best growth spurt for years
- The ECB's forecasts imply the central bank may have to start to raise interest rates in 2017, although markets expect rates to remain at their current record-low levels for longer than that
- The increased sensitivity of investors to yields in turn created a higher chance of price fluctuations, with market players shifting into different asset classes, producing bubbles in the process

Exchange traded fund assets top \$3tn – Pg. 20

- ...highlighting how investors increasingly prefer tracking broad trends
- The rise of exchange traded funds and other so-called passive investing strategies has gathered pace, thanks in part to central banks flooding financial markets with money and suppressing volatility
- The sustained rise in asset values since 2009 has rewarded investors following a broad benchmark such as the S&P 500 or bond index, while so-called stock pickers and actively managed funds have struggled
- The popularity of ETFs over mutual funds has also been fuelled by their lower costs, tax advantages and the flexibility associated with the fact that they trade on exchanges like shares
- For cost conscious investors, Pimco's active fund charges 85bps, whereas Vanguard's passive fund charges just 7bps
- Central banks launched aggressive monetary easing after the financial crisis, driving volatility down and fuelling rallies in bond and share markets. In turn, investors have favoured passive strategies that track broad market trends

Answer: over \$3,000bn

5 May 2015

Question: What is the world's largest futures exchange?

IMF takes hard line on aid as Greek surplus turns to deficit – Pg. 1

- Eurozone creditors, which hold the bulk of Greek debt, are adamantly opposed to debt relief. But IMF support is crucial both to its funds and to sustaining European backing for the Greek bailout, particularly in Germany
- Under existing bailout targets, Athens was suppose to run a primary surplus – government receipts net of spending, excluding interest payments on sovereign debt – of 3% of GDP in 2015
- The IMF signed off only after Eurozone ministers agreed to consider, but never implemented, writing down their bailout loans to reduce Greece's debt to "substantially lower" than 110% of GDP by 2022. It currently stands at 176%

China widens liberalization of bond market – Pg. 4

- China has approved HSBC, Morgan Stanley and 30 other foreign institutions to invest in its \$5.9tn domestic bond market, a big step towards opening its capital markets to foreign investment
- China has expanded foreign access to its stock market in recent years, but liberalization of the domestic bond market – the world's third-largest, behind the US and Japan – has proceeded more slowly
- The approvals also come as China's slowing economy and falling domestic interest rates spur capital outflows

Exchanges urged to do more to oust tricksters – Pg. 18

- The arrest of UK trader Navinder Singh Sarao for four years of alleged market manipulation of equity futures has shone a spotlight on the dubious trading practices known as spoofing and layering, and done little to improve the reputation of markets
- A broader question for both futures and equity exchanges is whether dubious trading is isolated or far more prevalent, requiring a stronger response from these self-regulated entities
- As the world's largest futures exchange, the CME oversees trading across a range of contracts that provide hedge fund banks, asset managers and others with an opportunity to buy and sell exposure to oil, agricultural products, interest rates and equity markets such as the S&P 500

Answer: CME Group, www.cmegroup.com

4 May 2015

Question: What is credit enhancement?

Baltimore mayor lifts night curfew – Pg. 2

- The city of Baltimore lifted an overnight curfew introduced in response to a wave of riots last week as calls grew for the US to do more to address the urban deprivation many blame for fuelling the unrest
- (Prof Note: Yes, the Financial Institutions Quiz will occur tonight!)

Scrapping of reduced VAT rates provokes poverty debate – Pg. 2

- When Iceland piled heavier taxes on to food this year, the IMF applauded “this important reform” and urged it to go further
- But the Icelandic Confederation of Labour said the value added tax rise drove up prices and hurt the low paid
- Policy experts see scrapping reduced VAT rates as a particularly efficient way of raising cash – some of which can be used to compensate households with other tax cuts
- The argument in favour of scrapping reduced rates is that it removes distortions and complexities. It cements the appeal of VAT as a relatively growth-friendly tax that does not discourage saving and investment
- But increasing VAT is controversial whether it is done by raising rates or tackling reduced rates. It can hit consumption hard. A year ago, Japan’s VAT rate rise – from 5% to 8% - pushed its economy back into recession
- ..removing reduced tax rates or exemptions is often seen as unfair because it will result in poorer households paying a larger proportion of their income in tax than richer households. An attempt to apply VAT to children’s shoes caused the collapse of the Irish government in 1982
- In principle, poorer households can be compensated in other ways. The OECD argued that although reduced VAT rates on food and energy increased the progressive nature of the system, they were “a very poor tool” for targeting support to poor households

Buffett forced to defend 3G Capital – Pg. 14

- Berkshire Hathaway shareholders are expressing unease at the company’s deepening relationship with private equity group 3G Capital,...
- Warren Buffett was forced to defend 3G’s record of aggressive cost-cutting at his company’s annual shareholder meeting at the weekend, triggering debate about whether the association with the Brazilian private equity group is undermining the Berkshire chief executive’s cherished reputation as a benign acquirer of businesses

Answer: Process of protecting payment stream to investors which can result from external guarantee or internal structuring.

2 May 2015

Question: What are the critical concepts to consider when securitizing?

Tesla spurs stored power revolution – Pg. 1

- Tesla Motors, ...has taken a big bet on domestic power storage, highlighting the growing momentum behind a potentially far-reaching transformation of global electricity supplies

- ...announced new batteries for domestic and business use that will allow customers to store power they generate themselves and to keep the lights on if the grid fails

US decries Britain's waning global influence – Pg. 3

- Once the US's most reliable ally, the UK is now seen as a distant player in the crisis over Ukraine and the euro, has introduced swingeing cuts to its military and recently rebuffed Washington by joining a China-led bank
- ...the next government in London could be even more insular as it grapples with Britain's membership of the EU and support for Scottish independence
- ...anxiety about British relevance is also based on the reductions in its military, which has seen the army cut from 102,000 to 82,000 and has left the navy without a functioning aircraft carrier

Hangover threat for Eurozone QE party – Pg. 11

- The ECB's January announcement of a 60bn-a-month asset purchase programme sent share prices soaring and the euro tumbling. Government bond prices leapt on heavy ECB buying. Many bond yields, which move inversely with prices, fell into unexplored negative territory
- The easiest explanation to dismiss is that markets reacted because QE had served its purpose in pumping-up economic growth
- But the euro's rise – which will hit exporters' prospects – was triggered largely by much weaker than expected first-quarter US economic growth figures
- Eurozone share price falls also fitted with a gloomier global economic outlook, especially with Chinese growth slowing, and expectations about future Eurozone inflation rates modest

Answer: Collateral, Credit Enhancement, Standardization, Liquidity

1 May 2015

Question: What is the size of the U.S. Bond Market?

Saudi Arabia drains reserves to sustain spending – Pg. 2

- The central bank's foreign reserves have dropped \$36bn, or 5%, over the past two months, ...
- Data show Saudi's foreign reserves dropped \$16bn to \$708bn in march (Prof Note: Less than Norway's Sovereign Wealth Fund)
- Brent crude, an international benchmark, traded at \$66 a barrel yesterday
- A combination of reserve draw downs and domestic debt are expected to continue funding Saudi's budget deficit, which bankers estimate will reach \$100bn this year

Chinese feel at home with buying overseas – Pg. 3

- ...Chinese real estate, where a combination of rapid riches and easy credit fuelled a decade-long boom in local house prices that only ended last year. From a country of almost zero home ownership just 15 years ago, 80% of Chinese households now own their own homes

- ...ownership of the land under Chinese homes is restricted to a 70-year lease at most, rather than in perpetuity as in other markets
- This has helped spur the rise in Chinese buying in global cities in the US, UK, Canada and Australia that promise cleaner air, good education and rule of law alongside bricks and mortar
- In March, average housing prices across the country fell 6.1% year-on-year,

Labour market shows signs of tightening – Pg. 4

- Wage growth, one of the missing pieces of the US recovery puzzle, picked up sharply this year in a sign of a tightening labour market
- Private sector pay rose 2.8% in the first quarter – compared with 2.2% in the three months to the end of December – the quickest upward pace since 2008
- ...applications for jobless benefits dropped to their lowest level in 15 years last week, ...
- ...wage figures remain shy of the 3-3.5% wage growth that Fed officials have flagged as healthy
- While Boston had wage growth of 3.9% in the year to the end of March; Washington, Baltimore, and Northern Virginia had private sector wage growth of just 0.7%

Fed in familiar territory with first-quarter droop – Pg. 4

- ...dismal GDP figures showing growth of only 0.2%
- First-quarter weakness has become part of a pattern
- ...surge in the dollar that started last summer. Despite a recent stabilization, the effects are not showing through in trade data, with net exports cutting 1.25% off first-quarter growth
- The currency is also putting a lid on import prices, limiting inflation at a time when the Fed wants to see price growth return to its 2% target
- The second factor is the plunge in oil prices, which is having far-reaching effects on the US oil and gas sector

Move out of deflation lifts Eurozone recovery hopes – Pg. 4

- ...no inflation in the 19-member region in the year from April 2014, up from minus 0.1% in March. Higher food prices and a rise in the price of imported industrial goods – the result of the cheaper euro – were behind the higher figure for this month
- Consumer core inflation, which strips out more volatile prices such as those for food and energy goods, remained at a record low of 0.6%, a signal that demand in the 19-member region remains weak
- Inflation hit minus 0.6% in January following the sharp drop in energy prices, rising to minus 0.3% in February
- While the risk of a severe bout of deflation has fallen, inflation remains well below the ECB's target of below but close to 2%
- More than 18m workers in the region are without jobs. The lowest rate was recorded in the eurozone's largest and most populous economy, Germany, where unemployment was 4.7%. In Greece, unemployment stood at 25.7% in January

Low-yielding university issue is an Oxford first – Pg. 20

- The ultra-low yields gripping global capital markets have made their mark on an ancient seat of learning with an Oxford college becoming the first UK university institution to issue a bond in 2015
- ...matures in 50 years, carries a coupon of 3.1%
- University College, which is one of Oxford's oldest having been founded in the 13th century, plans to use the long-term bond for general corporate purposes, including boosting investment

Answer: Around \$40,000bn

30 April 2015

Question: What is the approximate size of U.S. equity capitalization?

Fed concedes US recovery has lost momentum – Pg. 1

- The US recovery has lost momentum and the pace of hiring has moderated, ...acknowledging a weakening in the economy that has prompted markets to push back expectations of interest rate rises
- ...household spending had declined even amid strong rises in real incomes, and exports had fallen
- ...GDP rising at a sluggish 0.2% annual pace amid a surging dollar and weather-related disruption
- A key question is whether the US GDP numbers will repeat the pattern of last year, in which a first-quarter 2.1% slide was followed by stellar growth in the second and third quarters

Bernanke takes role at Pimco – Pg. 14

- ...taking a role as senior adviser to Pimco, adding a second asset management firm to his portfolio of post-Federal Reserve paymasters
- With \$1.6tn under management, Pimco is one of the most significant players in the global fixed income markets, the fortunes of which are tied to the actions of the US central bank
- ...Alan Greenspan, also signed on as a consultant to Pimco in 2007 after he left the central bank

Norway oil fund records best quarterly return – Pg. 22

- Norway's \$916bn oil fund has trumpeted its best quarterly return to date, boosted by monetary stimulus in Europe that has put a rocket under the region's stock markets
- It returned 5.3% (\$54bn)...
- The government had deposited just Nkr5bn into the fund in the quarter, the lowest since 1999
- A plunging oil price has slashed Norway's revenue from its offshore fields. After a weak return of European stocks last year, the market rallied in the first quarter, producing a return of 8.5% on more than 40% of the fund's equity investments
- The return on bond investments had been more muted at 1.6%, and in the longer term the fund was reducing its exposure to the euro area,...

- It was looking to increase property investments from 2.3% to more than 5% in the next few years, ...

Bond sell-off suggest shift in QE yield effect – Pg. 24

- A sell-off in European government bonds drove borrowing costs sharply higher yesterday, raising fears that the impact that Eurozone quantitative easing has had in driving down yields could soon be thrown into reverse
- German 10-year bond yields were on track for their biggest weekly rise of 2015,...
- Economic data yesterday added to evidence that continental Europe has avoided a deflationary slump, showing credit conditions improving and consumer expectations about inflation rising

Answer: \$20,000bn

29 April 2015

Question: How many Libors are there?

Republicans resist global insurance rules – Pg. 2

- Global insurance rules face a revolt in the US as Republicans spearhead complaints that international regulators, who they say lack accountability, are imposing inappropriate standards on American companies
- The financial crisis and the government rescue of US insurer AIG prompted a new regulatory regime for insurance,...
- The FSB has no powers to enforce recommendations and instead relies on soft diplomacy and of its members to ensure that its proposals are implemented by each country

Catastrophe deals threaten reinsurance sector ‘collapse’ – Pg. 13

- The \$575bn industry that protects insurers from earthquakes, hurricanes and other disasters risks a banking-style meltdown if it continues making “dangerous” changes to how it is structured, ...
- ...companies are now packaging together catastrophe risks in a similar way to the carving up of subprime mortgages by big banks before the financial crisis
- As a result, the victims of a costly catastrophe – such as an earthquake or storm that destroys large areas – could run into problems having their insurance claims paid
- Many have been increasingly turning to pension funds and other capital markets investors – by issuing securities such as catastrophe bonds – as an alternative to traditional reinsurance
- Insurers have been increasingly transferring risks through complex “bundled” reinsurance arrangements

Unease enters the new world of derivatives – Pg. 22

- ...greater transparency and disclosure from clearers to help identify credit and operational risks

- Since 2009 regulators have put pressure on the market to push more swap trades into clearing houses, which stand between investors and banks, and are tasked with ensuring that a deal is completed should one side default
- The BoE has expressed concern that clearing houses are being asked to take on risk management for market liquidity, when they were built for managing counterparty credit risk
- The “members” of a clearer contribute to a mutual default fund and are prepared to share losses. The house has “skin in the game” and contributes to the fund. But the arrangement is expensive for large users

Answer: 35 (originally 150); 5 currencies and 7 terms

28 April 2015

Question: Who publishes LIBOR?

Opposition strengthens over help for struggling homeowners – Pg. 2

- ...help the 110,000 Irish mortgage holders in arrears on their repayments, ...
-14.5% of Irish mortgages – with a value of about 20bn (euro) – are in arrears, but the number fell for six consecutive quarters to the end of last year
- The most difficult are those in arrears for more than 720 days, some 8% of the total at the end of 2014

One in five EU part-time workers underemployed – Pg. 3

- Almost three-quarters of Greece’s part-time workers are underemployed, ...
- Just over 72% of Greece’s part-time workers said in 2014 that they worked fewer hours than they would have liked to, ...
- Across the EU more than a fifth of part-time workers, or 9.8m people, were underemployed. More than two-thirds of them were woman
- In the 28-member bloc, 9.8% of workers, or 23.9m people, are without work. In the Eurozone, the headline figure of 11.3% masks vast differences between unemployment rates around the region

US inflation gauges hit highest levels this year – Pg. 18

- The US 10-year “breakeven” rate measures the markets expectations of average inflation over that time by comparing the yields of conventional US Treasuries the yields of conventional US Treasuries maturing in 10 years and Treasury Inflation Protected Securities, or Tips
- The 10-year breakeven has shot up form a low of 1.53% in mid-January to 1.92% yesterday, the highest since November 2014
- Break-evens are an imperfect gauge of inflation expectations, given that some Tips trade irregularly, but concerns over subdued inflaition or even deflation have eased as crude oil prices have stabilized and begun climbing lately. Falling energy prices were the biggest factor ragging the US inflation rate down below zero earlier this year

- ...the “core” inflation rate, which strips out energy and food prices, unexpectedly ticked back up to 1.8% in March, ...
- The Fed’s own measure of long-term expectations – the five-year, five-year forward rate, or the average five-year inflation rate implied by swaps in five years’ time – remains modest, at 1.94% last Wednesday

Answer: Thomson Reuters

27 April 2015

Question: What is the new leading text book in Real Estate pro forma Modelling which was published last week and is the base text book for Real Estate Finance at Georgetown University?

Japan poised to cut inflation forecast but extra stimulus move unlikely – Pg. 2

- The Bank of Japan will be forced to cut its growth and inflation forecast this week, but officials signaling extra economic stimulus is unlikely for now
- Japan’s central bank is set to move its inflation forecast for 2015 fiscal year down several tenths of a percentage point from the current 1% and shave its growth forecast from the current 2.1% ..

Shore tenure of deans signals a leadership gap – Pg. 10

- Those trying to explain the short tenure of a modern dean point out that successful leaders are courted by rival institutions and that more deans move between universities than hitherto
- Professors want long-term research projects paved with resources while students have immediate academic and career needs
- ...MBA applications are decreasing...
- ...when practitioners have taken on the role of business school dean their record has been patchy at best
- Few executives have made good deans and those that do often hold Ph.Ds.
- AACSB data show the average dean’s salary is close to \$250,000, while the dean at a top US business school can earn between \$500,000 and \$800,000. But the workload is intense (Prof Note: Oh Pulleezzzz...and the labourer on a construction site does not have an “intense” workload with no glory, A/C, or benefits!)
- Universities need to “calm down” and lower their expectations of deans...(Prof Note: Hopkins cut the head off the snake Dean Yash Gupta relatively quickly and have flourished since. Georgetown would do well to take a lesson from Hopkins and send Dean Otter packing. Dean Otter needs to understand her responsibilities are to the students first! Do they not pay her salary?!)

Apple set to become latest dollar victim – Pg. 15

- Known as “top-line growth”, revenues reflect how quickly a business is growing. In recent years, large multinational US Companies’ sales have benefited from the combination of a weaker dollar and robust expansion across emerging economies

- While 71% of S&P500 companies have eclipsed first-quarter earnings expectations, 55% of corporates have failed to beat revenue forecasts, ...

Answer: *Foundations of Real Estate Financial Modelling*, Roger Staiger, Routledge Publishing, 2015

<http://www.amazon.com/Foundations-Real-Estate-Financial-Modelling/dp/1138025178>

25 April 2015

Question: What are the global notional amount of contracts pegged to Libor?

Chinese local governments struggle with refinancing plan – Pg. 4

- Several Chinese provincial governments have been forced to postpone bond auctions as banks balk at the low yields on offer, ...
- China's local debt has surged since the 2008 financial crisis as regional governments borrowed to finance infrastructure projects in an effort to stimulate the economy
- Much local borrowings has been channeled through arms-length financing vehicles (LGFVs) that local governments established to circumvent a legal ban on direct borrowings
- China's legislature formally rescinded that ban last year, in a bid to "open the front door and close the back door" to local borrowing
- Demand from commercial banks is crucial to local governments' ability to sell debt, since banks own 63% of all bonds traded in China's interbank market...
- S&P's rating agency late last year estimated that half of all Chinese provinces would merit junk ratings, through it did not issue ratings for specific provinces

Lowered expectations reward US investors – Pg. 11

- US equities, which spent a portion of the first quarter in negative territory, have rebounded, with the S&P 500 setting a new intraday high on Thursday, ...
- The dollar's rise in recent months, plus falling energy prices, led to the largest downgrade of earnings estimates since the financial crisis, setting up the first and second quarter for a "profit recession": when earnings on a year-over-year comparison declined for two consecutive quarters
- In contrast with US multinationals, a weaker euro has been a boon to European corporates, which must translate dollar earnings in the US back into the euro
- The benefits of a higher US currency for European companies is one factor drawing investors from US equities to European bourses, which have outperformed the S&P 500 so far this year

Answer: \$350.0tn

24 April 2015

Question: How many students left/finished my Real Estate Finance Final Examination early?

Deutsche Bank hit with record \$2.5bn fine over Libor rigging – Pg. 1

- Deutsche Bank has paid a record \$2.5bn to authorities in the US and UK to settle allegations that it manipulated the Libor benchmark rate, a key interbank borrowing rate that underpins as much as \$350tn of debt worldwide, from student loans to complex financial instruments
- ...Germany's biggest bank was ordered to dismiss seven employees, while a London subsidiary, DB Group Services, is pleading guilty to US criminal wire fraud (Prof Note: Who is going to jail? This is yet just another cost of doing business!)

Slowest growth in two years fuels calls for S Korea stimulus – Pg. 2

- South Korea's economy grew at its slowest rate in two years in the first quarter, further fuelling calls for additional stimulus measures to boost the economy
- GDP was up a seasonally adjusted 0.8% on the previous three months, following a 0.3% rise in the last quarter of 2014
- The BoK has downgraded its growth forecast for this year to 3.1% from 3.4%, prompted in part by slow public spending after tax revenues fell short of government expectations
- Private consumption was sluggish, rising just 0.6% in the first quarter, while corporate capital investment was flat

US blue chips' overseas sales feel impact of strong dollar – Pg. 13

- International sales at US blue-chips ranging from Pepsi to General Motors are being hit by the strong dollar and the emerging markets slowdown, despite the companies enjoying an economic recovery at home
- Overseas revenues account for about 30% of sales at S&P500 companies, highlighting the impact of the dollar on earnings. The US currency rose at its sharpest in more than 34 years in the first quarter against a basket of leading currencies, ...
- The IMF is expecting emerging markets growth this year to decrease to 4.3%, as the slowdown in China has ripple effects across the global economy

Fed prepares toolkit for higher rates – Pg. 20

- For the Federal Reserve, deciding the date of its first interest rate rise is only part of the battle. As the US central bank prepared for the first increase in nearly a decade, a debate is still under way over new levers it will use to transmit its decisions into the broad reaches of the financial markets
- Ben Bernanke, the Fed's former chairman, this month muddied the waters further by publicly querying the central bank's entire approach to exit, suggesting it was aiming to reduce its \$4.5tn balance sheet too far
- The central bank is planning to use the interest rate it pays on excess reserves parked at the central bank supplemented by a so-called overnight reverse repo facility (RRP) to manage its key fed funds rate – as well as keeping other levers in the wings
- The central bank has been testing this financial plumbing for a year and a half, but how stable it will keep rates around the Fed's overnight benchmark on liftoff is yet to be seen
- The Fed also faces the looming runoff of its portfolio of Treasuries, which begins early next year.

Answer: Zero (0)

23 April 2015

Question: What does Value-at-Risk (VaR) provide?

'Flash crash' charges spark concern over regulation of US markets – Pg. 1

- A UK trader accused of contributing to the 2010 "flash crash" in equity markets began a flight against extradition yesterday as US lawmakers pledged to probe a case which raises questions over the fragility of markets and the strength of regulation
- The US Department of Justice has charged him with one count of wire fraud, 10 of commodities fraud, 10 of commodities manipulation and one of spoofing, a form of market manipulation that involves placing an order and withdrawing it before it can take place

McDonald's revenues fall 11% as diners desert – Pg. 12

- McDonald's has tried to overhaul an image mired by a chicken nugget scandal in China; objects ranging from a human tooth to bits of vinyl, found in food in Japan; and protests over wages in the US
- The world's biggest fast-food chain said global sales dropped in the three months up to the end of March, reflecting "negative guest traffic"

Nikkei passes 20,000 mark after 15-year wait – Pg. 20

- Japan's Nikkei 225 closed above 20,000 points yesterday for the first time since the days of the dotcom bubble, as investors responded to signs of improving corporate governance and an uptick in exports
- As elsewhere Japan's equity rally had been powered largely by large-scale asset purchases, or "quantitative easing" by the central bank.
- The market has been boosted in part by growing signs on board longstanding complaints from shareholders about poor returns and a lack of transparency

Answer: The maximum loss in a given time period at a given confidence level.

22 April 2015

Question: What is the current price of gold (per ounce)?

India's central bank struggles to ensure lenders pass on interest rate cuts – Pg. 4

- When India held rates again this month it was less a sign of confidence in the economy or the end of inflationary fears and more an acknowledgment that the process of monetary transmission – the opaque "black box" through which the wishes of the central bank are passed to the real economy – had somehow broken down.
- Deposits make up 78% of total liabilities of India's commercial banks, ...compared with close to 50% in the US

- Only 1% of SBI's borrowing came from the open market, ...

Euro swaps benchmark fixed at negative rate – Pg. 18

- A key money market rate European banks charge to lend to each other and which serves as the reference level for derivatives contracts has fallen into negative territory for the first time, as the ECB stimulus effort intensifies the downward trajectory of Eurozone interest rates
- The euro interbank lending rate for three-months, Euribor, broke new ground when it was fixed at minus 0.001% yesterday. That came after London based euro interest rate fixing for three months entered negative territory for the first time last week
- Short-term money market rates such as Euribor are a key reference level used in the vast interest rate swaps market and also for interest rate futures contracts
- Euribor also underpins the cost of consumers' mortgages and what they are paid on savings products
- Since the ECB launched its \$1.1tn bond-buying programme in March, rates have fallen even further, and that is now pulling key interbank lending rates into negative territory

Answer: \$1,200

21 April 2015

Question: A \$425,000 mortgage @ 3.875% for 30 years, CPM, that was originated 1 January 2011, paid how much interest in 2014?

Asset managers split on shareholders' power over boards – Pg. 14

- A campaign to win shareholders a greater say over who sits on corporate boards has exposed a rift between some of the largest asset managers in the US
- Fidelity, one of the largest holders of US company shares through its popular mutual funds, is opposing the push, even when a company's management itself supports the idea
- But BlackRock, the world's largest asset manager, has said it will support most of the proposals, while T Rowe Price and TIAA-CREF are among its most enthusiastic supporters
- The public pension funds are pushing a plan that would allow a shareholder or group of shareholders who have held stock for three years, and who hold 3% of a company between them, to nominate board directors

Liquidity key to emerging market ETFs – Pg. 24

- Investors worried about financial bubbles at the risk of bursting are pinpointing the expansion of hard currency emerging market corporate bonds and the growing popularity of exchange traded funds
- Ten years ago, the asset class hardly existed, but it currently stands at an estimated \$2tn, bigger than the \$1.6tn market in US high yield corporate bonds, familiar to investors for decades

- When markets deviate from “normal” and prices start moving sharply up or down, ETF managers have to buy or sell underlying assets in a hurry, and an ETF’s supposed ability to shelter its investors from volatility in its underlying assets may quickly disappear

Some nations resist new bond framework – Pg. 26

- International efforts to bolster the legal underpinnings of sovereign bonds is being resisted by some countries, raising the prospect that holdout investors will contest future restructurings of debt
- As Greece and Ukraine inch closer towards possible default, a spotlight has been shone on the recent ambitious transformation of government debt issuance undertaken in an attempt to prevent so-called vulture funds from delaying restructuring efforts

Answer: \$15,392 (90 second problem...max)

20 April 2015

Question: The CAPM is a subset of a larger theory, what theory?

China relaxes bank cash rules to kick-start slowing economy – Pg. 1

- China has acted to stimulate its slowing economy, cutting sharply the level of cash commercial banks must park with the country’s central bank in a strong signal of intent to boost flagging growth
- The People’s Bank of China moved to free up cash to lend to business by reducing its so-called reserve requirement ratio by 1% just days after data revealed the country’s economy expanded in the first quarter at its slowest pace for six years
- The PBoC has only once before cut the reserve requirement ratio by as much as that was during the depths of the financial crisis in November 2008
- The required reserve ratio – known as RRR – specifies the portion of a commercial bank’s deposits that must be held on reserve at China’s central bank, where it is unavailable for loans and other investments
- New home prices fell in 49 of the 70 cities tracked by the statistics bureau, compared with 66 cities last month
- Average prices fell by 6.1% in March compared with a year ago, ...

Surging dollar set to wreck earnings of US big names – Pg. 15

- A surging dollar is expected to hit some of the largest US multinationals this week, as more than a fifth of S&P500 companies report results for a quarter marked by a 9% jump in their domestic currency
- With the S&P up only 1.1% this year....
- Earnings reports so far have validated recent concerns over falling energy prices and a rising dollar that have led to the largest downgrade of earnings estimates since the financial crisis
- The euro suffered its biggest quarterly decline against the dollar since it was created in 1999, and many strategists hastily brought forward their target date for the dollar reaching parity with its transatlantic partner,...

Answer: Arbitrage Pricing Theory (APT)

18 April 2015

Question: What is the main difference between syndication and securitization?

Russia data blunt Putin's optimism – Pg. 1

- Russia's economy contracted further in the first quarter, triggering a 5% slide in the rouble, ...
- The rouble lost more than half its value against the dollar last year against the backdrop of intensifying international sanctions for Russia's intervention in Ukraine, and plummeting oil prices.

China share rally raises bubble fears – Pg. 11

- China's bull run showed little sign of abating this week, with stocks finishing at a new seven-year high yesterday despite a weakening economy and rising fears of an equity market bubble
- This week China reported that its economy had grown 7% in the first three months, the lowest quarterly figure since the financial crisis
- China's rally spilled beyond its borders this month, sending the Hong Kong stock market to its highest since 2007 amid record trading volumes

Treasuries lead way into uncharted territory – Pg. 11

- Dealers, who support the market and underwrite Treasury debt sales, have become smaller and are less willing to stem volatile changes in prices, reflecting tougher regulations and higher costs of capital
- ...the US bond market has swollen markedly over the past decade, with Treasury debt tripling to \$12.5tn
- In turn sovereign wealth funds and large institutional investors, led by BlackRock and Pimco, have become far more powerful in the US fixed income universe
- ...Japan and China owning \$1.2tn of Treasuries each
- At a time when US government debt almost counts as a high-yield investment compared with Eurozone or Japanese bonds, money managers predict that the 10-year yield will stay anchored near the 2% market even when the hikes begin

Respite for dollar after US inflation picks up – Pg. 11

- ...annual core inflation rate up from 1.7% in February to 1.8%
- The dollar responded by pushing back against the euro, which reached a weekly high yesterday of \$1.0848 but eased to \$1.0771 in light of the inflation and consumer confidence data

Answer: Securitization is a horizontal division of ownership, i.e. risk tranches, whereas Syndication is a vertical division of ownership, i.e. ownership in proportion to capital contribution.

17 April 2015

Question: What is the amount of contracts globally pegged to Libor?

Grace denied Lagarde dashes Greek hopes for delay to debt repayments – Pg. 1

- ...dashed Greek hopes of receiving a grace period on loans it is due to repay next month, ...saying that precedents were “not followed by very productive results”
- The revelation that Greece had explored the possibility of a grace period highlighted the parlous state of its public finances and international uncertainty on whether it will default on 747m (euro) payment to the IMF due on 12 May

Fed official plays down fears over gap in rate forecasts – Pg. 2

- The IMF this week warned of a potential “super taper tantrum” when traders belatedly wake up to the likelihood of the first US rate rise since 2006. Futures pricing suggests investors are expecting a markedly slower lift-off than Fed officials own projections

World Bank – Pg. 6

- Founded 70 years ago alongside the IMF in the closing days of the second world war, the World Bank now has 188 members and remains a central force in the global development
- It doled out more than \$65bn in loans, grants and other commitments last year to developing countries with more than 12,000 staff and almost 5,000 consultants in 131 countries working on everything from education to climate change and health policy to bridges and dams
- With China and other emerging economies pushing new alternatives to existing multilateral institutions, there seems to be little question that the way the global economy is governed is undergoing its biggest change since the World Bank and the IMF were established at Bretton Woods
- ...before the AIIB was conceived, ..the bank was losing market share in the world of development finance to regional competitors such as the Asian and African development banks

Answer: \$350.0tn

16 April 2015

Question: How many Libors are there?

Chinese economy slows again as Beijing seeks new path to growth – Pg. 1

- China’s economy grew at its slowest pace in six years in the first quarter, after building and manufacturing slowed down as Beijing tried to re-engineer the country’s growth model
- The country’s growth underpinned the global economy after the financial crisis but China has been slowing since 2011, affecting everything from the iron ore price to global sales of luxury goods

- China's GDP grew 7% in the first three months of 2015 compared with the same period a year earlier....
- An economic slowdown in China is widely seen as inevitable but also necessary as the country tries to move away from its traditional dependence on smokestack industries towards domestic consumption and services

IMF warns of 'super taper tantrum' risk – Pg. 2

- The Federal Reserve's first interest rate rise risks triggering a jolt to bond markets that could surpass the turmoil the central bank inadvertently set off in 2013, ...
- Among the key worries are "severe challenges" brewing in the EU life insurance sector amid plunging interest rates in the region. Many policies are offering generous return guarantees that are "unsustainable" in a prolonged low-interest rate environment,...
- Higher US interest rates could expose particular vulnerabilities in emerging markets where companies have issued large amounts of debt in dollars,...adding that between 2007 and 2014 debt had grown faster than GDP in all major emerging markets

Aggressive pricing raises property bubble fears – Pg. 14

- Fears of a renewed property bubble are rising as prices and yields hit records last seen before the financial crisis,...
- This is particularly the case in the US, where investors returns from rental income are lower than before 2008, when a crash in overleveraged property triggered a banking slump
- Property generated total average returns of 9.9% in 2014 thanks to rapid capital value appreciation,...
- The main factor behind the pricing was "exceptionally low" bond yields, which made property much more appealing to investors in relative terms,...
- Equities generated a 10.4% return but property stocks returned 19.5%
- UK real estate returned 17.9% in 2014 while the US returned 11.5%. In London returns topped 20%

Answer: 35 (5 currencies and 7 maturities...I need to adjust my slides!)

15 April 2015

Question: Local Question: What is the difference between MD and VA for tax filing???

India to outpace China as lower energy price lifts world economy, IMF predicts – Pg. 1

- The appreciation of the US and Chinese currencies need not damage their growth prospects because these economies can keep interest rates lower for longer to offset any deterioration in their trade performances
- Translating this assessment into hard numbers, the IMF forecasts 3.5% global growth in 2015, up on the 3.4% recorded last year and improving further to 3.8% in 2016
- The IMF expects China's slowdown to persist, with growth of 6.8% this year and 6.3% in 2016, considerably slower than India, which is expected to expand by 7.5% in both years

QE raises fears of Eurozone liquidity squeeze – Pg. 18

- Since March 9, when the ECB started buying bonds, yields, which move inversely with prices, have tumbled, especially on German government debt
- A quarter of Eurozone government debt is trading at negative yields, and benchmark 10-year German Bunds could soon join the club...
- Eurozone QE created risks because – unlike earlier US and UK QE programmes – it was launched when yields were already extremely low, and governments were reducing fiscal deficits, restricting bond supplies. In such an environment it is harder for traders to make money, and bond owners are reluctant to sell because there is nowhere else to put their money
- German government bonds are some of the highest-quality collateral, so shortages could have wide repercussions. With demand soaring, holders have been able to repo them and obtain cash at increasingly negative rates. The implied interest rate on repo borrowing for six months starting in six months has fallen to minus 0.4%...
- Such stresses in repo rates could quickly spread, reducing liquidity in secondary markets, ...

Answer: VA is due 1 May and MD 15 April....another reason I am a VA resident!

14 April 2015

Question: What did I see recently on a resume that I considered worthy of consideration?

Hong Kong market rally starts to reshape global league table – Pg. 1

- China Construction Bank has overtaken JPMorgan, Facebook and Chevron in terms of size, a sign of how a dramatic stock market rally in Hong Kong is reshaping the league table of the world's largest companies
- The surge has come even as Chinese economic indicators worsen. China's exports slumped 15% in March, raising the prospect of disappointing first-quarter economic growth
- The surge in valuations comes as investors, wary of frothy valuations in Shanghai and Shenzhen, switch into lower-priced Hong Kong stocks

Russia drops ban on missile's sale to Iran – Pg. 2

- Russia yesterday unblocked sales to Iran of one of the world's most advanced air-defence systems, in a move that will irk the US and other world powers involved in talks to limit Tehran's nuclear programme
- The S-300 is a missile system designed for defence against air attacks by shooting down aircraft or incoming missiles

EM stocks extend their winning streak – Pg. 18

- Emerging market equities began the week by rallying for an 11th straight day, ...
- The US central bank had been widely expected to increase rates in June, but a smattering of disappointing economic data has forced economists to push back their forecasts until September, or even later this year (Prof Immature Note: I told you so long before these chuckleheads told you so!)

- US interest rate rises and a strengthening dollar have typically been painful for emerging markets. Widespread bets on the Fed moving this year had already buoyed the US dollar and sent stocks, bonds and currencies in the developing world lower in recent months
- The biggest drivers have been the rocketing Chinese stock market – the Hong Kong Hang Seng is up 12.5% this month, and the Shanghai Composite up 9.7%...

Regulation trend hits hopes of globalization – Pg. 20

- Geopolitical and regulation will throw the globalization of capital markets into reverse in the next five years, with Asia developing financial centres that rival London and New York, ...
- As capital retreats behind national borders, cross-border flows will dry up and multinational banks may have to exit markets or regionalize operations, ...
- By 2020 small countries with large financial sectors will have shrunk their banks relative to their economic size. Banks that have historically drawn much of their revenues from overseas operations will become domestically focused or turn overseas operations into subsidiaries
- The dominance of New York and London as financial hubs is being questioned by the rise of the Chinese economy and the Asia-Pacific region

Answer: Reference to Linked-In profile...just a thought.

13 April 2015

Question: A \$500,000 mortgage for 15 years and payment of \$4200.00 charges what level of interest?

US investors eye record \$1tn in payouts as groups rein in capex – Pg. 1

- Shareholders in the biggest US companies stand to receive a record \$1tn in cash this year, as blue-chips' concerns over the global economic outlook has diverted cash away from investment and is driving a boom in buybacks and dividends
- Shareholder returns reached nearly \$904bn in 2014, with \$350bn in dividends and \$553bn in buybacks...
- Dividends have climbed on average 14% annually over the past four years
- The combination of slowing emerging market economies, concerns about the pace of the recovery in some developed markets and falling oil prices is driving down expectations for capital investment growth

'Stop and go' global recovery risks stalling – Pg. 4

- The global economy is mired in a "stop and go" recovery "at risk of stalling again" ...
- The world economy grew 3.4% last year, ...
- The Tiger index – Tracking Indices for the Global Economic Recovery – shows how measures of real activity, financial markets and investors confidence compare with their historical averages in the global economy and within each country
- The Tiger growth index for advanced economies has improved modestly since the oil price almost halved in the second half of last year, reflecting increased household spending in Europe and Japan

- In the US there is evidence of a weak patch in the first quarter of the year with slower employment growth
- China's economic prospects are slowing as the government attempts to rebalance activity from public investment towards higher domestic consumption

MBA by numbers Return on Investment – Pg. 9

- ...the pay increase of younger graduates in the three years after graduation outperforms that of their older counterparts in both percentage terms and absolute terms
- Broadly speaking, the same pattern occurs in all industry sectors and countries, regardless of whether graduates work overseas or move to a different industry
- An MBA is a substantial investment, regardless of your age. The average cost is \$90,000 for fees and required expenses, before considering the opportunity cost of a full-time programme
- MBA programmes have lost some of their shine and applications are falling...

Answer: 5.93%

11 April 2015

Question: What is the difference between Insurance and Gambling?

GE to shed financial services arm in radical return to industrial roots – Pg. 1

- GE has launched a radical plan to dispose of most of its financial services operations and return to its industrial roots, in one of the biggest shake-ups in the 123-year history of America's best-known conglomerate
- Under Mr Immelt's tenure GE's share price has fallen nearly 30%, while the S&P500 has risen 93% (Prof Note: ...and yet he has not lost his job?! What is wrong with this country and our businesses?! We need to hold CEOs accountable. They take credit (and pay) when times are good!)
- GE now intends to dispose of businesses that account for about threequarters of GE Capital's assets, in areas such as commercial lending for "middle market" companies
- The only financial operations to be retained will be the leasing operations that are directly tied to GE's manufacturing businesses

European stocks reach a 15-year high – Pg. 11

- European share prices maintained their bullish momentum yesterday, propelling the FTSE Eurofirst 300 past its 2007 high and towards the record peak set during the dotcom era
- The declining value of the euro, which has fallen 12% this year, also provides a boost for Eurozone companies that rely on foreign-based revenue, providing a notable tailwind for large multinationals such as Merck, BASF, Volkswagen, Adidas, Peugeot and Airbus
- Share markets in Germany, France, and the Netherlands and Italy have all risen more than 20% so far this year (Prof Immature Note: I "opinioned" you so!)

Money managers divided over Fed's next move – Pg. 11

- Fed policy makers face a daunting task in lifting the benchmark rate off zero without upsetting bond markets, denting confidence and choking off an economic pick-up that looks strong only in comparison with that of the Eurozone

Answer: Gambling introduces the risk; Insurance reduced the risk

10 April 2015

Question: What is the Principal of Indemnity?

Stuttering emerging markets add to growth fears – Pg. 1

- Emerging markets have slipped to their slowest pace of economic growth since the 2009 global financial crisis as Brazil, China, Russia and other developing nations struggle against a stronger US dollar and weaker commodity prices
- The decline in commodity and oil prices has hit export revenues of some key EM countries such as Brazil and Russia, while the strong dollar has exacerbated outflows of capital from several leading EMs, including China, Thailand, Malaysia and South Korea. Such net capital outflows are expected to increase ...
- Brazil's GDP appears to have slumped to a negative 1.24% in the first quarter, down from a negative 0.3% in the fourth quarter of last year

IMF fears 'new reality' of lower growth – Pg. 2

- The global economy risks its present "new mediocre" of low growth becoming a future "new reality", with governments doing too little to enact reforms even as risks to financial stability are rising, ...
- ...global growth last year of 3.4% roughly in line with the average rate of past three decades

LinkedIn seals \$1.5bn education deal – Pg. 11

- LinkedIn is to acquire online learning business Lynda.com for about \$1.5bn as the social network seeks to expand offerings for its audience of professional users
- Users pay a subscription of up to \$375 a year to gain access to online courses
- (Prof Note: I am all for online learning and have considerable experience in course development and online lecturing, however, it is no substitute for in class. The two are completely different experiences. For instance, like with ULI, online is perfect for demonstrating pro forma design and construction. However, the interpretation of IRR, P(Loss), Cash-on-Cash, %Ops, is best for the inclass.)

Answer: Person entitled to compensation only to extent loss has occurred

9 April 2015

Question: With regard to an insurance contract, what is 'representation'?

Switzerland makes history by selling 10-year debt at negative interest rate – Pg. 1

- Switzerland has become the first government in history to sell benchmark 10-year debt at a negative interest rate, as falling prices and unprecedented action by the world's big central banks send global markets further into unknown terrain
- Bonds with negative yields have become one of the world's fastest-growing asset classes, accounting for about a quarter of Europe's government debt market
- In the past year, Germany, Austria, Finland and Spain have all sold shorter-term debt at sub-zero yields
- The rush into European bonds is the consequence of the global slide in inflation, which has made it easier for investors to accept negative yields as they expect prices to rise slowly in the future

IMF urges stress tests for asset managers – Pg. 2

- The IMF has called for a regulatory crackdown on asset managers, including the introduction of stress tests that would mirror those in place for the banking system
- The fund management industry buys and sells securities totaling \$76tn, 40% more than 10 year ago, and amount equivalent to the size of the world economy. BlackRock, the biggest fund, has \$4.7tn under management
- Fund managers have filled the void left by banks that have withdrawn from several markets because of new capital rules that make it more expensive to keep large trading books
- In the US, the Volcker rule has made it more difficult for banks to trade on their own account, a practice known as proprietary trading
- The industry has traditionally enjoyed lighter-touch regulation than the banking sector, since asset managers let investors bear all the risks and typically avoid relying on short-term funding, which can freeze during a crisis

US expatriates' taxing questions – Pg. 10

- The register of individuals who have "chosen to expatriate", as the US puts it, shows an increase in the number of Americans who are renouncing their US citizenship or turning in their green cards
- The driver behind her expatriation was US tax rules...
- The US tax regime is increasingly a reason for expatriations – not just because of the scope for extra bills but also the complexity
- Many countries' tax systems have quirks, including the UK. Its "non-dom" rules allow foreign residents to keep their offshore income out of the tax net, ...
- But tax savings are rarely stated as a motivation, not least because such an admission could potentially be used to bar entry to the US in the future
- The problems have escalated since 2009, when scandals about offshore tax evasion led to a crackdown on Americans owning foreign bank accounts. Its centerpiece – the 2010 Foreign Account Tax Compliance Act – is forcing foreign financial institutions from the end of last month to hand over account details of Americans with balances of more than \$50,000
- (Prof Note: Hire a professional. Having gone through an audit which I still content had a favourable, and accurate, result, I NEVER want this to happen again. My days of doing my own taxes are behind me.)

Answer: Statement made by the proposed insured to the insurer in the application process; misrepresentation must be material

8 April 2015

Question: What are three Peril's to income with regarding to retirement planning?

Top economies face prolonged low growth, warns IMF – Pg. 1

- Most of the world's leading economies should prepare for a prolonged period of significantly lower growth rates, which will make it much harder for governments and companies to bring down their debt levels, ...
- The warning will reignite fears that the world is facing what some economists have called "secular stagnation"
- The IMF says that the slowdown in the growth of potential output – or the level of output consistent with stable inflation – has roots which go beyond the 2008 slump. These include an ageing population and a slowing in the rate of productivity growth in emerging markets
- China, in particular, could see a sharp contraction in the growth of potential output, as it tries to rebalance its economy away from investment and towards consumption
- The IMF forecasts that growth in potential output in the rich world will be 1.6% a year between 2015 and 2020. This is marginally higher than the rate at which it expanded in the past six years, but much lower than growth rates before the slump, when potential output expanded at 2.25%

EU corporate borrowing costs below 1% - Pg. 18

- More than two-thirds of euro-denominated corporate bonds rated as investment grade now yield less than 1% as borrowing costs continue to tumble following the launch of quantitative easing in the Eurozone
- The ECB's bond-buying has driven yields on government debt down to record lows, leading to a growing pool of negative-yielding sovereign debt, which has forced many investors into the corporate bond market
- The record low yields on corporate debt have made the Eurozone attractive to borrowers, and debt issuance rose dramatically in the first quarter. Investment-grade issuance jumped 41% year on year...
- Companies have also turned the growing demand for bonds to their advantage by lengthening maturities, pushing the average to a record length of more than nine years in the first quarter

Forex fluctuations raise liquidity fears – Pg. 18

- For a market that trades a notional average of \$5.3tn a day, foreign exchange is bedeviled by a perplexing problem: what has happened to market liquidity?
- At its heart is a question of whether the vast over-the-counter (OTC) market, long dominated by a handful of large investment banks conducting trades, is in a cyclical decline or just the latest to be affected by new technology and tough regulation enforcing change

- The broader concern is that declining liquidity will fuel more sudden forex moves and destabilize the market
- A series of market and banking reforms, as contained in Basel III and the US Volcker rule, has reduced the ability of banks to take trading risks on to their own balance sheets
- Technology costs are also constantly rising in a market in which 80% of volume is traded electronically

Answer: (1) Dying to soon, (2) Living to long, (3) Disability. I have spoken to many men that have remarried a much younger wife, a HUGE peril is that their wealth was not designed to outlive the younger wife, i.e. it exhausts in the lifetime of the man.

7 April 2015

Question: What are the three main types of life insurance?

BlackRock chief warns ripple effect of strong dollar threatens US growth – Pg. 1

- The steep rise in the dollar risk undermining business confidence in the US and sending the country's economy into a slowdown...
- ...the impact of the dollar's appreciation will be felt beyond the export sector which was its immediate casualty

US economy 'set for stronger growth' – Pg. 2

- The US economy probably grew by a weaker-than-expected 1% in the first quarter of this year, but growth should accelerate in the months to come as "temporary factors" dissipate, ...
- Friday's underwhelming jobs report for March ...was the latest piece of data to indicate the first three months of 2015 were weaker than expected...
- The key question, ...was how US households would respond to an improving economy, and what should be increases in real disposable incomes
- At 5.5%, the US unemployment rate was nearing the point where his staff believed it should lead to a faster rise in wages

UK Treasury urges BoE to consider forex time stamps in fight against fraud – Pg. 13

- ...central bank has been lukewarm about the proposal, sparking questions about how determined the BoE will be in its efforts to rehabilitate the City of London's tarnished reputation following several scandals
- Advocates of time stamps say they create an audit trail and enable bank customers to see the forex rates offered at the time of transaction. Time stamps are widely used in wholesale forex markets but not in spot trades for retail and institutional investors

Answer: (1) Term, (2) Whole, and (3) Universal

6 April 2015

Question: When the Euro was designed, what was the intended exchange rate with the U.S. dollar?

Hong Kong suffers shortage of building workers – Pg. 4

- With an ageing population, a low birth rate and a young generation reluctant to become blue-collar workers in this status-conscious city, Hong Kong is running low on construction workers
- China have already been delayed, partially because of the labour shortage. With plans to build 480,000 homes over the next decade, pressure is only likely to increase. The shortage has pushed up wage costs, further increasing prices in the world's most expensive property market
- ...rate of unfilled jobs in the industry has risen from 13% to 18.6% over the past two years
- The shortage is most acute for highly skilled workers such as those versed in the traditional art of bamboo scaffolding
- In the decade after Hong Kong reverted to China in 1997, spending on construction was limited, inadvertently sowing the seeds of the current labour shortage

India law change raises stakes for foreign insurers – Pg. 18

- A good insurance policy protects against an improbable but potentially significant future event, a description that for many years seemed apt for India's attempts to open its insurance sector to greater international investment
- Higher foreign limits are also expected to prompt a round of new flotations, led by Britain's Standard Life, which this month is likely to finalize plans for a mooted listing of about 10% of its joint venture with the housing finance group HDFC
- India's life assurance sector has shrunk in recent years, hit by a wider economic slowdown and a regulatory crackdown following worries over mis-selling

Answer: 1:1

4 April 2015

Question: Who said, "A doctor can bury his mistakes, but an architect can only advise his clients to plant vines."

US jobs setback weighs on dollar and adds to rate-setters' mood of caution – Pg. 1

- US companies scaled back hiring sharply last month, adding to evidence that the economy has lost momentum since the start of the year and triggering a decline in the dollar
- Payrolls increased 126,000 in March, well below Wall Street's 245,000 consensus forecast and snapping a 12-month spell of gains above 200,000....
- The previous two months' readings were also revised down by a net 69,000 jobs, while the unemployment rate was unchanged at 5.5%, ...
- The shape of the jobs market is key to the Fed's deliberations over the timing of the first interest rate rise.
- The data pushed the dollar down to \$1.10 against the euro, while the yield on the 10-year note fell 8bps to 1.84%

Dollar tumbles after US jobs disappointment – Pg. 11

- The US dollar fell sharply for a second day after the release of dismal US jobs data for March led traders to reassess the prospects for Federal Reserve rate rises this year

Treasury yields tumble after weak US payrolls data hint at slowdown – Pg. 12

- Dismal US jobs data sent Treasury yields tumbling yesterday, as the disappointing numbers reinforced the view that the US economy had slowed down and could lead the Federal Reserve to delay raising interest rates
- The dollar index, which measures the US currency against a basket of its biggest counterparts, fell 0.8% to a two-week low of 96.64
- US stocks went into the Easter break on a firmer note after a week of mixed data releases kept alive the debate over the outlook for the world's biggest economy – and when the Fed might raise interest rates
- Expectations of improving Eurozone growth – plus the ECB's huge asset-buying programme – spurred a strong outperformance by European stocks in the first quarter of the year compared with their US counterparts

Answer: Frank Lloyd Wright

2 April 2015

Question: What is external obsolescence?

China-led AIIB attracts raft of applicants – Pg. 2

- Almost 50 countries are poised to join China's Asian Infrastructure Investment Bank as founding members, after the deadline for submitting applications passed yesterday
- The rush to the AIIB has embarrassed Washington, citing potential governance issues at the proposed bank. However, those seeking founding members status include traditional US allies the UK, Australia, South Korea, Taiwan, France and Germany
- ...only Japan has heeded the pleas from US...

The great unravelling – Pg. 5

- Faced with recession, decade-high inflation, a fiscal crisis and water rationing, more than 1m Brazilians took to the streets last month to protest against corruption and mismanagement in their government
- In China, growth is slowing as property prices fall, propelling more than 1,000 iron ore mines toward financial collapse.
- The patriotic citizens of Russia, meanwhile, are deserting their nation's banks, switching savings into US dollars
- Such snapshots of growing distress in the world's largest emerging markets are echoed among many of their smaller counterparts
- On an aggregate basis, the 15 largest emerging economies experienced their biggest absolute capital outflow since the crisis in the second half of last year, as a strong US dollar

- drove emerging market currencies into a swoon and investors grew nervous over the prospect of a tightening in US monetary policy,...
- The IMF said this week that total foreign currency reserves held by emerging markets in 2014 – a key indicator of capital flows – suffered their first annual decline since records began in 1995
 - Without steady capital inflows, emerging market countries have less money to pay their debts, finance their deficits and spend on infrastructure and corporate expansion
 - While in 2008-09 the US was a key catalyst of emerging market distress, this time China is seen as the chief bugbear. Slowing Chinese GDP growth, coupled with a slowdown in construction, is triggering a large bout of capital flight as investors think they will earn more by parking their money elsewhere
 - The main expression of this reversal is the implosion of the “China carry trade”, in which Chinese investors borrowed at low rates of interest abroad to pump back into Chinese property and a range of shadowy financial products

QE propels European hybrid issuance – Pg. 18

- The launch of quantitative easing in Europe has driven down government and company bond yields to record lows, compelling investors to hunt for yield
- Hybrids initially provide a high yield, with the risk that a company can terminate the deal early, or transform the bond into equity
- Hybrids almost disappeared after the financial crisis

Answer: Depreciation caused by externalities, conditions outside the property (incurable obsolescence), e.g. high tax rate in the municipality, eye sores within sight, offensive odors from nearby plants, etc.

1 April 2015

Question: What is a ground lease?

Emerging market forex fall threatens west's growth – Pg. 1

- Foreign currency reserves in emerging markets fell last year for the first time in two decades, as developing economies found themselves best by waning competitiveness, capital outflows and concerns over US monetary policy
- The decline could hamper emerging economies' ability to keep buying US and European debt, a trend which has been an engine of growth in the west over the past decade
- The increase in emerging market reserves from \$1.7tn at the end of 2004 has been a foundation stone in the global economy for a decade. Much of the capital that emerging markets absorbed from trade surpluses, portfolio inflows and direct investments was recycled into US and European debt markets, helping to finance debt-fuelled growth in developed economies
- Fears of a US monetary policy tightening in a strong dollar environment has also prompted emerging market borrowers to reduce their exposure to loans denominated in the greenback

Eurozone deflation eases as asset purchases take effect – Pg. 4

- Deflation in the Eurozone showed signs of slowing in March following the launch of the ECB's 1.1tn (euro) asset buying programme to stave off prolonged low inflation
- Prices fell for the fourth consecutive month but did so less steeply than in previous months, as a weaker euro helped ease deflation across the Eurozone. The euro has dropped almost a fifth against the dollar over the past year, thanks in part to the ECB's quantitative easing programme
- Inflation stood at minus 0.1% year-on-year in March. The drop in prices compared to a 0.3% fall in February and 0.6% dip in January
- The biggest cause of the fall in prices – which was in line with forecasts – was energy, where prices tumbled 5.8%. That was significantly lower than the 7.9% fall recorded by the category in February
- The jobless rate fell to 11.3% in February from 11.4% the previous month - ...

Dollar supremacy affirmed in IMF report – Pg. 18

- The dollar's supremacy in the foreign exchange market was affirmed by official data yesterday, showing an increase among the currency reserves of central banks, while the euro's share declined
- ...the euro's share of currency reserves fall from 22.6% to 22.2% for the final three months of 2014
- ...the dollar's share should rise to 65%
- Although the euro remains above 12-year low of \$1.046 reached on March 16, most strategists believe further selling of the single currency is likely

Answer: it is a lease for unimproved property. Any improvements placed on the land may revert at the end of the lease to the lessor or the lessee depending upon the terms of the lease.

31 March 2015

Question: What is the difference between a gross lease and a net lease?

Bank of Canada head bemoans impact of oil shock – Pg. 6

- Canada's central bank governor has warned that the slump in oil prices is having an "atrocious" effect on the Canadian economy even as he expressed confidence that a cheaper currency and an incipient US revival would help exports drive a recovery
- The Bank of Canada unexpectedly cut interest rates by 25bps to 0.75% in January, in response to a slide in the price of oil which has halved since June. The governor defended the decision, saying that falling oil prices meant it had become impossible to return the economy to capacity within a two-year horizon
- He added that even though a lower oil price should increase domestic demand by boosting disposable income, the negative effects from the impact on the energy sector were widespread

- The depreciation of the Canadian dollar had taken time to boost exports, ...as thousands of exporting companies had to shut operations because of the strength of the Loonie and the weakness of the US economy

Maturity of Eurozone debt extended – Pg. 20

- Companies selling Eurozone bonds have extended the average maturity of their debt to a record length, taking advantage of low interest rates and healthy investor appetite for fixed income
- The launch of quantitative easing by the ECB has driven government and corporate debt yields down to record lows. With a growing pool of government bond yields, which move inversely with price, in negative territory, investors have sought corporate debt that pay higher coupons
- Buying longer-dated debt is not without risk, particularly should interest rates start rising as the ECB looks to jump start the economy and push inflation higher
- Many companies have broken fresh ground by launching inaugural euro transactions, as well as pushing the length of maturities.
- Foreign based companies have also flocked to the Eurozone and issued debt in record volumes since the start of the year

Use of renminbi in global payments dips – Pg. 22

- Use of the renminbi in global payments fell last month, raising questions over how closely the currency's path to internationalization is tied to expected appreciation in the coming years
- The Chinese currency broke into the top five most used payments currencies in December...overtaking the Canadian and Australian dollars
- But in February, renminbi use dropped to 1.8% of global payments from 2.2% in December
- Issuance of offshore renminbi bonds – known as “dim sum” bonds – has fallen sharply this year, and is expected by some analysts to record the first annual contraction since the market opened in 2007
- Expectations of further renminbi depreciation have been building as capital outflows have accelerated and the People's Bank of China has acted to boost growth by cutting interest rates. Chinese equity markets have soared to a seven-year high yesterday on a growing belief that further economic stimulus measures are imminent

Answer: In a gross lease the landlord/owner pays all expenses attributable to the property. In a net lease the tenant is responsible for some or all of the expenses.

30 March 2015

Question: What is a lessor and what is a lessee?

China's ageing society sets minds ticking – Pg. 9

- In Confucian philosophy it is taken for granted that children will look after their parents. In 21st-century China, things are proving to be very different

- With a population of 1.4bn, part of the issue is China is its scale, ...although the one-child policy has exaggerated the demographic trend
- Japan was rich before the rise of its ageing population; China is not there yet
- ...8% of China's consumption related to products and services for older people...
- First there is an ageing workforce. In China women usually retire at 55 and men at 60, so companies are losing people with tremendous experience and knowledge
- Second, life expectancy in China is now 76, which means a healthy old age is increasingly achievable, which could lead to a tremendous demand for products and services for the "silver-hair market" as it is known in China, either through the adaption of existing products or the development of new ones

Diverse monetary policies rally Wall St – Pg. 13

- Wall Street banks are set to enjoy their best quarter from trading in three years after a resurgence in volatility caused by diverging monetary policies around the world
- Last year, Wall Street's first-quarter revenues were the lowest since the financial crisis, when the big investment banks' engines began to sputter. The start of the year is typically the strongest. Since the first quarter of 2009, total trading revenues have dropped about a third, with the starkest declines in once-prized fixed-income, currencies and commodities divisions

Answer: In a rental agreement, the lessor is the renter, i.e. landlord, and the lessee is the tenant.

28 March 2015

Question: In a real estate transaction, who is the grantor and who is the grantee?

UK move to join Asia bank startled even Beijing – Pg. 4

- The UK Treasury had told Chinese officials it would not announce its application to join until March 17. But once other European countries got wind of Britain's plan to join the nascent Asian Infrastructure Investment Bank, the ensuing scramble to follow suit convinced London to move the announcement forward five days
- In the end, Luxembourg beat Britain by one day, signing up on March 11 but asking China to keep it secret for two weeks in case its application to join the bank was unsuccessful
- The decision by several US allies to sign up to an institution Washington had effectively said was off-limits is one of the most powerful symbols to date of the eastward shift of global power
- The rush by European countries to join the AIIB also showed how much more sophisticated China's diplomacy had become as it seeks to match economic muscle with greater influence abroad
- One reason for the rush to join was a deadline imposed by the Chinese of mid-March if countries wanted to be included in a high-level meeting of prospective AIIB members...

Brazil set to face worst recession for 25 years – Pg. 4

- Brazil's economy eked out growth in the final quarter of last year, but the data did little to relieve concerns that the country faces its worst recession in a quarter of a century
- GDP grew 0.3% in the final quarter of 2014, compared with the previous three months, as family consumption helped offset declines in investment and industry
- ...a decline in investment to 19.7% of GDP last year appeared to confirm analysts' fears that Brazil's consumption-led model of growth has been exhausted

Eurozone witnesses an American invasion – Pg. 11

- The American invasion has helped to create a US-style QE “pop” in equities.
- An increasing preference by investors to hedge inflows against further falls in the euro suggest they think QE effects have further to run
- Overseas demand for Eurozone shares have soared even before the ECB bought its first bonds on March 9,

Euro falls back as dollar regains momentum – Pg. 11

- The euro slipped back at the end of a week that saw repeated failures to sustain a rise above \$1.10 against the dollar, as the world's reserve currency regained bullish momentum

Answer: Grantor = seller; Grantee = buyer

27 March 2015

Question: What are ‘riparian’ rights?

Microsoft joins wage inequality debate urging paid leave for suppliers' US staff – Pg. 1

- ...becoming what it claims is the first big American company to insist its suppliers give their US workers paid leave
- The world's biggest software company took the step after acknowledging that big companies have been forced on to the defensive by the income inequality debate, which intensified in the aftermath of the global financial crisis
- Microsoft has \$62bn of net cash, almost all of which is parked in offshore centres to avoid the higher taxes that would come from shipping it back to the US
- The paid leave requirement will apply to all suppliers' employees who do “substantial work” for Microsoft

Fed member warns against raising rates too early – Pg. 6

- US inflationary pressures are unlikely to rise enough to justify lifting interest rates in June, ...adding hopes that the central bank will defer its first rate rise in nearly a decade until at least autumn

Stock indices in retreat as Yemen tensions make for a sour mood – Pg. 21

- Global stock markets extended declines yesterday, while demand for gold and oil prices jumped in response to increased military action in Yemen

- Traders remain uncertain about the cause of the retreat, though most seemed to favour the idea that nervousness over the forthcoming corporate earnings season had encouraged a burst of end-of-quarter profit-taking, with recent big winners such as biotech taking it on the chin
- Another possible factor in the increasing risk aversion was a batch of mostly disappointing US economic data

Answer: Rights to use of waterfront land.

26 March 2015

Questions: What is loan-to-value ratio?

Heinz swallows Kraft in private equity march on US food industry – Pg. 1

- Heinz is to take over Kraft Foods to create one of North America's largest food companies, in the latest blockbuster deal engineered by the tandem of Warren Buffett and Jorge Paulo Lemann of Brazil's 3G Capital
- The combination will create a company valued at \$100bn including debt that brings together some of the biggest household brands in the US, ...
- The deal – the world's largest M&A transaction this year – marks another step in the conquest of the US food industry by a Brazilian private equity group noted for its meticulous scrutiny of operational detail
- The cash-and-stock transaction will see 49% of the new group go to Kraft shareholders, who will also receive a \$10bn special dividend of \$16.50 for each Kraft share. That sum will be paid by Mr Buffett and 3G, who will hold 51% of the new company
- The deal is likely to presage significant cost-cutting at the merged company
- Heinz will also try to use the global reach of its portfolio of condiments to expand the presence of Kraft products in new markets

Bad loans knock Agricultural Bank of China – Pg. 12

- China's third-largest bank has reported its first annual fall in quarterly profits in three years as bad loans rose by a record amount, as ominous sign for other big lenders due to report full-year results this week
- China's GDP grew at its slowest pace in 24 years last years, and data suggest a further deceleration in early 2015
- The bank's non-performing loans ratio stood at 1.54% by the end of 2014, up from 1.29% three months earlier
- The official non-performing loans ratio for China's entire banking system was 1.29% as of the end of last year, the highest level in four years

Fed's flexibility keeps Treasuries on edge – Pg. 20

- Interest rate policy flexibility on the part of the US Federal Reserve looks likely to keep the bond market on edge

- While the bond market has largely priced out the chances of a June rise, the performance of Treasury debt rests on the tone of incoming data and whether the central bank looks beyond recent dollar strength
- With the first quarter drawing to a close, the US government bond market has moved sharply in terms of prices and yields
- A lack of a clear signal over when policy shifts towards a tightening phase does not quell the uncertainty facing investors
- The behavior of the dollar, whose strength has tightened financial conditions, and the performance of Eurozone bond markets continue to influence Treasury yields

Answer: Utilized by banking loan officers. It is the amount of the loan divided by the value of the property as determined by an appraiser.

25 March 2015

Questions: What is 'fenestration'?

Economy to grow at least 7% for two years, says bullish ADB – Pg. 6

- China's economy will grow at least 7% for the next two years...
- The country's economy grew at its slowest pace for a quarter of a century last year and its leaders have warned of a "new normal" of slower growth
- ...economic growth in China would moderate only slightly to 7.2% this year and 7% next, compared with 7.4% growth in 2014

British chancellor buoyant as inflation drops to zero – Pg. 6

- The UK's annual inflation rate fell to zero in February as the slide in the cost of oil continued to act as a brake on prices
- The consumer price index dropped from 0.3% in January to a record low, against economists' expectations of a fall to 0.1%
- The slide in inflation was largely driven by a drop in the cost of transport, food and non-alcoholic beverages. However, core inflation, which strips out the effects of these more volatile items, also slowed, hitting 1.2% against 1.4% in January
- Producer prices continued to fall in the year to February, down 1.8%. This means that deflationary pressures are continuing to build

China property debt passes the Kaisa stress test – Pg. 22

- Asia's fast-growing bond market faced its biggest challenge earlier this year with the sudden fall from grace of Kaisa, the Shenzhen-based property developer
- Issuance from the real estate sector has also returned after a hiatus. Country Garden and Shimao Property – junk-rated borrowers – have together raised more than \$2bn, while Sino-Ocean Land completed one of the sector's deals
- Asia's offshore debt markets have been growing fast in the past few years. Asian borrowers have raised \$52.4bn in G3 currency bonds so far this year, ...compared with \$18bn over the same period in 2010

- Investors are gravitating towards companies deemed better equipped for the slowdown – typically larger, state-backed builders. Smaller property borrowers are likely to face a bumpier road

Euro's fall and QE do little to inflation rates – Pg. 22

- The launch of Eurozone quantitative easing and the euro's steep fall against the dollar have had only limited impact in lifting long-term inflation rates priced into financial markets
- The "inflation expectations" gauge watched most closely by the ECB has barely risen since the eurozone's monetary guardian started its 60bn (euro) a month purchases of public and private assets on March 9
- Last year's steep fall in the "five-year five-year" Eurozone inflation gauge, which is based on swaps prices...
- Historically, the gauge was usually significantly above the "below but close" to 2% level at which the ECB aims to keep annual Eurozone inflation rates
- Eurozone inflation has fallen sharply largely as a result of lower oil prices, with the annual rate dropping into negative territory
- A weaker euro should help increase Eurozone price pressures. Against the dollar, the euro has fallen 22% since last May, although it has recovered some of its losses since last week's US Federal Reserve meeting after which Janet Yellen, ...warned about the impact of a stronger dollar on US exports

Answer: Window configuration.

24 March 2015

Questions: What unit of comparison would be best to use to compare sales of waterfront land?

Eurozone jobless outlook points up fears of persistent stagnation – Pg. 1

- One in 10 workers in the Eurozone will remain unemployed even after the effects of the ECB's bond-buying programme have rippled through the economy...
- Joblessness in the area remains at 11.2%
- By contrast, the jobless rate in the US stood at 5.5% in February and is set to go below 5% this year. UK unemployment is forecast to fall to 5.3% this year
- The eurozone's overall jobless rate masks deep divisions between wealthier and poorer areas. The young have borne the brunt of the crisis, with jobless rates for under-25s in Spain and Greece above 50%, compared with about a quarter of the total workforce

Zero rates feed bubbles, says Fed official – Pg. 2

- The US risks inflating asset price bubbles with "devastating consequences" if it leaves interest rates at zero...
- Growth...was likely to be running about 1% above its long-run trend and this would continue to push unemployment down towards the 3.8% low of the 1990s and the 4.2% low of the 2000s

Retreat from UK-exposed equity funds – Pg. 20

- Global investors are retreating from UK-exposed equity funds, spurred by political uncertainty and attracted by the stronger performance of Eurozone share prices
- In turn, fund flows suggest UK investors are turning towards the Eurozone, where the launch of quantitative easing by the ECB has bolstered expectations of a recovery. In contrast, the UK's high private debt, rising inequality and declining productivity has raised red flags among investors

Moody's warns on EM dollar finance costs – Pg. 22

- Emerging market countries that took advantage of low-cost dollar finance to expand their pools of external debt are facing intense pressure...
- Countries such as Brazil, Turkey and South Africa, where governments funded current account deficits by borrowing heavily overseas, are likely to face particular problems, ...
- Emerging markets have participated in the largest boom in dollar-denominated borrowing in the world since the financial crisis, ...
- Close to one-third of Turkey's government debt is denominated in dollars, and financing that debt will equate to more than half of the country's economic output this year. Indonesia's dollar debt is even higher, amounting to 45% of the total

Answer: Front Feet of Land

23 March 2015

Question: What unit of comparison would best to use to compare comparable sales of climate controlled warehouses?

US fears self-inflicted wounds as dollar surges – Pg. 4

- A US failure to secure many substantive trade agreements in the past two decades has also hurt the country's competitive proposition, ...

Transatlantic divergence – Pg. 5

- Central to the revival is the euro's dramatic dive against the dollar. Since the ECB started preparing a "quantitative easing" programme – involving 60bn (euro) a month of purchases of public and private debt – the euro has seen its biggest year-on-year declines against the greenback since its launch in 1999. Investors are betting that the weaker euro will boost exports, reviving the eurozone's fortunes
- Eurozone stocks have risen 18% this year, far outpacing the near 3% rise in the US S&P 500 index
- The effects of the stronger dollar may be offset by further improvement in the US economy, which is being helped by steadily falling unemployment and lower energy costs
- Another 20% rise in the dollar would drive up the current account deficit by another \$500 - \$600bn

- With the Fed expected to be the first of the world's main central banks to raise interest rates, it struggles could be a harbinger of the problems others – including the ECB – will have in winding down their easy-money policies

Answer: Dollars/cubic foot

21 March 2015

Question: In appraising a residential subdivision is gross sell-out value equivalent to market value?

Greek bailout summit ends in disarray – Pg. 2

- Athens is facing a severe cash crunch. It needs fresh sources of financing to pay wages and pensions at the end of this month following a 1bn (euro) revenue shortfall in the first two months of this year, ...

At breaking point – Pg. 5

- Faced with recession, decade-high inflation, poor public services, a fiscal crisis, water shortages and possible energy rationing, even the most tolerant Brazilians have found it hard to stomach allegations that up to \$10bn was stolen from Petrobras to pay bribes and fund political campaigns while Ms Rousseff was chair of the company's board
- If Petrobras cannot calculate the company's losses from corruption and convince its auditors PwC to sign off its annual financial statements by the end of May, the world's most indebted oil major faces technical default

ETFs pour into US oil futures contract – Pg. 11

- Almost a third of the most active US oil futures contract is controlled by exchange traded funds, turning smaller investors into a muscular force on global commodities markets
- ETFs track baskets of securities or commodities in a convenient wrapper that trades on a stock exchange.
- Oil ETFs are not limited to retail. Among the investors with a large recent position in the US Oil Fund...

Dollar's direction falters on Fed worries – Pg. 11

- Four words in the US Federal Reserve policy statement triggered a remarkable 24-hour rollercoaster for the dollar. "Export growth has weakened," said the central bank, in a veiled reference to how the sustained appreciation of the currency since last summer has weighed on the economy
- Although the Fed rarely discusses the currency, Janet Yellen, also referred to dollar strength during her press conference after the statement was published
- A 25% rise in the dollar over the past year may give way to a period of far choppier trading that challenges investors, especially those betting on further gains for the greenback

- Surging dollar appreciation globally has triggered growing unease among US equity investors as numerous multinational companies have revealed lower profits from their foreign operations
- Yellen played down the prospect of a rate rise in June...

Answer: No, gross sell-out value, aka aggregate retail value, is the sum of selling prices of the individual lots. It does not account for expenses incurred and thus is not the equivalent of market value.

20 March 2015

Question: Are all closed sales valid in the comparable approach to value.

Fed's mixed signals expose gulf with markets over rate cut expectations – Pg. 1

- A day after the Fed dropped its pledge to be “patient” over lifting rates, traders were betting that its key interest rate would be just 1.80% by the end of 2017
- ...a series of reductions in the Fed's interest-rate projections alongside forecasts of weaker growth and inflation prompted traders to conclude that the central bank was taking a more cautious view of the economy – even as it opened up its options on rates
- That suggested a move in June was now less likely and traders were betting that by the end of the year the funds rate would be about 0.5%, representing a 0.25% point tightening

BofA effort to block break-up vote fails – Pg. 16

- Bank of America will have to defend its structure at its annual meeting in May...SEC allowed a small shareholder the right to challenge the board on a break-up
- ...BofA's board would be under pressure to appoint a committee to examine a plan for divesting all non-core banking businesses such as Merrill Lynch, its investment banking arm

US banks brace for rate rise boost – Pg. 16

- With persistently low short and longer-term rates, the net interest margin – the spread banks earn between the rate they pay depositors and the rate they earn on loans and investments – touched the lowest level since records began 30 years ago during the third quarter last year. It fell to just 3.09% and rose fractionally to 3.11% in the fourth quarter

Ireland joins the negative yield club – Pg. 22

- Ireland, once the epicenter of a banking crisis so severe it required a multi-billion-euro bailout, has become the latest country to sell public debt at a negative yield in a sign of how far markets are operating in unknown territory
- Economic recovery in Ireland has been reflected in rising growth forecasts and stock prices this year, but investors say the country would be able to borrow at a sub-zero yield were it not for wider abnormalities in debt markets
- Low interest rates, central bank bond buying programmes designed to kickstart growth and uncertain outlooks for the global economy have pushed up prices for the safest and most liquid assets, sending yields on government debt to record lows and below zero

- ...in Switzerland investors accept negative yields to lend money to the government for more than a decade

Loan fund outflows defy Fed rate outlook – Pg. 22

- Money has continued to leave funds that invest in bank loans in spite of expectations of surging inflows
- The outflows are unusual because bank loan funds offer investors protection against rate increases, which markets anticipate in June or September after the Federal Reserve dropped its pledge to be “patient” on raising interest rates on Wednesday
- But the soaring dollar and unexpectedly weak US data have created uncertainty in recent weeks
- Rises in the Fed base rate, the benchmark for lending across the globe, will drive down the price of bonds and potentially hurt equities, and investors will need protection against such moves

Answer: No, only arms-length transactions should be employed.

19 March 2015

Question: What is the difference between the way an appraiser and an assessor value properties?

Federal Reserve opens door to first rate rise for a decade – Pg. 1

- The Federal Reserve has dropped its pledge to be “patient” before raising interest rates, freeing its hand to lift official borrowing costs for the first time in nearly a decade
- The US central bank left its target range for short-term rates at zero to a quarter per cent, adding that it did not expect to pull the trigger on rate rises as soon as April, but opening up its options from June onward
- ...also reduced its forecasts for growth and inflation and projections of interest rates, ...
- The biggest market reaction was seen in US equities, where the broad S&P 500 index erased losses to advance 1.1%
- In new projections, FOMC members reduced their growth outlooks for 2015, 2016, and 2017, with the central tendency for 2015 reduced to 2.3-2.7% from 2.6-3 per cent

OECD raises growth forecasts but warns of instability risk – Pg. 2

- Growth forecasts for the Eurozone have been sharply upgraded by the OECD in the latest sign that low oil prices and the ECB’s quantitative easing project have lifted hopes for the region’s recovery
- In its Interim Economic Assessment, the OECD said it now expects the Eurozone to grow by 1.4% this year and 2% in 2016. This is 0.3% faster than previously anticipated for both years and in line with the latest forecasts from the ECB
- Overall the global economy is expected to grow by 4% this year and 4.3% in 2016

Swedish krona weakens sharply after surprise rate cut – Pg. 2

- Sweden's Riksbank cut its main policy rate deeper into negative territory as the central bank underlined its desire to weaken its currency in the midst of what economists have called a global currency war
- The Riksbank unexpectedly cut its repo, or repurchase, rate from minus 0.1% to minus 0.25% yesterday and increased its quantitative easing programme of buying government bonds

Risk threatens to enter world of long bonds – Pg. 20

- Demand for public debt that will not mature for at least three decades has rarely been higher. But in a rising rate environment, holding long-term debt looms as a precarious option
- Prices for long-dated bonds are highly sensitive to shifts in underlying interest rates. Once yields rise sharply, owners of 30-year bonds will see their prices, which move inversely to yields, fall much more than those for debt with a shorter maturity
- In the US the yield on 30-year bonds is higher, at 2.57%, but is also close to the levels reached during the depths of the financial crisis
- Yields on long-term bonds are usually seen as a reflection of the economic backdrop and inflation expectations, and the current low levels appear to offer a gloomy view. They imply a fug of negligible inflation, mediocre growth and interest rates anchored close to zero for some time to come

Answer: An Assessor determines, assessed value based on market value. An appraiser never determines value. An appraisers opines an estimate of value, i.e. appraisers provide an opinion only.

18 March 2015

Question: If the cost approach to value indicates that the value upon completion of a planned project will be less than the projected costs to build, what does this indicate?

Fed rate rise risks 1937-style market slump, says fund chief – Pg. 1

- The note emerged as Christine Lagarde, head of the IMF, warned that US rate increase could trigger instability in emerging markets, leading to a re-run of the Fed-induced "taper tantrum" of 2013
- The Fed is today expected to remove pledges to be "patient" before lifting rates when it concludes two days of deliberations
- The note likens financial conditions today to those in 1937, eight years after the 1929 stock market crisis and at the end of four years of money printing that had led to a surge in equity valuations. Premature tightening by the Fed led to a one-third slump in the DJIA in 1937 and the sell-off continued into the following year

Young US consumers' thirst for tea pushes up imports 30% in a decade – Pg. 13

- The US imported more tea than the UK last year for the first time, as an increasing number of young American consumers are choosing the brew over coffee
- US imports have risen 30% by volume in the past decade...

- In the UK – still one of the leading tea consuming nations – sales are declining, with imports falling 20% in the past decade
- Iced tea has always dominated the tea category in the US but anecdotal evidence suggests consumption of hot tea is on the rise (Prof Note: Remember your ‘spot of honey’)
- The rise in tea consumption in the US comes as coffee drinking is on the wane (Prof Note: I just made a pot of coffee prior to sitting down to write this summary)
- In the UK more people are turning to coffee

Asset managers cut their holdings of US stocks – Pg. 20

- Asset managers worldwide have cut their portfolio exposure to US equities to the lowest weighting since the start of 2008, as they believe the market is too expensive ahead of a likely tightening of policy by the Federal Reserve
- The vast injection of liquidity into the US financial system has propelled US share prices into record territory with the S&P500 rising 250%, including the reinvestment of dividends, since the depths of the financial crisis
- ...a net 19% of asset managers are now underweight US equities, representing a large swing from a net 6% overweight in February

Answer: the project, as proposed, is not financially feasible.

17 March 2015

Question: In what instance might the cost approach become the most relevant, supportive and important approach to value?

German stocks big winners from ECB bond-buying – Pg. 1

- German equities have emerged as the main beneficiaries of the ECB’s quantitative easing programme,...
- The Dax has climbed 24% this year, and excluding dividends has outperformed other Eurozone markets
- Investors have piled into equities as expectations of QE pushed a quarter of Eurozone government bonds into negative yielding territory,...

China doubles exports to become third-biggest arms suppliers – Pg. 2

- China lifted exports of military weapons and equipment 143% over the past five years to usurp Germany as the world’s third-largest arms trader
- China’s biggest client during the past five years was Pakistan, india’s rival in South Asia, which bought 41% of the country’s exports
- Chinese exports still lag well behind the world leaders. The US exported 31% of global arms in 2010-14, while Russia, which inherited the vast cold war arms industry of the Soviet Union, accounted for 27% (Prof Note: While this struck controversy with the readers, love Marine pride, I still consider Russia’s Kalashnikov a superior weapon to the US’s comparable rifle. Gotta love Russia!)

- China's most lucrative arms contract over the period 2010-14 was the sale of 50 JF-17 fighter jets to Pakistan
- China's defence budget is second only to the US and is scheduled to grow at 10.1% this year, outpacing economic growth, ...
- However, this level of defence spending is still dwarfed by the US, which annually spends more than the next 10 largest defence spenders combined. The Pentagon's budget request for 2015-16 is about \$585bn

Answer: When the property is in planning stages.

16 March 2015

Question: Of the three approaches to value, which is the most relevant to appraising a income producing property?

Five critical questions ahead of the Federal Reserve meeting – Pg. 3

- A few things seem clear: rates are not yet moving from their near-zero levels, but Fed chairwoman Janet Yellen wants to free the FOMC to raise them when it sees fit
- It would be a surprise if the Fed's existing pledge to be "patient" before raising rates – meaning that it will wait at least two meetings – survives with the FOMC meeting
- The softer growth and inflation outlook partly reflects the jump in the dollar, which will weigh on net exports, as well as a weaker starting point for GDP in 2015
- The FOMC is unlikely to mention the dollar explicitly, although there was an allusion to "international developments" in its January statement
- As part of the quarterly forecasts, the Fed will produce a "dot plot" setting out the predictions of FOMC members for the key interest rate
- As things stand, the Fed and markets are out of sync, with policy makers predicting higher official rates than the futures market, which sees them at just 2% in 2017

Students lose faith in professional disciplines – Pg. 10

- The number of US citizens taking the GMAT, the entry test for business school, fell to approximately 87,000 last year, down from 127,000 in 2010
- ...not all schools are suffering equally...applications to MBA programmes at top business schools are actually rising as part of a flight to quality
- At law schools, it seems to be all about the lack of jobs
- As of March 6, the LSAC reported that applications are down 6.5% from the same period in 2014. Total end-of-year application numbers have fallen by more than 6% every year since 2011

Answer: It could be any of the three depending upon available data and relevant data.

14 March 2015

Question: What are the three stages in a neighbourhood lifecycle?

Investors pour record amounts into European shares in response to QE – Pg. 1

- Investors have pumped record amounts of money into Eurozone shares this year, against the backdrop of the ECB's long-awaited quantitative easing programme and the sharp slide in the value of the euro
- The launch of QE has shifted investor appetite from the US, whose long bull market was stoked by aggressive monetary easing, to Europe, where QE has only just started
- The start of QE stands in sharp contrast to monetary policy in the US, where the Federal Reserve is expected to raise interest rates later this year
- The sharp depreciation of the euro has boosted Eurozone companies by making their exports more competitive

Dollar drives gloom in emerging markets – Pg. 11

- At the end of last year the world's oldest international financial organization made a dire prediction. If the dollar continued rising, the Bank of International Settlements warned, emerging markets would find their financial fragilities exposed
- A stronger dollar hits hard for many developing countries that have large debts denominated in the world's reserve currency as they sought low US borrowing rates in recent years
- Latin America has borne the brunt of selling pressure so far, thanks to a combination of lower commodity prices, slower growth and political dissatisfaction pushing currencies and local stock markets to multiyear lows
- Korea's rate cut made it the fourth Asian country to move in the past two weeks, joining India, China and Thailand. Even Malaysia, the worst performing equity market, has lost just 4% in US dollar terms, less than much of eastern Europe or Latin America

Answer: Growth, Stabilization and Decline

13 March 2015

Question: In developing the sales comparison approach to value, what are units of comparison?

US attacks UK over China stance – Pg. 1

- The White House accused the UK yesterday of a "constant accommodation" of China after the British government decided to join a new China-led financial institution that could become a rival to the World Bank
- ...Britain prepares to announce it will be a founding member of the \$50bn Asian Infrastructure Investment Bank, making it the first G7 country to join an institution launched by China last year
- ..underlines US concerns over China's efforts to establish a new generation of international development banks that could challenge Washington-based institutions. The US is lobbying other allies not to join the AIIB

- Washington's relations with David Cameron's government have been strained in recent weeks, with US officials criticizing the UK over falling defence spending, which could soon dip below NATO's target of 2% of GDP
- While Beijing has long been suspicious about US influence over the World Bank and IMF, China also believes that the US and Japan have too much control over the Manila-based Asian Development Bank

Euro plunge tests ECB inflation forecast – Pg. 2

- The pace of the euro's plunge against the dollar has taken most Eurozone economists by surprise, including those at the region's central bank
- So far the ECB has welcomed the euro's depreciation, which should provide a much-needed boost to the eurozone's exporters. But a sustained weakening could lead hawks on the government council to ask some awkward questions about whether policy makers are right to keep on buying 60bn (euro) of public and private sector bonds a month
- With inflation forecast to hit 1.8% by 2017 the ECB is heralding QE a success less than a week into its launch

Dollar strength weighs on Fed rate-setters – Pg. 2

- The higher dollar will have an impact on US growth and inflation just as the Fed contemplates revising its signals on the interest rate outlook, intensifying the debate among rate-setters as to whether June is the right time to push the button on the first rate rise in nearly a decade
- The dollar has since jumped another 7% to knock on the door of parity with the euro, and the prospect of rate rises in the US – at a time when a swath of foreign countries are easing policy and driving down their currencies – could simply add to the upward momentum
- The repercussions of the dollar's strength vary sharply across the corporate world, depending on where and whether a business has international operations, how its supply chain is configured, and what its currency hedges are
- Some 87% of the US economy is domestically driven, meaning factors such as resurgent jobs growth will be far more important in determining the interest rate outlook

Answer: Dollars/sf, Dollars/apartment unit, Dollars/Key (hotel), Dollars/acre, Dollars/Bed

12 March 2015

Question: What are the three types of depreciation?

Fed faces rate dilemma as dollar strength squeezes export earnings – Pg. 1

- The euro fell closer to parity with the dollar yesterday, as the US currency's strength heightened the policy conundrum facing the US Federal Reserve as it prepares for its first interest-rate rise in nearly a decade
- The US currency is rising in part because of the prospect of higher US interest rates and stronger growth

- The single currency's depreciation, alongside lower oil prices and the bank's quantitative easing programme, had led ECB economists to upgrade their economic forecasts...

Fed policy maker warns rate rise is overdue – Pg. 4

- ...Fed risked holding fire too long on rate rises given tumbling unemployment figures and that even after the central bank started tightening, monetary policy would remain easy by normal standards (Prof Note: What is "normal"?)
- He likened the situation to 1994, when the Fed provoked a bond market rout by surprising traders with sharp rate rises
- Another argument for caution on rate rises is the soaring dollar, which is likely to squeeze US exports

Saudi Arabia looks to private sector to boost development – Pg. 6

- An increasing reliance on the private sector comes as Saudi Arabia's state finances come under pressure from lower oil prices.

Student loan challenger aims to poach \$1bn of mortgage business from banks – Pg. 17

- A new entrant to the prime US mortgage market is looking to do \$1bn of business by the end of this year, in a sign of how non-banks are challenging traditional lenders squeezed by tight regulation and tougher capital standards
- SoFi is funded mostly through warehouse lines of credit...
- It also carried out the first securitization of peer-to-peer loans in November 2013
- Last year non-banks accounted for a record 38% of the \$1.2tn mortgage origination market, ...

Eastern Europe feels dollar's strength – Pg. 22

- Poland, the Czech Republic and its near neighbours suffered dual currency headwinds brought on by the strength of the dollar and the eurozone's quantitative easing programme
- But in central and eastern Europe, where countries look nervously over their shoulders at the risks to their economies from tensions between Russia and Ukraine, currency volatility is also being stirred by the start of this week of the ECB's quantitative easing programme

Answer: Physical, Functional and External Obsolescence

11 March 2015

Question: What are the three basic approaches to value of real estate?

QE and US rate expectations push euro to 12-year low – Pg. 1

- The euro, which has dropped 13.1% against the dollar since the start of 2015, has dipped below \$1.0700 by mid-afternoon trading... (Prof Note: I have received no less than half a dozen emails regarding how to profit. As my students know, I have always wanted a flat in Paris. Well, I am starting to look.)
- The S&P500 wiped out all its gains for the year, dropping 1.4%...

- Oil also fell, ...\$57 a barrel

China's second aircraft carrier on the horizon as Beijing builds naval muscle – Pg. 1

- Until now the military has tried to keep the second carrier a secret and at least two reports in Chinese media about the ship have been censored
- China last week said its defence budget would rise by 10% this year...
- (Prof Note: As an American I should probably be bearish on the Chinese carrier but I actually embrace the U.S. being held somewhat accountable. I continue to be Bullish on China (and Russia))

Bankers' appetite to buy raises risk of losses – Pg. 3

- At first glance, eurzone QE looks more manageable than the task faced by traders at the BoE between 2009 and 2012. The BoE had to Hoover up more than a quarter of the stock of UK gilts, while the ECB intends to buy about 13% of the region's government bonds
- But unlike the UK, the Eurozone has no yawning budget deficit to fill by issuing debt. Net issuance of sovereign debt between now and September 2016 is likely to hit just 413bn (euro)...
- That issuance cannot keep pace with Eurozone central bankers' appetite to buy looks set to raise the price of government debt and drive more yields below zero. This heightens the prospect of losses from operation
- This phenomenon of bondholders paying for the privilege of lending to Eurozone governments is driven not only by fears of a Japanese-style "lost decade" of mild deflation, but also by a desire to hold on to safer assets regardless of cost
- With German bonds of maturities up to seven years already trading at negative yields, the Bundesbank could also be constrained by the ECB cost ceiling, which banks purchases of bonds with yields below minus 0.2%. Some think the German central bank could hit ECB-imposed limits, which mean it cannot buy more than a third of its sovereign's bonds

Super-long debt sales hit record – Pg. 13

- Governments and companies are taking advantage of historic low financing rates to issue unprecedented amounts of super-long-dated debt that will not be repaid for a generation
- Yesterday the UK reopened a 53-year bond due for repayment in the summer of 2068, one of the longest-dated gilts
- Although pension funds and insurance companies like to buy some longer-dated debt to match their liabilities, many have stopped short of investing in 50- to 100-year maturities

Answer: Sales Comparison, Income Capitalization, Cost approach to value

10 March 2015

Question: What is securitization?

ECB risks losses in sign of determination over QE plan – Pg. 1

- Eurozone central bankers resorted to buying sovereign debt at negative yields yesterday, in a sign of their determination to press ahead with the 1.1tn (euro) quantitative easing programme despite the risk of incurring losses
- Eurozone government bonds rallied after central banks across the region fulfilled the ECB's pledge to follow in the footsteps of the Federal Reserve and the BoE and launch full-scale QE
- The phenomenon of investors paying for the privilege of lending money to some Eurozone governments reflects markets' concern that the region could be facing a Japan-style "lost decade" of economic stagnation
- The high cost of safer Eurozone bonds, along with perceptions that investors will be unwilling to sell at any price, have raised doubts about whether the ECB will be able to buy 60bn (euro)- worth of public and private sector assets a month between now and September 2016
- It is unclear whether the ECB or national central banks would take the hit for losses from negative yields

Brazil's currency plunges as protests erupt over Rousseff's austerity plan – Pg. 1

- Brazil's real plunged to a near 11-year low in Sao Paulo, amid concerns that rising political uncertainty will undermine president Dilma Rousseff's fiscal austerity plan
- The real's latest drop followed a tumultuous weekend in Brazilian politics in which a speech by Ms Rousseff seeking to convince the country of the need for fiscal austerity provoked protests in large cities
- The country's economy is expected to sink into recession this year amid rising inflation, ...

Spanish house prices increase at fastest rate since 2008 – Pg. 2

-fuelled by a broader economic recovery and increased availability of credit
- After 2008, the collapse of Spain's overheated property market precipitated an economic and financial crisis, culminating in a bailout of one of the country's biggest banks and skyrocketed unemployment
- The recovery of Spanish house prices is fuelled by economic growth and is playing a different role compared to other recoveries in the country's economic history,...

Ageing workforce poses risks for eastern Europe, says report – Pg. 2

- Eastern Europe risks an end to booming economic growth and increasing strains on the public purse without radical reforms to employment, migration and education policies...
- Dwindling birth rates, mass emigration and outdated working practices are curbing workforce strength in the region, threatening decades of economic expansion and challenging attempts by countries such as Poland, Estonia and Romania to close the gap with richer western nations, ...
- In terms of GDP per capita, the gap between western Europe roughly halved between 2000 and 2012,
- But large-scale emigration from east to west, mainly of young, skilled workers, and falling fertility rates due to rising aspiration levels, has skewed eastern Europe's demographic profile upwards

Answer: The transformation of assets into sellable units.

9 March 2015

Question: What are the two main statistical tests for multivariate regression?

ADB set to boost lending by 40% - Pg. 2

- The Asian Development Bank is set to raise the amount it can lend annually for infrastructure and other projects by nearly 40% to \$18bn
- As things stand, the bank is forbidden from borrowing against the \$34bn in its Asian Development Fund, which provides grants and concessional loans to the poorest countries
- It can, however, leverage the \$18bn funds in its so-called Ordinary Capital Resources, from which it makes quasi-commercial loans to better-off countries
- Under the proposal, recently approved by the bank's donors, the ADB will merge the two funds, allowing it to borrow against combined capital of roughly \$53bn
- Under the proposal, recently approved by the bank's donors, the ADB will merge the two funds, allowing it to borrow against combined capital of roughly \$53bn
- Lending to poor countries could potentially rise 70%...
- Beijing has been frustrated in its efforts to have a larger say in the Japanese-dominated ADB through a change of shareholder structure, ...

Fears of damaging deflationary spiral subside – Pg. 4

- Lower price pressures were meant to raise disposable income among consumers, encouraging shoppers to spend, boosting economic growth. An alternative scenario, however, would see families holding back from opening their purses in the hope of even lower prices in the future
- Economies would then suffer the plight of Japan, which has remained stuck in deflation for nearly two decades
- Prices in Britain are rising at the slowest rate in decades. Even in Japan, where a programme of quantitative easing had succeeded in pushing up inflation, price pressures have come down sharply compared with last spring
- For now, there is also little evidence that falling prices are feeding into wage negotiations, which would make deflation harder to overcome

How firm a foundation? – Pg. 7

- While the corporate bond market has a long history of Wild West behavior, it has rarely captured the attention of resource-strapped regulators. That is beginning to change amid growing concern over the combination of stretched bond valuations and an outdated market structure
- After years of low interest rates, US corporations have been on a borrowing spree

Willis Tower poised for sale to Blackstone in property revival – Pg. 15

- Blackstone, the world's biggest real estate investor, is set to buy one of the world's best-known buildings, Chicago's Willis Tower, for about \$1.5bn in a deal expected to be signed this week,
- The 110-story building, better known under its previous name, the Sears Tower, is the second-tallest building in the US and New York's One World Trade Center
- Capitalization rates have been unusually low, driving up property values sharply
- When interest rates do finally move up, however, the speed of appreciation in real estate values is expected to moderate, if not reverse

Answer: T-test (individual) and F-test (overall)

7 March 2015

Question: What is the significance of 8 March 2015 for Russians (and the world)?

US hiring spurs Fed rate rise talk – Pg. 1

- The dollar soared and bond yields rose as hiring by American employers smashed Wall Street expectations and fuelled speculation that the Federal Reserve was nearing its first interest rate increase in nearly a decade
- The US has now seen its longest streak of monthly jobs gains above the 200,000 mark in 20 years. Yet markets have focused on sluggish wage growth as they argue that the Fed will hold fire rather than lifting official interest rates
- Investors exited positions across the Treasury yield curve, with heavy selling hitting interest rate-sensitive two-year notes as well as longer-dated maturities including the seven-year note and 30-year bond
- The rate of unemployment fell from 5.7% to 5.5%, edging the labour market ever closer to Federal Reserve officials' estimates of full employment and heightening pressure for a rate increase

QE's effect on bonds closely watched – Pg. 13

- In the warped Eurozone bond market world, the launch of QE is expected to create significant shortages, pushing bond prices up – and yields down
- Since Eurozone QE was announced on January 22, the universe of Eurozone government bonds of more than one-year maturity with negative yields has grown by 350bn (euro) ...
- Rather than track the US and UK, where QE programmes were launched when governments were running large fiscal deficits, Eurozone QE could follow the example of Japan, where yields fell as the bond-buying became more aggressive. Bank of Japan QE purchases are running at a rate roughly double the pace of net Japanese government bond issuance. ECB purchases will be almost 1.5 times as great as Eurozone net issuance
- Eurozone inflation is expected to average zero this year but 1.5% next year, and 1.8% in 2017, which is back within the ECB's target of an annual rate "below but close" to 2%

Answer: Happy Woman's Day!!! Russia does it right again!

6 March 2015

Question: What is the equation for Debt Service Coverage Ratio (DSCR)?

Germany caps rents to calm voter ire – Pg. 2

- The lower house of parliament yesterday approved a rent control law that curbs rises to no more than 10% above the local average in areas deemed to have housing shortages
- About 27% of the German population are tenants, the highest proportion of any European country apart from Switzerland,
- In Berlin, a combination of low rents and vast commercial spaces left vacant by the collapse of east German industry helped create some of the Europe's most fashionable club scenes as well as making the capital a hub for technology start-ups
- Demand for housing has outstripped supply ...
- As a consequence, rents in Berlin have risen about a third since 2011
- New homes are excluded from the rent cap after lobbying by developers, who argued that it would have put a brake on construction
- Renting is also attractive because of the security that tenants enjoy
- There are strict limits, for example, to the legal grounds on which tenants can be evicted

Inflation expectations set to allay Fed concerns – Pg. 4

- The Fed Rsv's well telegraphed intention to raise interest rates this year still appears to be lost in translation for many traders, who are betting on a looser rates outlook.
- The recent stabilization of oil prices means inflation expectations have started moving upwards, allaying some of the fears that a deflationary mindset has taken hold among investors
- Five-year expectations have risen to their highest level since September, hovering around 1.7% on Wednesday...
- The gulf in perception concerns the central bank because it raises the risk of a sharp, 2013-style adjustment in yields if bond traders suddenly come round to the likelihood of multiple rate increases

Eurozone inflation expectations on a high – Pg. 20

- Expected long-term Eurozone inflation rates priced into markets hit the highest in almost three months ...
- ECB monetary policy decisions "have stopped a decline in inflation expectations that had started at the end of July last year and became more and more marked by year end" ...
- The most closely watched gauge, which shows the inflation rate expected over five years starting in five years' time and is based on swap prices, ended yesterday at 1.76%, the highest since December 10
- The pick-up in inflation expectations has been a global phenomenon with similar gauges also rising in the US

Answer: Net Operating Income (NOI)/Debt Payments

5 March 2015

Question: What is Susan Lynn “Suze” Orman’s education? She is a former financial advisor for Merrill Lynch and host to a personal finance programme on the tele.

Bank of England risks entanglement in money-market auctions probe – Pg. 1

- The Bank of England risks becoming embroiled in an unprecedented criminal investigation over the potential rigging of its money-market auctions launched at the onset of the financial crisis
- If the SFO does open an official investigation, it will be the first time the BoE has been caught up in a criminal inquiry in the law agency’s 28-year history
- The BoE has pledged to be more accountable after politicians said that a lack of checks on its top levels of decision-making hampered its response to the crisis

Fed’s fear of Japan-style crisis revealed – Pg. 2

- The Fed meetings are shot through with alarm about the crippled banking sector. IN a sign of how enfeebled the country’s banking sector was, Fed staff noted in a meeting in late January that the market capitalization of all US banks had fallen to the same level as the soft drinks industry
- Ms Yellen said in March 2009 that the huge debts on US household balance sheets carried disturbing parallels with the corporate sector in Japan in the 1990s, in which “the attempt of firms to pay down debt produced a decade of weak investment”
- Household wealth had plummeted \$5tn in the fourth quarter of 2008 alone.

Euro drops to 11-year low against the dollar – Pg. 20

- The euro has sunk to the lowest level against the dollar in more than 11 years ahead of a release of data that will provide further clues to the strength of the US economy
- The single currency was at one point down nearly 1% yesterday, touching \$1.1066 – a low not plumbed since September 2003
- The dollar is continuing to strengthen, underpinned by the Fed Rsv’s plan to tighten monetary policy, in contrast with the easing policies of other major central banks

Shadow financing is ‘threat to bank profits’ – Pg. 22

- US banks could lose more than 7% of their annual profits to the rapidly expanding group of nonbank financial intermediaries known as shadow banks, ...
- The rise of non-bank lenders could force a wave of reprising across a variety of financial products as banks are forced to respond to their competitors by lowering charges
- While the term shadow banking originally referred to pre-crisis financial players such as broker-dealers and the repo market, Goldman analysts said they were focused on the “new shadow banks” that have been expanding since the 2008 crisis

Answer: B.A. in Social Work. What is next, Roger performing surgery?

4 March 2015

Question: For a cash outflow of 8 and first year inflow of 4 and second year inflow of 5, what is the IRR?

Japan wages rise at fastest rate for 15 years – Pg. 4

- Basic pay in Japan grew at its fastest pace for 15 years in January in a sign that government pressure on companies to boost wages is having an effect
- Pay packets were up 0.8% on a year ago
- Real wages were down 1.5% because of last year's rise in the consumption tax. The tax increase has proved a big setback to efforts to stimulate the economy, leaving many consumers feeling worse off despite two years of stimulus
- Wage growth was strongest in export industries that have gained from the weak yen, in the public sector where collective bargaining is most common, and in healthcare where Japan's ageing population is creating strong demand

Iceland bond shows banking recovery – Pg. 18

- Investors have snapped up the first benchmark bond issued by an Icelandic bank in euros since the country's financial crisis, underscoring the recovery of the country's banking sector, as well as the hunger for returns at a time of record low bond yields
- Iceland's banking system failed spectacularly in the crisis, when its three largest banks collapsed, taking down 90% of its financial system
- Iceland has almost completely paid back the \$2.1bn it borrowed from the IMF, with just \$345m left to repay

Answer: 7.92%

3 March 2015

Question: If the principal amount for a loan is \$370,000 and the CPM rate is 3.75%. How much must be paid per month to pay off the loan in 19 years?

The fall in oil prices kept Eurozone inflation in negative territory last month

- Consumer prices in the currency area fell 0.3% in the year to February, ...
- The core measure of inflation, which strips out more volatile prices in the headline reading such as those for food and energy, was still 0.6%, signaling that weak demand within the region continued to weigh on price pressures
- Falling prices have sparked fears of a sharp deflationary downward spiral in the currency area, where demand remains anaemic and debt burdens in the weaker parts of the Eurozone are still high

Canada property and jobs suffer from oil price dip – Pg. 4

- Now, the oil price slide has sparked thousands of job redundancies, homes are taking longer to sell and forecasters reckon the former boom province may head into recession
- Canadian home sales fell 3.1% in January from December as consumer confidence slipped...

- The government recently said that the energy sector in Alberta, home the world's third-largest crude oil reserves, lost 13,000 jobs from September until January
- Canada's central bank last month responded to the falling oil prices and signs of deflationary risk by cutting its bench

Philly Fed picks new chief as key rate rise decision looms – Pg. 4

- ...Fed system is put under intense political pressure by Congress, where Republicans are complaining about the central bank's transparency and Democrats are attacking its links with commercial banks

Enthusiasm soars for Eurozone ETFs – Pg. 20

- Global enthusiasm for the Eurozone has pushed investor inflows to record highs ahead of the ECB's full-blown government bond purchases, due to start this month
- Europe fell out of global favour in the second half of last year as region's economies stalled and deflation risks rose
- But this year, market attention has refocused on the Eurozone, as investors have sought to position themselves ahead of a period of unprecedented monetary policy aimed at boosting inflation and growth in the single currency bloc
- ETFs are investment vehicles that are traded like shares but mirror the performance of baskets of securities and offer investors an easy way to bet on countries, regions or asset classes such as gold

Outlook for Brazil's economic health weakens – Pg. 20

- Brazilian stocks and the real are starting the week on the backfoot as the outlook for the country's economic health this year darkens
- The consensus on GDP is now for a 0.58% contraction this year, ...
- Inflation is expected to rise to 7.47%; the central bank's policy interest rate is seen ending the year at 13%

Answer: \$2,271.44 (under 10 seconds to solve)

2 March 2015

Question: What was important to individuals in the 2005 bankruptcy law change?

China cuts interest rates as fears rise over deflation and slowdown – Pg. 4

- Just as a recovering US prepares to end six years of ultra-loose monetary policy, the country that helped the world climb out of post-crisis recession is heading in the opposite direction
- China cut benchmark interest rates at the weekend for the second time in three months as deflation looms and it faces the prospect of a much sharper slowdown than previously anticipated
- The People's Bank of China cut the benchmark one-year lending rate by 25bps to 5.35% and the one-year benchmark deposit rate by the same amount to 2.5% on Saturday night, effective yesterday

- Producer prices have been falling for three years, the longest slide on record, and the consumer price index, the main gauge of inflation, rose just 0.8% in January from a year earlier, the weakest pace since November 2009
- China overtook the US as the world's biggest economy in purchasing power terms in 2014. But it also grew at its slowest pace in nearly a quarter of a century – by 7.4%
- Deflationary pressure is being exacerbated by the fact that China has chronic overcapacity in many industries
- Janet Yellen, the Fed Rsv Chair, singled out a bigger slowdown than anticipated in China as a key risk to US economic growth

Where have the good times gone? – Pg. 7

- Good news in the stock markets has typically meant good times for bankers. But the hot streak has come in the midst of another disappointing bonus season for investment bankers, tempering the mood and reflecting larger changes that have kept big banks from enjoying the benefits of a strong equity market
- Post-crisis regulations have capped the fees banks can charge for trading stocks
- Perhaps most significantly for investment bankers, there has been a fundamental shift in earning power from the big banks, such as HSBC and JPMorgan Chase, to the big asset managers such as BlackRock
- According to S&P's, dispersion – a measure of how much the moves of stocks in the S&P 500 vary from each other – touched a historic low of 4.2% last year. It has been as high as 15% in the past
- A final problem is that many investors have simply not believed in a stock market rally fuelled by central bank's easy money policies
- Another concern has been the decline in bond yields, which are now negative in several European countries

Answer: Fewer individuals are permitted to file Chapter 7 (fresh start) and must file Chapter 13 (repayment plan)

28 February 2015

Question: What is the only variable in a fixed income product?

US expansion in late 2014 slower than first thought – Pg. 2

- The US expanded more slowly than first estimated in the last quarter of 2014, as slower inventory growth and poor trade figures weighted on output
- GDP in the period rose at a 2.2% annual rate – shy of the 2.6% previously reported and well below the 5% clip reported for the third quarter
- Despite the slowdown in the final quarter, US GDP was still 2.4% larger for the entirety of last year compared with previous 12 months – a stronger expansion than 2013's 2.2% growth

- Expansion in household expenditure, which accounts for about two-thirds of activity, was revised down by a tenth of a percentage point to a 4.2% pace. This was the fastest since the first quarter of 2006

Governance – Pg. 7

- When HSBC's chief executive Stuart Gulliver claimed on Monday that he was being held to a higher standard than the church, the military or the civil service...(Prof Note: Pardon me...does HSBC's chairman not make exponentially more \$\$\$ than the heads of these organization? He ABSOLUTELY should be held responsible, regardless if he knows!)
- ...by using a combination of the right structure, the latest technology and, above all, by imbuing a company with the correct culture and reinforcing regular communication with visits to the shop floor, he or she should be able to limit the change of a major scandal
- ...have some companies become too big to manage?
- The lesson may be that, irrespective of the size of the company, executives who lose touch with how their staff are using the culture they preach are courting embarrassment and scandal
- ..proverb that Ronald Reagan adopted when dealing with the Soviet Union in the 1980s: trust, but verify (Prof Note: my fondness for Russia grows by the day!)

Euro nearing 12-year low ahead of stimulus – Pg. 13

- The shared currency was trading at \$1.1202 yesterday afternoon, down 1.6% since Monday, although that level represented a 0.6% rise over Friday's session. It hit \$1.11 last month, the lowest since September 2003
- Meanwhile, the dollar remained around an 11-year high after remarks from Janet Yellen, Fed Rsv chairwoman, were interpreted as pointing to a rate rise in the middle of this year (Prof Note: Just a question really...why do we have chair"man" and chair"woman"? Why not just "Chair"?)
- Russia's rouble looked stronger, enjoying its best monthly run in February since the 1990s, helped by stabilizing oil prices and easing geopolitical tension between Moscow and Ukraine

Answer: The price.

27 February 2015

Question: What is the yield on the bond with cash outflow of (6) and inflows of 2 and 3?

US watchdog votes to safeguard net neutrality – Pg. 1

- The US entered a new era of online regulation after rulemakers approved the biggest government intervention into the way the internet operates in almost two decades to stop broadband companies blocking, or favouring, websites

Falling oil prices drags US into deflation – Pg. 2

- Tumbling oil prices have dragged US inflation into negative territory for the first time since 2009 – but, excluding the influence of energy costs on the index, there were signs of steadier price growth
- A “core” measure of the CPI that strips out food and energy showed an annual gain of 1.6%, on the other hand, unchanged from the previous month
- In the US, however, the Fed Rsv has been paving the way for higher interest rates, betting that tumbling headline inflation is a temporary result of weak energy prices
- The Fed pursues a 2% inflation goal, based on the personal consumption expenditures index – a gauge from the commerce department that has not been at 2% since the first half of 2012
- The fall in petrol prices has been judged by Ms Yellen to be a “significant overall plus” for consumers. Government economists estimate it will save the average household \$750 in 2015 compared with the previous year

QE hopes draw investors to negative yields – Pg. 22

- Markets have entered a sort of Wonderland this year in which up is down and black is white. Negative bond yields, an anomaly some traders say they never expected to see in their lifetime, have spread across Europe, offering investors a guaranteed loss on their money if they hold a bond to maturity (Prof Note: If Bonds are Duration than Equities are Convexity. HmMMM)
- Germany has now followed in the footsteps of Finland by selling five-year debt at a negative yield
- Sub-zero yields were originally confined to very short-dated bonds in secondary markets but as momentum grows countries including Finland, Germany and France have been able to sell negative yielding debt with maturity up to five years this year
- Negative yielding bonds refer to bonds in which the price paid is higher than an investor will receive over the lifetime of a bond in coupons and repayment of the principal (Prof Note: Holy Toledo....John R...you should be thanking me...you are not an expert in valuation of negative yield assets! ☺)

Answer: It is the negative number! The world is now upside down...literally!

26 February 2015

Question: If the yield equation is a polynomial and fixed incomes are being sold with negative yields, how do we actually know what the true yield is when there can be multiple solutions?

Yellen defends Fed from calls on rules for rate-setting – Pg. 2

- The Fed chairwoman swatted down calls from Republicans for the Fed to be subject to mechanical rate-setting rules, saying she did not want its discretion to be “chained”, as well as rebutting suggestions from some lawmakers that the central bank had become politicized
- Ms Yellen hit back at the suggestions that monetary policy was politicized, saying this was a “complete mischaracterisation” and she met groups from across the political spectrum. She

denied a speech on income inequality had aligned the Fed with Democrats, saying she had heard “broad based concern” about the topic

- Ms Yellen told the Senate on Tuesday that she “strongly” opposed the Audit the Fed proposals as an incursion into the central bank’s independence
- Challenged on her previous statements on the merits of the Taylor rule, Ms Yellen said yesterday: “I don’t believe that the Fed should chain itself to any mechanical rule. I did not believe that in 1995 and do not believe it now.”
- Both the audit the Fed push and calls for a Taylor rule have been rejected by Democrats, who yesterday defended the Fed’s actions to reflate the economy following the Great Recession
- Ms Yellen said a faster growth in wages would be “merited”, given recent productivity growth

Petrobras downgrade to ‘junk’ rocks Brazil markets – Pg. 13

- Brazil’s bonds, equities and currency were rocked yesterday after Moody’s cut its rating of state-controlled oil company Petrobras to “junk” status, citing a corruption scandal at the group
- The move by Moody’s – the first rating agency to remove Petrobras’s investment grade rating...
- Moody’s downgrade of Petrobras by two notches to “Ba2” with a “negative” outlook follows a Brazilian police investigation into political kickback scheme at the oil company, which has a near monopoly over the country’s deepwater oil reserves
- Petrobras has been unable to calculate its losses from the corruption scheme, ...
- Petrobras is the fourth-largest issuer of Yankee bonds, excluding sovereigns and financial institutions, with about \$42bn in bonds outstanding

Optimism resurfaces in wake of Fed chief’s ‘balanced’ comments – Pg. 23

- US and European stocks took a breather after their strong gains, but a gauge of global equity prices hovered near its highest level so far as bulls focused on the prospect of continued policy accommodation from central banks
- The US government bond market certainly took the view that Ms Yellen’s remarks were ore dovish than expected, with yields falling sharply across the board

Answer: We do not!

25 February 2015

Question: What are the two main option pricing models?

Yellen paves way for rate rise this year as US jobs market gains pace – Pg. 1

- If the central bank modified its guidance to markets, rate moves could follow at any meeting, Ms Yellen said as she prepared global investors for interest rate rises this year
- She added that the central bank’s FOMC would start tightening monetary policy when it was “reasonably confident” inflation would move back to its 2% objective

- The Fed is trying to create greater scope to respond to changing economic circumstances
- The yield on the two-year Treasury note – the most sensitive to any changes in interest rate expectations – climbed as much as 3bps to 0.64% as Ms Yellen began speaking
- Inflation has been hovering well below the FOMC's 2% objective, in large part because of the tumble in oil prices. Core inflation, which strips out volatile factors such as energy, has also slowed...

China earmarks less land for development – Pg. 4

- The amount of land used for new property developments in China fell more than 25% last year, reflecting sluggish demand that could exacerbate local governments
- China's property sector is a key contributor to overall investment, which accounts for about half of the country's GDP and feeds demand for commodities
- While urban home prices in China have fallen for nine months, the full impact of the correction has yet to hit the broader economy and will probably cause a lot of pain when it does

JPMorgan urges clients to withdraw excess cash – Pg. 11

- ...will result in clients pulling out about \$100bn by the end of this year (Prof Note: What asset class absorbs large amounts of liquidity....REAL ESTATE!)
- Under the rules, overseen by the Federal Reserve and finalized last September, banks have to maintain higher reserves against such deposits, meaning they cannot put those funds to more profitable use
- The new rules treat various types of deposits differently, according to how likely they are to be withdrawn in a crisis. Retail deposits, which are covered by federal insurance, are seen as less likely to be pulled out, so require banks to hold reserves of as little as 3% against them. The reserve requirement rises to 40% for some corporate deposits, however, and as much as 100% for deposits from other financial institutions

Answer: Black-Scholes and Binomial

24 February 2015

Question: If you are a speculator, when would you use a Butterfly option spread to make money?

Tumbling crude prices jolt Norway into rethink on income – Pg. 2

- The economy grew 3% last year....faster than any Eurozone country
- The unemployment rate, at 3.7%, is among the lowest in the world
- ...the problem for Norway is that the oil price fall has come at the same time as investment in the petroleum industry has peaked
- ...the price slide is like a dry run for when the oil runs out. Norway's production is less than half its peak around 2000, although recent finds mean it is forecast to stabilize near current levels for the next decade

- The warning signs are there. House prices have been rising for the past 20 years and many foreign economists believe there is a bubble in the market. Norwegians work the third-fewest hours in the developed world and have the highest rates of sick leave
- An \$870bn sovereign wealth fund, the world's largest, gives Norway a valuable smoothing mechanism

Last shout looms for US options traders – Pg. 20

- CME Group is consigning its futures trades floors, once home to thousands of noisy traders, to history. But one section of the floor will shout on: the options pits
- ...derivatives, which entitle holders to buy or sell shares or futures contracts at a given price by a certain date
- At CME, which lists options on markets such as interest rates and grain, options volumes rose 38% year on year in the fourth quarter to a record
- The other big Chicago exchanges group, CBOE, which operates the largest US options market, says simple retail trades have already gone fully electronic, but large and complex orders remain the domain of open outcry

Answer: When you expect no to low volatility in the market.

23 February 2015

Question: How is a Butterfly option spread created?

China's short-selling limits criticized after it opens up to foreign traders – Pg. 1

- Foreign investors will be able to short Chinese shares next month for the first time, in the latest move by China's regulators to open up in the country's stock market
- The measure allows short selling of stocks eligible for trading under the Shanghai-Hong Kong Stock Connect programme, which allowed Chinese and Hong Kong investors to buy and sell shares in each other's stock markets since November
- ...there will be strict limitations on the practice – which involves betting that shares in a company will fall in price by selling borrowed holdings and then buying them back cheaply
- Chinese domestic investors have been able to shore shares since 2008 when many stock exchanges around the world restricted the activity, citing volatility concerns after the Lehman Brothers bankruptcy

Fed stuck for words to keep options open – Pg. 4

- The central bank promised after meetings in December and January to be "patient" before raising interest rates – meaning it will not make a move for at least two subsequent meetings of its monetary policy committee
- The Fed appears to be on track in achieving one half of its mandate, in maximizing employment, but it is well short of its inflation goal as readings are dragged lower by the plunge in oil prices. Officials are concerned about depressed inflation expectations in financial markets

- An additional concern in the rise in the dollar, which is acting as a drag on the export sector, as it could be given a further boost if the Fed tightens monetary policy

Yellen's problem with felons – Pg. 9

- The key to her thinking lies in the US labour force participation rate. If it improves, the Fed can keep rates at zero without fear of wage inflation. If it stays put, Ms Yellen may have to end the party far sooner
- Much has been made of the sharp fall in US unemployment in the past few months; it is now at just 5.7%. But if the same number of Americans were active in the labour force today as at the start of the recession in 2007, the jobless rate would be almost 10%. The labour force participation rate – the basis for calculating joblessness – has fallen to 62.8% of adults today from a peak of 67.3 in 2000
- What is often overlooked, ...is the starring role of the US criminal justice system
- At 2.3m, the US prison population is the highest in the world – close to the combined numbers of people locked up by China and Russia and more than 10 times those of France, Germany and the UK combined
- But the taint of a criminal past affects a far larger pool of people than felons, who number about 13m. Almost one in three adult Americans, about 75m people, are included on the FBI's criminal database
- Among those whose applications would instantly be deleted is Bill Gates, ...

Answer: Two long calls, high and low exercise, and two short calls with same exercise in the middle of the first two. All have same time to maturity.

21 February 2015

Question: How are capitalization rates different from discount rates?

Nato warned to prepare for Russian move on territory – Pg. 2

- Nato forced must prepare for a large-scale conventional assault by Russia on an eastern European member state designed to catch the alliance off guard and snatch territory, ...
- The warning comes as relations with the Kremlin worsen just days into a second fragile ceasefire aimed at curbing the bloodshed in eastern Ukraine...
- (Prof Note: Everyone knows I am bullish on Russia, long-term, but watch your equities, short-term)

Heating fuel jumps as US blizzards bite – Pg. 13

- The price of heating fuels jumped as the US battled the coldest February since the 1970s, giving a temporary burst to energy markets in the doldrums
- The price moves show that, despite surging supplies that have knocked oil and gas prices to multiyear lows, markets for fuels used by consumers remain vulnerable to short-term squeezes (Prof Note: Remember that supply is not enough, with fuel it is location. You can only move so much so quickly. You can only withdraw so much so quickly. I miss commodity trading! This is when the men are separated from the boys!)

- The cold weather has coincided with industrial action at US refineries, adding to concerns of potential shortages in oil products such as heating oil
- The sudden rush to buy comes despite stocks that are relatively plentiful. Inventories of diesel and heating oil on the US east coast, the region most dependent on heating oil, were 35.1m barrels last week, up 28% from the same time last year. US natural gas stocks are 2.8% above average at 2.2tn cubic feet

Answer: Capitalization rates determine gross sales price based upon Net Operating Income. Discount rates present value future cash flows. The two are different and should not be used as a proxy for each other.

20 February 2015

Question: A 550,000 mortgage at 4.25% for 30 years requires what overpayment per month to payoff the house in 19 years?

White House warns on risks to growth – Pg. 2

- America's accelerating recovery risks being slowed by weak income growth, inequality and depressed workforce participation rates, ...
- The strengthening outlook, however, is clouded by longer-term problems including inadequate wage growth, "skewed income distribution" and bigger declines in workforce participation rates than in other large countries, ...
- During the past 65 years, middle-class incomes have gone from doubling once in a generation to showing almost no growth by some measures, ...
- While inflation-adjusted hourly earnings rose 0.7% in 2013 and 0.8% in 2014, this "falls well short of what is needed to make up for decades of subpar growth"
- The White House report said the US was in a "lasting" recovery from the financial crisis, after collapses in household wealth and trade that initially exceeded those of the Great Depression. It forecast the economy would grow 3% this year and next, up from 2.1% in 2014, before slowing to 2.7% and then 2.5% in 2018

Answer: \$814. Again...two nights a week working as a waiter at Cheesecake factory provide 11 years of life without a mortgage.

19 February 2015

Question: What is a downside, i.e. consideration, when using average as a measure of central tendency?

BoJ upbeat on economy despite fears over yen – Pg. 6

- Bank of Japan governor ...dismissed concerns that a falling yen could hurt the country's economy as he kept monetary policy on hold yesterday
- The BoJ is in the midst of a massive programme of asset purchases aimed at breaking Japan free from two decades of on-and-off deflation and hitting a 2% inflation target

- The BoJ also claimed that “inflation expectations appeared to be rising on the whole from a somewhat longer-term perspective” despite the fall in core inflation to just 0.5% over the previous year in December

Swiss to impose tougher capital rules – Pg. 15

- Switzerland’s two biggest banks will have to take “additional measures” to ensure that they weather another financial crisis, but they and their investors will have to wait until the end of the year to find out what those are
- The objective is to stop banks becoming too big to fail, to prevent a repeat of the taxpayer-funded bailouts of the financial crisis
- The new global rule means that a bank must have a leverage ratio of 3%. Switzerland’s banks will now have to go further

Answer: The value is highly affected by outliers, i.e. values outside of plus/minus 3 standard deviations from mean.

18 February 2015

Question: What is the monthly payment, i.e. P & I, for a \$550,000 mortgage at 4.25% and 30 years structured as a CPM?

ECB weighs pulling plug on Greek banks – Pg. 2

- Cancelling the loans, known officially as emergency liquidity assistance, is a nuclear option which would in effect force Athens to implement capital controls or quit the euro system. No decision or public warning from the ECB that it could cancel ELA is expected as early as today
- Greek banks have become increasingly reliant on emergency loans, provided by the Bank of Greece, since the ECB stopped allowing lenders to use Athens’ debt to access around 50bn (euro) worth of loans through the central bank’s regular liquidity operations
- The emergency loans are only granted to banks judged as solvent

Banks battle to retain staff as bonuses shrink – Pg. 13

- New EU rules and public outrage at banking excess mean bonuses are still “normalizing downwards”, ...
- Some are offering big rises to base pay, but the main moves are non-monetary
- Recommendations included limiting the length of the “pitch books” used to attract clients to 20 pages, from the traditional 80 or so (Prof Note: Was it not Mark Twain that said something like, “If I had more time I would have written a shorter book”?)
- At UBS, non-pay initiatives include changes so juniors only spend two and a half years as an analyst against the traditional three to three and a half years. Shortening the term means they get to the higher-paid grades – and more rewarding work – more quickly (Prof Note: Does it not also mean they get less training????!! Presumably in risk management????!!)

Gold sharply lower on US rate rise nerves – Pg. 18

- Worries about an early US rate rise weighed on gold, pushing the precious metal down sharply to a five-week low
- The main driver for prices is expected to be the outlook for US interest rates and the timing of the potential rate cut

Answer: 2,705.67

17 February 2015

Question: How is MIRR different from IRR?

Japan's economy struggles out of recession – Pg. 4

- Japan's economy emerged from recession in the fourth quarter of 2014, but even after two years of Abenomics is still struggling for momentum. Overall growth for the year was zero
- The disappointing rebound from technical recession in the middle of last year shows the heavy toll on Japan's economy caused by last April's rise in consumption tax
- The Nikkei 225 touched an eight-year high and closed up 0.5% at 18,005
- The economy shrank in the second and third quarters of 2014. Private consumption fell more than 5% in the second quarter of last year and has yet to recover
- The loss of momentum was still visible in the fourth quarter. Housing investment fell by another 1.2% over the previous quarter after heavy declines in the second and third quarters of last year

Puerto Rico's debt casts shadow over munis – Pg. 20

- Fresh doubts over Puerto Rico's ability to meet its debt payments are worrying the \$4tn market where US states and municipalities raise capital, casting a shadow on the outlook for muni bonds, the popular tax-exempt securities
- S&P's last week downgraded the rating on Puerto Rico's general obligation debt by three notches, citing the island's declining revenue and recent district court ruling
- Yields on Puerto Rico's 30-year GO debt have rise 36bps since the start of the month, to stand at 8.06% on Friday (Prof Note: Each time I have tried to purchase PR debt, I cannot find paper to purchase!)
- Unlike some US municipalities, Puerto Rico's constitution prevents the government and public companies from seeking protection from creditors in bankruptcy courts

Answer: Modified Internal Rate of Return bifurcates discount rate and reinvestment rate.

16 February 2015

Question: Why is it wrong that cursive handwriting is no longer taught in the U.S. school system?

Defer bankers' bonuses for a decade, suggests Tyrie – Pg. 3

- Some top bankers should have their bonuses deferred for up to 10 years to raise standards in the industry and improve long-term risk management, ...

- The proposal for maximum 10-year bonus deferral periods was first made in June 2013 by the cross-party parliamentary committee on banking standards, ...
- City regulators have proposed a seven-year bonus deferral period for senior managers and five years for other staff,...
- The UK has one of the toughest regimes for bankers' pay, with not only the seven-year deferral proposed by also, since January, rules that claw back bonuses for errant bankers up to seven years after they are paid out

Oil discoveries decline to 20-year low – Pg. 7

- Discoveries of new oil and gas reserves dropped to their lowest level in at least two decades last year, pointing to tighter world supplies as energy demand increases in the future
- The slowdown in discoveries has been particularly pronounced for oil, suggesting production from shale in the US and elsewhere, and from Opec, will play a more important role in meeting growing global demand in the next decade
- New discoveries are not the only source of future oil supply. Companies can also add to their production potential with extensions of existing fields and there are large known reserves
- The weakness of new discoveries increases the need for production from those sources to rise if, as expected, global demand for oil continues to increase

Negative rates to hit financial system – Pg. 18

- Falls in European interest rates into negative territory could profoundly affect the workings of the financial system and there is little chance of benchmark borrowing costs rising in the year ahead,...
- Yields, which move inversely with prices, have this year dropped below zero on a rapidly expanding range of European governments' bonds – and even some corporate bonds – and even some corporate bonds
- Negative interest rates mean investors, in effect, pay to lend their money

Answer: I just completed payroll last night and realized that I have to write checks as the employees must receive hand checks and online is not possible on Nevis. We do not teach mortgage calculations or cursive writing but we make darn certain the boys can put on a football helmet!

14 February 2015

Question: What is Latin Hypercube?

German data boost Europe outlook – Pg. 1

- ...Germany's economy, the eurozone's biggest, grew 0.7% in the fourth quarter – well ahead of expectations...
- The Eurozone has suffered years of near-stagnation and remains smaller than before the global financial crisis, expanding just 0.9% in 2014

Strain shows on Strauss-Kahn as media storm engulfs trial – Pg. 2

- (Prof Note: article too vulgar to summarize but do NOT write anything in a text or email that you do not want published. When will people learn?!)

US bonds lag behind Fed rate forecasts – Pg. 11

- ...the US 10-year Treasury yield, which moves inversely to price. This week, the benchmark rose above 2%, having been at 1.64% just seven trading days previously, in the wake of robust US jobs and wages growth during January
- An era of very low interest rates has been characterized by investors selling volatility via options and embracing carry trades – both strategies that depend on overnight borrowing costs staying low as investors earn income from owning higher yielding assets
- Long-dated bonds are seen lagging behind the upward move in Treasury yields, as many think the coming rate cycle will not tighten policy too far beyond 2%

S&P 500 touches record intraday high as European stocks reach peak – Pg. 12

- The US equity benchmark was up 1.8% over the week
- In Europe, the FTSE eurofirst 300 rose 0.6% to 1,502.82 – its best close since January 2008 – giving it five-day gain of 0.8%
- Gold was up \$8 at \$1,230 an ounce but down \$3 on the week

Answer: While still random sampling, it uses stratification to “force” the shape of a distribution being sampled.

13 February 2015

Question: What is Monte Carlo analysis?

Central banks take extreme action to stave off deflation – Pg. 1

- Central banks resorting to ever more radical means to prevent deflation strengthening its grip over European economies, with Sweden’s Riksbank yesterday becoming the first to set negative main policy interest rate
- The Riksbank cut the bank rate 10bps to minus 0.1% ...
- The Bank of England also decided yesterday to end the effective 0.5% floor for its main interest rate, in a signal that if deflationary forces caught hold in the UK it, too, would be willing to contemplate negative interest rates
- Headline inflation in Sweden has been negative for much of the past two years...

‘Nut rage’ Korean Air executive has to eat humble pie after receiving jail term – Pg. 1

- ...spend the next year eating prison food after she was found guilty in a Seoul court of violating aviation safety rules
- Judge Oh Seong-woo said Cho had “trampled on ... human dignity” through her aggressive behavior towards staff during the incident in December, and had treated the airliner like a “private plane” (Prof Note: Go Korea! Imagine what would have happened to Brian Williams had he been in Korea! Go Korea!)

Riksbank takes leap into the unknown with rate cut – Pg. 2

- In global currency wars, one of the smaller players has just fired a very big weapon
- Sweden's Riksbank yesterday became the first central bank to move its main repo rate into negative territory, as well as launching quantitative easing. It reduced its main repo rate by 10bps to minus 0.1%
- The move followed four rate cuts in 18 days from the Danish central bank, which has cut its deposit rate – levied on money parked at the central bank – to a record low of minus 0.75%
- The Swedish central bank was the first to raise rates after the global financial crisis when it increased them to 2% in 2011. But inflation soon began to slide...
- Some economists worry that people could resort to hoarding cash if rates remain negative

Sterling lifted by hawkish inflation report – Pg. 20

- Sterling hit a six-week high against the dollar after markets focused on hawkish aspects of the Bank of England's quarterly inflation report
- Markets reacted strongly, with falling gilt prices forcing yields higher, while sterling hit a session high of \$1.5391 against the dollar. By late afternoon in London the pound was up 1% at \$1.5381, and stood 0.4% higher against the euro at 0.7412 (sterling)

Gold demand comes off its four-year low – Pg. 22

- Global gold demand fell 4% last year to its lowest level since 2010 as China failed to repeat its record buying of 2013,...
- Demand in China had fallen 38%, as sales of gold bars and coins halved thanks to a recovering domestic equity markets and the "strong impact" of Communist party's anti-corruption campaign...
- In India, despite government restrictions aimed at limiting imports of the precious metal, jewellery demand had hit a record 662.1 tonnes in 2014...
- India surpassed China to become the largest consumer last year
- Chinese jewellery demand has been shifting to more expensive items, with 18-carat gold increasingly popular
- India and China together accounted for 54% of consumer gold demand last year, up from 33% in 2005
- The price of gold in euros rose 14% last year as the single currency weakened versus the dollar

Answer: Method of simple random sampling

12 February 2015

Question: Why is skewness an important metric to measure for real estate projects?

China's acquisition-hungry companies leave investment banks out in the cold – Pg. 1

- Chinese companies may have become big players on the global M&A stage but investment banks are increasingly being cut out of the deal

- A number of China's most acquisitive companies are relying on the knowhow of their in-house investment teams rather than handing over large fees to global investment banks
- Chinese companies are still paying for IPOs and debt issues with total fees from Chinese investment banking hitting a record \$6bn last year

Central bank sharpens its monetary policy tools – Pg. 4

- China's central bank engineered a quiet revolution in monetary policy last year, newly released data have shown, as authorities invented tools to expand the money supply in response to a sharp fall in capital inflows
- But the stock market – which normally jumps on signs of monetary loosening – fell the next day. Money market rates, which once tumbled in response to RRR cuts, have barely budged

Swiss government borrows at record low – Pg. 22

- Switzerland borrowed for 10 years at a lower rate than any government on record yesterday, as the eurozone's neighbours continue to feel the impact of its looser monetary policy
- The Swiss government sold ...10-year debt at a yield of just 0.011%, meaning investors accepted barely any income for the long-term bond (Prof Note: This is basically a zero coupon bond, holy cow!)
- Denmark's central bank has deployed increasingly unconventional steps in its fight to maintain the Danish krone's peg to the euro after the surprise move by the Swiss to abandon its defence of the franc's euro peg

Answer: It measures the tail size, i.e. loss, for a project.

11 February 2015

Question: What is Roger's opinion of the Brian Williams suspension by NBC?

Strauss-Kahn takes stand in pimping case – Pg. 1

- Ex-IMF chief DSK, arrives to give evidence for the first time in his trial on pimping charges, saying he rarely attended sex parties because he was "saving the world" and had "other things to do"
- (Prof Note: I await the movie on DSK's life!)

US must not be slow to raise rates, warns top official – Pg. 4

- Many bond investors are skeptical about the prospects for significant rate rises in the US given deflationary forces clouding the global picture and sharply diverging fortunes between America and its big economic partners
- Economists including Lawrence Summers, a former US Treasury secretary, have urged the Fed to leave rates unchanged until there is clear evidence of inflation, and inflation expectations, are set to breach its 2% target
- An early test for the Fed comes in March, when policy makers, including Mr Williams, need to decide whether to remove language in the Fed's policy statement promising that it will be

“patient” in starting to raise rates – meaning that it will wait for at least two meetings before acting

Corporate loans rise above pre-crisis levels – Pg. 20

- Seven years after the financial crisis, the value of loans made globally to corporates has finally exceeded the pre-crisis peak...
- The total value of loans made globally to corporates, excluding financial institutions and real estate companies, last year reached \$3.9tn, exceeding the pre-crisis peak of \$3.87tn
- The total value of finance, across loans, bonds and equity, provided to businesses globally also reached a new high water mark, exceeding \$6tn for the first time in 2014
- This report said the type of financial products used had changed – with the value of bonds issued by businesses increasing 70% since 2007 to more than \$1.5tn, in spite of a 10% fall year-on-year in 2014
- While loans remain the predominant source of funding for corporates globally, accounting for 63% of the total, it is not just banks that provide them

Answer: Outrageous! The man “earns” \$10.0m/year and was the face of NBC. He held himself out as a news source spreading truths but instead spread inaccuracies. Does anyone but the little person get fired in this country? What bank CEO has been charged and/or fired? What does this teach us? Be better liars???!!!

10 February 2015

Question: How many banks contribute to Libor?

Corporate cash piles targeted in hunt for growth – Pg. 4

- Since the financial crisis, policy makers have been obsessed with growing levels of public debt. But as economic growth in rich countries and the developing world continues to disappoint, attention is shifting to the other side of the global balance sheet – the large cash piles corporations have squibbled away in the past decade
- ...\$2tn in US profits parked abroad by companies seeking to avoid paying taxes at home, proposing they should face a 14% levy
- Central bankers in the world’s richest economies have sought to discourage companies from saving more by slashing interest rates and launching asset purchase programmes
- For governments seeking to harness those resources, another possible tool is the tax system
- In the US, the key option would be to eliminate the arrangement of taxing repatriated profits from foreign subsidiaries rather than allowing companies to simply pay taxes locally. In the US they face a federal corporate income tax of 35%
- In 2004, the US sought to lure some of the funds home by passing the Homeland Investment Act. This allowed companies to repatriate foreign earnings at a reduced effective tax rate of 5.25% for two years as long as they channeled those funds into investment, job creation or paying down debt

- Countries could also increase depreciation allowances, although the risk is that the freed-up funds would not be channeled into productive investment

US fund's bet exposes Russian risks – Pg. 14

- In 2012 and 2013, Morgan Stanley's real estate fund set a new record for Russian property deals by investing \$2.3bn in two shopping centres in St Petersburg and Moscow
- Now, with the rouble plunging in response to western sanctions and a falling oil price, the fund's big bet on Russia has become a cautionary tale about risks of chasing high returns in volatile countries when low interest rates are depressing yields in developed markets (Prof Note: Can we say 'Long-term Capital Management'?)
- Rents have dropped by as much as 30% in some shopping malls...
- Russia does not have a long history of attracting western property investors

Oil 'contango' puts profit in storage – Pg. 22

- Futures markets reflect the state of oversupply
- The contango time spread suggests the market believes there is plenty of oil around and no need to scramble for supplies. But it is more reflective of currency conditions than predictive
- The contango spread gives companies with the means to store oil an incentive to
- Across the US, commercial crude stocks have swelled at a rate of 1m barrels a day over the past month - ...

Answer: 16 Banks contribute to Libor

9 February 2015

Question: For arbitrage to exist, what equation must be broken for Forward and Spot pricing?

China exports fall as trade surplus hits record \$60bn – Pg. 4

- China's slowing economy hit trade last month.
- Exports fell 3.3% last month from a year earlier, while imports slumped by 19.9%, ...
- The majority of the slump in imports was the result of falling commodity prices, especially coal and oil...
- The ballooning trade surplus would normally be expected to support renminbi appreciation but the currency weakened in January by 0.7%,...
- China suffered its largest capital outflows on record in the fourth quarter last year, ...

Only raise rates when the whites of inflation's eyes are visible – Pg. 7

- Markets predict that the Fed will raise rates only to 1.6% by the end of 2017; the FOMC's average forecast is 3.5%
- The unemployment rate now is at its postwar average level, and continues to fall. Job openings are above their historic average
- The core consumer price index has averaged 1.1% over the past six months; if housing costs were stripped out it would be zero. Wages actually fell in December and over the past year

employment costs have risen 2.25% which, in conjunction with productivity growth of only 1%, suggests inflation of below 2%. Perhaps most troubling: market indications suggest inflation is more likely to fall than rise

- ...it [fed] should not raise rates until there is clear evidence that inflation expectations, are in danger of exceeding its 2% target. Here are four important reasons why
- First, real wages for most workers have been stagnant. Median family incomes are down by 4.5% over the past five years and the economy is about \$1.5tn – or \$20,000 for the average family of four – below pre-recession estimates of its 2015 potential
- Second, if inflation were to accelerate a bit this would be a good thing. It is not running and is expected to run below the Fed target
- Third, a plane that accelerates too rapidly as it takes off may cause passengers discomfort while a plane that accelerates too slowly may crash at the end of the runway. Historical experience is that inflation accelerates only slowly so the costs of an overshoot on inflation are small and reversible with standard tightening policies
- Fourth, the US has never been more intertwined with the global economy. Higher interest rates and the stronger dollar they would bring would mean greater debt burdens for debtor countries, a growing US trade deficit that damages manufacturing, and growing protectionist pressures

Hedge funds bet against housing groups in slowing London market – Pg. 13

- Hedge funds have begun to bet against property businesses exposed to the downturn in London's housing market, in the first sign that investors are seeking to profit from the slowdown
- The funds have taken out short positions, essentially bets that a company's share price will fall...

Answer: Present Value/Future Value relationship.

7 February 2015

Question: What does it mean to purchase a bond with negative yield?

US jobs data boost rate-rise odds – Pg. 1

- The US labour market recovery gathered momentum in January as employers added more jobs than expected and wages rebounded, raising the odds of an interest-rate rise in the middle of the year
- The dollar jumped against the euro after official figures released yesterday showed that US employers added more than 1m jobs in the past three months alone, the most since 1997
- The US had now seen 11 months in a row of job gains above 200,000, the first time that has happened in almost two decades
- Non-farm payrolls rose by 257,000 in January...
- Average hourly earnings increased by 12 cents after falling 5 cents the previous month, taking annual growth in wages to 2.2%, the largest gain since August, ...
- The unemployment rate rose marginally to 5.7%, ...

Consumers cut Abenomics down to size – Pg. 4

- Until consumers get more confident it will be hard to create a cycle of positive inflation, where rising spending provides the fuel for wage increases and thus more spending

Heroes in short supply in 'negative' times – Pg. 11

- Bond yields are turning negative across Europe, so the total of coupons and the final repayment are less than the cost of the bond (Prof Note: A violation of the investment fundamentals, i.e. getting your money back. What is next...will we drive on "park"ways?!)
- Why would anyone lend at a negative yield, guaranteeing a loss at maturity? There are several possibilities. First, they may have no choice. Banks, insurance companies and even pension funds have to comply with rules pushing them towards bonds, whatever the cost
- Second, speculation
- The bonds are bought in the expectation of selling them on at a higher price (and lower yield) in the future – in the Eurozone, most likely in the ECB
- Third, the risks that come with the alternatives might be unattractive

Answer: It means if the bond is held to maturity, P(Loss) is 100.0%.

6 February 2015

Question: What is Cash-on-Cash?

Scotland – Breaking up the estates – Pg. 5

- Lobby group Scottish Land and Estates has expressed "extreme concern" at the SNP call for ministers to have the as-yet undefined powers to intervene if the scale of land ownership and conduct of a landowner is judged to be barrier to sustainable development
- In pursuit of its goal of "fairer and more equitable" land distribution, the SNP wants to introduce business rates on shooting and deerstalking estates in order to help fund an expansion of community ownership of land to 1m acres from less than half that now

Demand strong for 0.08% Swedish bond – Pg. 20

- Like other Nordic nations, Sweden is a rare bond issuer and this could be the only euro-denominated bond it sells this year
- The bond, which matures in February 2020, was marketed at about 20bps below mid-swaps, a funding benchmark
- German five-year bonds are trading at a negative yield, and on Wednesday Finland became the first Eurozone country to issue five-year debt at a negative yield
- Although negative yields mean that investors are in effect paying to lend, some clearly believe prices will keep rising, and yields falling, when the ECB begins its bond-buying in March...
- Like the Eurozone, Sweden's central bank, the Riksbank, has been trying to combat falling prices. It cut interest rates to zero, a record low,...

- Sweden's benchmark 10-year bond yields fell to a record low of 0.58% this year, and companies and households in the country are borrowing at historically low rates

Answer: Free Cash Flow per period divided by initial equity. Read your documents to ensure it is only initial equity and does not include equity build up as provided with a Constant Payment Mortgage Structure.

5 February 2015

Question: What is Debt Service Coverage Ratio (DSCR)?

World awash with more debt than before financial crisis – Pg. 1

- ...China's debt relative to its economic size now exceeding US levels,...
- Global debt has increased by \$57tn to almost \$200tn since 2007 – far outpacing economic growth, ...
- As a share of GDP, debt has risen from 270% to 286%
- China's debt, including the bank sector, has nearly quadrupled since 2007 to the equivalent of 282% of GDP
- Financial sector debt relative to GDP had declined in the US and other crisis-hit countries

US regulator's plan to treat internet traffic as utility upsets providers – Pg. 3

- The US is planning sweeping changes to the regulation of broadband by reclassifying it as a public utility and using new powers to stop internet service providers from blocking or favouring particular websites

China cuts bank reserve ratio in effort to lift lending – Pg. 6

- China's central bank cut the required reserve ratio for its banks yesterday as it stepped up efforts to counter the impact of capital outflows and encourage banks to boost lending amid fresh data showing a weakening economy
- ...China suffered its largest capital outflow on record in the fourth quarter last year, ...
- The central bank's latest easing move followed a cut in benchmark interest rates in November and a series of targeted easing measures last year, which included direct loans worth more than \$80bn to specific banks, and RRR cuts for small lenders

Default risk rises for US energy sector – Pg. 20

- A wave of credit rating downgrades is hitting the oil and gas sector, weighing on corporate bonds' performance and raising the spectre of a rise in default rates after the plunge of oil prices
- S&P's has downgraded 19 high-yield oil and gas companies since October...
- It is the largest set of ratings downgrades for a single sector since 2009 (Prof Note: Not saying they are incorrect...but what real credibility does S&P really have after the scandal, retractions, and outright inaccuracies?!)
- Only one oil and gas group rated by S&P, Endeavor International, has defaulted since oil prices started to fall

- The 50% drop in oil prices since June has cast a shadow on the outlook for lower-quality corporate debt. Bonds sold by oil and gas companies account for 15% of the entire \$1.4tn junk-bond market
- The number of rigs drilling for oil in the US...dropped 94 last week, and is down 24% since October

Debt mountains spark fears of another crisis – Pg. 22

- Debt mountains have expanded at a greater pace than economies, with government borrowing recording the most rapid growth since 2007, ...
- China and other developing economies have powered the expansion in global debt
- High debt levels could make it harder for central banks to “normalize” monetary policy without disrupting the real economy – the US Fed Rsv plans to raise interest rates this year for the first time since 2006
- ...three areas of concern: the concentration of Chinese debt in real estate markets; the rapid growth and complexity of shadow banking in China; and “off-balance sheet” borrowing by local governments

Finland sells five-year bond at negative yield – Pg. 22

- Finland became the first Eurozone country to sell five-year government debt at a negative yield yesterday, meaning investors are in effect paying to lend to the country (Prof Note: This means that investors will receive back less than they invest, i.e. if they invest 100 they will receive less than 100 back...aye caramba!!!)
- About a third of the eurozone’s sovereign debt market is trading with negative yields, including five-year government bonds in Austria, Sweden and the Netherlands. However, Finance is the first country to auction debt with this maturity at such low rates
- Finland has been mired in recession for the past three years. In fact some economists say that it is in a “depression” worse than its crisis in the 1990s

Answer: Net Operating Income divided by debt service. Now, read your documents to ensure debt service is Principal and Interest and not simply interest as shown on an income statement.

4 February 2015

Question: The Danish central bank has one mandate, what is it?

ECB’s ‘hardball’ stance threatens to leave Greece without funding – Pg. 1

- The ECB is resisting a key element of the Greek government’s new rescue plan, potentially leaving Athens with no source of outside funding when its international bailout expires at the end of the month
- ...ECB is unwilling to approve the debt sale. It will not raise a 15bn (euro) ceiling on treasury bill issuance to \$25bn as requested,...
- In the absence of treasury bill financing, Athens would exit its bailout without access to emergency funds for the first time since the first bailout in 2010

Focus turns to Moody's after S&P agrees \$1.4bn settlement on subprime ratings – Pg. 1

- S&P agreed to pay \$687.5m to the DoJ and another \$687.5m to 19 state attorney-general offices and the district of Columbia, which all sued the agency
- The deal also meant vindication for the DoJ, which was accused of suing S&P in 2013 in retaliation for its downgrade of US government debt in 2011
- As part of the settlement, S&P did not admit that it violated any laws

Lew flags concern on global economy – Pg. 2

- The US economy appears to have entered a period of “self-sustaining” growth but governments in other major economies must do more to stimulate demand...
-2.5% growth last year and robust forecasts for this year indicated that the US was set to expand “substantially faster than all of the other advanced economies combined” in 2015
- The US was the only major economy apart from Spain to have its growth outlook upgraded last month by the IMF
- The IMF expects the US to grow at three times the rate of the euro area this year
- The Fed has been laying the ground for a rate increase this year from the current 0% to 0.25%, with a move expected in June or later. That could put more upward pressure on the dollar, prompting complaints from big US companies whose earnings are being squeezed

Danes shield currency peg from storm unleashed by the Swiss – Pg. 2

- The Danish were the first to introduce negative interest rates in 2012, and last week they shocked markets by telling the government to suspend all sovereign bond issues
- All this is designed to protect their status as the only country formally still pegged to the euro in a maelstrom of pressure arising from Switzerland's abandonment of the defence of its currency and the impending start of quantitative easing in the Eurozone
- ...Denmark has had a fixed currency peg – first against the D-mark and now the euro – for more than 30 years. Its sole monetary policy target is to maintain the peg
- The krone is meant to trade within 2.25% either side of about 7.46 per euro

Ireland issues debut ultra-long bond – Pg. 18

- Dublin is following in the footsteps of Portugal and Italy in issuing 30-year debt at a time when yields on eurozone bonds are hitting record lows
- Investor appetite for longer-term bonds has increased in recent months as yields on shorter-term debt fall, in some cases trading in negative territory

Answer: Keep the currency peg!

3 February 2015

Question: What are the three main statistical measures of linear association?

Strauss-Kahn appears in court on pimping charges – Pg. 4

- A Belgian brothel owner called “Dodo la Saumure”, orgies at luxury hotels and accusations of pimping against a former French presidential hopeful – it sounds like the plot to a

sensationalist police drama (Prof Note: I am convinced that DSK is going to sell the movie rights to his life for Billions!)

- ...the 65-year-old has admitted attending the “libertine” parties in Paris and Washington and having sex with woman there (Prof Note: These must be the “A-listers”)
- (Prof Note: I know, I know, this article has nothing to do with real estate or the capital markets but DSK consistently amazes me!)

Fed feels the heat as external audit drive gathers pace in Congress – Pg. 5

- Some Republicans are also renewing a longstanding push for the central bank to follow mechanical rules in setting monetary policy, drawing on the work of the economist John Taylor (Prof Note: Alan W. this is a memo...let’s see if you read me daily. Can you write this up in six pages (or less) for distribution? Make us smarter on John Taylor and how his work relates to the central bank)
- Ms Yellen said last year that she would “forcefully” oppose efforts to advance the “audit the Fed” legislation, saying it was important that her institution was free from short-term political intrusion (Prof Note: a participant last week in my Real Estate Finance II class at ULI was a student in graduate school of Janet Yellen. Besides being extremely bright, he states she was incredibly nice and caring. Decades later she saw him and remembered his name!)

Danish government borrowing costs dive – Pg. 22

- Denmark’s main government borrowing rate has plunged 20bps to become the second lowest in the world, following the country’s decision to suspend sales of government debt until further notice
- The yield on 10-year Danish debt sank from 0.36% to 0.16% yesterday morning, putting it below equivalent bond yields in Germany and Japan. Only Switzerland, which has negative 10-year borrowing costs, has a lower rate
- Danish government bonds are among the few to have retained a triple-A rating, making them a haven for investors

Banks seek lower cost risk capital – Pg. 22

- The new bonds, dubbed “bail-in-eligible securities”, would incur losses in the event of a bank default but pay out less in interest to creditors than dearer, existing subordinated bonds
- In a traditional bank credit hierarchy equity investors are at the bottom, followed by holders of so-called additional tier 1 and tier 2 loss-absorbing bonds
- The interest rate that banks will have to pay on senior debt is set to climb from next year when regulators can impose losses on creditors. The more loss-absorbing debt that banks sell, the safer senior bondholders will feel

Answer: Covariance, Correlation Coefficient, and Coefficient of Determination (R-squared)

2 February 2015

Question: How is project risk different from portfolio risk?

New York revamps yellow cab rules to lure defectors back from Uber's ranks – Pg. 1

- The effort to replenish the ranks of yellow cabs comes after repeated skirmishes between Uber and traditional taxi services around the world, which have tried to stop the ride-sharing group's expansion
- Drivers will still have to rent or buy a "medallion" – the coveted license for taxi drivers that cost more than \$1m at its peak in 2013. However, the "Uber effect" has pushed down the typical price to \$840,000

Weak global outlook raises concerns over US economy – Pg. 3

- While US consumer spending rose by the most since 2006, poor net exports knocked a percentage point off America's GDP growth, leading to a deceleration from the third quarter
- With the euro area falling deeper into deflation, growing tensions between Greece and its partners, and central banks from India and Canada to Turkey and Denmark cutting rates amid sluggish growth, concerns are growing that deteriorating conditions could impair America's relative success story
- ..US products less competitive overseas as well as holding back many multinationals' overseas earnings...
- But the US is a relatively closed economy, with exports accounting for only 13% of GDP, compared with more than 40% in Germany and Sweden
- The question, analysts say, is whether private sector wage growth starts picking up from a pedestrian 2.2% in the fourth quarter

Know when to hold'em – Pg. 6

- Now, with the addition of US power companies, one of North America's largest railways and a 50% stake in Heinz [Berkshire Hathaway], it is probably the world's most diverse conglomerate; it is certainly the largest. With a market value of \$358bn, it is bigger than General Electric
- ...promise to seek solid businesses and to hold them forever, instead of chasing quarterly earnings and churning the portfolio (Prof Note: Hmmm...sound like "Buy, Hold, Die"?! My personal philosophy!)
- Berkshire has already begun grouping results from its subsidiaries under five headings: insurance; railroads; utilities and energy; manufacturing; service and retailing, and finance and financial products

Female fund managers in decline – Pg. Sp.1

- The number of female portfolio managers running money in the US has fallen every year for the past six years...
- (Prof Note: While I am not a fan of gender based hiring, this seems problematic to me given the number of woman in ALL my classes has increased to over 50.0% in most (if not all) my classes.)

Answer: Project risk does not account for linear association of assets as it quantifies risk in a vacuum.

31 January 2015

Question: Who will win the U.S. Superbowl?

Weak exports undermine US recovery hopes – Pg. 1

- Growth in the US lost momentum at the end of 2014 as weak exports highlighted the risks the recovery faces from sagging overseas demand
- GDP rose by an annualized 2.6% in the fourth quarter ...
- While consumer spending – the main driver of the US economy – surged at its fastest pace since 2006, overall growth was dragged down by poor trade numbers and falling government spending

Rouble slides as Russia cuts interest rates to counter recession risk – Pg. 2

- Russia's central bank slashed its key interest rate to 15% from 17% yesterday, sending the rouble plummeting as it struggles to balance the threat of recession with surging inflation
- Inflation figures released this week showed prices had risen 13.1% in January from 11.4% at the end of last year. The central bank expects consumer price growth to be lower than 10% by January next year

Beijing blocks 'western values' in classrooms – Pg. 4

- ...contributed to a surge in Chinese students applying to study in the west. The number of Chinese students in the US grew 17% last year to around 275,000
- They accounted for 31% of all foreign students in the US, making China the biggest source of overseas students
- ...many big universities such as Peking University in Beijing have had garrisons of paramilitary troops stationed on campus at all times

Answer: ??? (we shall know soon enough!)

30 January 2015

Question: Can a derivative product be purchased using margin?

Obama set for budget showdown – Pg. 2

- President Barack Obama will propose raising domestic and military spending above agreed limits in next week's budget, setting up a clash with a Republican-controlled Congress to curbing the size of government
- By increasing the top rate of tax on capital gains and closing a tax loophole on inherited assets that is mainly used by the wealthy, the White House aims to raise \$330bn to fund programmes intended to boost the middle class, including paid sick leave for workers and a simplified structure of tax credits for higher education
- ...US budget deficit will fall to 2.6% of GDP this year....

Overborrowed and overbuilt – Pg. 5

- China has regained its title as the world's biggest economy, overtaking the US in purchasing power terms for the first time in 125 years, ...
- China's official growth rate of 7.4% last year was the slowest pace since 1990, when the country still faced sanctions in the wake of the 1989 Tiananment Square massacre
- One of the biggest problems China faces now is that the slowdown is happening even as credit and construction, the main drivers of growth, are continuing almost unabated
- ...real estate construction makes up about a quarter of China's \$10tn economy, a higher proportion than the US, Ireland or Spain at the height of their property bubbles
- Local governments rely on sales of land for 35% of their revenues, ...
- Using the government's current exchange rates China's slowing economy topped \$10tn for the first time last year, while the US economy is accelerating and is bigger than \$17.5tn

Capital flows decisive in renminbi's reversal – Pg. 18

- ...renminbi is under pressure from a bout of capital outflow and the knock-on effects of falls in the euro, yen and emerging market currencies
- Ordinarily a trade surplus leads to larger bank forex purchases, as exporters swap dollars from overseas customers for local currency. But exporters expect the renminbi to fall and are no longer converting dollar receipts, ...
- In addition, investment-linked forex outflows are offsetting the impact of inflows from trade

Answer: Derivative products cannot be purchased using margin

29 January 2015

Question: What is an easy approximation for standard deviation?

Berlin and Paris rebuff debt forgiveness call – Pg. 2

- Germany and France warned Greece not to expect taxpayers in other countries to pick up the tab for its policy decisions, adding to a sense of looming confrontation between the new hardline government in Athens and its international creditors that roiled markets
- Greek bank shares suffered their biggest falls and sovereign bond yields surged yesterday as investors took fright over a looming liquidity crisis amid rising uncertainty over the government's plan to renegotiate the country's bailout and debt burden

Russia weighs creation of 'bad bank' to fight crisis – Pg. 2

- The Russian banking system has been damaged by the rouble's collapse and western sanctions that have squeezed foreign currency funding
- S&P....downgraded Russia's sovereign credit rating to junk....
- Russia faces a sharp recession this year, with economists predicting a contraction of 2.5-5% as tumbling oil prices and western sanctions hit the real economy

Congress faces 'policy cliffs' challenge – Pg. 4

- Other policy deadlines in the coming months relate to: payments to doctors from the government's Medicare health plan; highway funding; the Export-Import Bank, a government credit agency; and the federal debt ceiling

Caught in a debt trap – Pg. 7

- A steep rally in European equities – up almost 20% since mid-October, twice as much as the US S&P 500 – fits with a story of quantitative easing, ...
- Tumbling yields are partly the result of central bankers becoming big bond buyers: QE by the Bank of Japan is in full swing; the ECB's programme starts in March
- But low and negative bond yields also tell a story of persistently slow economic growth and low inflation, even after adjusting for recent sharp falls in oil prices. They imply bond markets think central banks will fail to boost inflation anytime soon – exactly the opposite of what the BoJ and ECB plans are suppose to achieve
- Worse, central banks may be locked in a destabilizing “race to the bottom” in which moves to cut interest rates or expand asset purchase programmes lead to retaliation by others
- Negative yields have immediate implications for other financial assets, which use supposedly “risk-free” government bonds as a benchmark. If government bonds are over priced, then so is pretty much everything else
- Borrowing costs tumbling below zero also create risks that could spread beyond the financial sector and become “real” economy shocks
- Some fear an “easing bias” among central banks. Because they did not act to prevent lending booms in the past, they allowed debt levels to expand, which makes it much more perilous to push up the cost of borrowing now
- In the aftermath of the Swiss central bank's decision to lift its cap on the franc, volatility has spread across the foreign exchange markets. And with 10-year Swiss bonds yielding minus 0.3%, the usual relationship between risk and reward has broken down

Oil declines as US inventories increase – Pg. 20

- ...US crude market Nymex March West Texas Intermediate was \$1.16 a barrel lower at \$45.08

Renminbi in top five for global payments – Pg. 22

- ...2.2% of the world's payments were conducted using the Chinese currency in December, putting it above both the Canadian and Australian dollars for the first time
- The renminbi now sits just behind the Japanese yen, which was used for 2.7% of transactions last month, the British pound, the euro and the top-ranked US dollar
- ...euro and the dollar, which together account for three-quarters of all transactions

Answer: Range divided by six (6)

28 January 2015

Question: What are the three basic derivatives products?

Strong dollar weighs on US results – Pg. 1

- Blue-chip Wall Street stocks saw sharp falls yesterday after a strong of weak results showed the pressure US multinationals are under from a stronger dollar and subdued global growth
- Equities also reacted to weaker-than-expected US durable goods orders for December, which declined by 3.4%, following a downward revision of 2.1% for November
- The dollar has risen 17% since last summer, hitting the value of US companies' foreign earnings and compounding the problems they face in some international markets from weaker economic growth, political tensions in some markets and the more than 50% fall in crude oil prices over the period

Fed 'patient' pledge on rates faces test – Pg. 2

- Will the Fed remain "patient" when it comes to rate increases?
- What about its assessment of growth? Growth was described as "moderate" in December. GDP figures for the fourth quarter are not out until Friday...
- And inflation?..the Fed's language needs to be carefully watched
- And oil prices? Falling oil prices are a big factor in pulling headline inflation further from the Fed's 2% objective.
- How does the global outlook feature? The US' economy is going in a very different direction from many other parts of the world, where growth is far weaker (Prof Note: The U.S. is NOT an island!)

US debt issuers rush to beat blizzard and Fed – Pg. 18

- Corporate borrowers rushed to raise funds on US debt capital markets on Monday ahead of a policy meeting by the Federal Reserve and potentially disruption in trading activity as a severe snowstorm approached the US northeast
- Corporate borrowers sought to lock in long-term funding costs before today's FOMC meeting

Answer: Future, Forward, Options (Call and Put)

27 January 2015

Question: I set up operating accounts at BB&T for different physical investments. One of my operating accounts was overdrawn. How much fee did BB&T charge (which was reversed...thank you BB&T) for a \$75 overdraft?

EU leaders refuse to bow to Syriza debt demands – Pg. 2

- But their warnings were tempered by the prospect of flexibility over debt terms – as long as Greece sticks to its reform path
- In November 2012, creditors promised some kind of debt relief with Athens hit a primary budget surplus. Greece's budget has been in primary surplus – meaning it brings in more than it spends if debt interest payments are excluded – for more than a year

- Some are worried that a sudden drop in Greek tax receipts in recent weeks, which appears to have some as Greeks assumed Syriza would end many unpopular tax measures, could leave the government so short of funds...

Shanghai first region to scrap GDP growth target – Pg. 4

- Shanghai has ditched its official growth target for 2015, becoming the first large city or province in China to abandon such metrics as government policy shifts towards a focus on growth quality over quantity
- The move signifies both a nationwide move to switch focus from hitting annual targets with some of the fastest growth rates in the world – now that those rates are waning – as well as an effort to unlink growth from promotions at the local level

S&P reports Europe direct lending jump – Pg. 20

- Alternative lending markets in Europe have progressed in leaps and bounds in the past year...
- France's euro private placement market – which allows investors to provide long-term finance to companies that wish to avoid the expense and scrutiny of issuing publicly-rated bonds – has also seen the emergence of unlisted deals, which S&P said has ushered in new and more international borrowers
- S&P said issuance of private funding for companies in Europe grew last year in many alternative funding markets, reflecting the continuing shrinkage of corporate funding being offered by banks following the financial crisis
- Overall in volume terms, private placement markets for European issuers – including the US private placement market and Germany's Schuldschein loan market – had remained solid over the past few years, ...

Answer: \$72.00...aye caramba! The account is now linked to a credit line.

26 January 2015

Question: Define "leverage".

Wage rise puzzle tests Fed over timing of interest rate rise – Pg. 2

- ...average hourly earnings dropping 0.2% in December from November and increasing only 1.7% from the previous year
- This comes despite America's strongest year for job creation since 1999 and an unemployment rate of 5.6%, well below the heights of 10% reached in late 2009
- With labour force participation rates at historic lows, it is not clear how many discouraged workers could re-enter the jobs market if hiring continues apace

Hunt for yield rekindles synthetic CDOs – Pg. 14

- Yield-starved European investors are helping to drive a resurgence of structured credit securities that were blamed for worsening the global financial crisis six years ago

- Global volumes of synthetic collateralized debt obligations roughly doubled last year to about \$20bn, in new and existing issues, ...
- Synthetic CDOs pool derivatives known as credit default swaps and divide them into “tranches” with varying levels of risk. The deals allow investors to make amplified, or leveraged, bets on underlying loans or bonds
- In 2008 synthetic CDOs tied to the US subprime mortgage market were widely blamed for igniting a global financial crisis and huge losses
- Last week Eurozone corporate and government bonds plunged to fresh record lows after Mario Draghi announced asset purchases of up to 60bn (euro) per month

Answer: The use of debt in a capital stack.

25 January 2015

Question: Identify a few measures of risk.

Euro tumbles as tensions laid bare – Pg. 1

- The euro tumbled the furthest in more than three years yesterday, hitting 11-year lows as fresh evidence emerged of Germany’s visceral opposition to the ECB’s landmark quantitative easing package
- ...touch \$1.11 after the ECB’s announcement...(Prof Note: I see a European Holiday in my future!)
- Global stocks rose and the FTSE Eurofirst 300 ended the week up more than 5%

How Europe’s power couple split over QE – Pg. 4

- The bond between the eurozone’s most powerful political leader and its central bank chief has been crucial to the stability of the Eurozone as it navigated its way through debt crises, weak growth and now deflation
- Ultra-low interest rates have angered German savers,...
- In the end, Mr Draghi knew he had no option but to bow to pressure from Berlin and the with the central bank’s tradition of pooling responsibility for losses on its sovereign bond-buying sprees between the eurozone’s 19 national central banks. Instead, the national central banks will take on responsibility for almost all the losses on their sovereign debt, a fix designed to prevent the rest of the region from taking a hit on restructuring of Greek debt, but which has already raised concerns the ECB is no longer committed to maintaining the currency union in its current form

Gold’s gains reflect poorly on central banks – Pg. 11

- The precious metal has advanced 9% this month and is trading above \$1,300 a troy ounce...
- Gold, traditionally seen as maintaining its value against floating currencies, has prospered with markets on edge as central banks have attempted to deal with deflation in the wake of falling oil prices
- One sign of increasing pessimism among investors is that gold and the dollar are both rising

- Given the ECB's launch of a massive quantitative easing programme, the risk of a failure to arrest deflation is seen as benefiting gold...
- In turn global monetary easing has pushed real bond yields into negative territory,...

Answer: Standard Deviation, P(Loss), Value-at-Risk, Range, Variance, Greeks

23 January 2015

Question: What are the three measures of central location?

Markets rally as ECB bond-buying plan exceeds investor expectations – Pg. 1

- The ECB launched a 60bn (euro)-a-month bond-buying programme that was far bigger than investors has expected, in its long-awaited bid to revitalize the Eurozone economy and counter deflation
- Investors welcomed the move, with bond prices rallying across the board, ...
- After strong pressure from Germany, it was agreed that national central banks would assume most of the responsibility for losses from any default or restructuring of their national debt, breaking with the Eurozone tradition set by previous sovereign bond-buying schemes. There will be, however, risk-sharing on 20% of the assets, largely debt issued by European institutions bought by national central banks
- The euro hit its weakest level in more than 11 years, dropping to \$1.1405

Brazil's finance minister signals austerity – Pg. 4

- Brazil is in for a period of austerity and supply-side reform, including the potentially controversial overhaul of social welfare programmes, such as unemployment benefits,...
- The elimination of subsidies and cuts to welfare benefits is a politically sensitive task in Brazil, where mass demonstrations were provoked by an unexpected rise in bus fares in 2013
- In an effort to control inflation, the central bank also increased the benchmark Selic rate by 50bps to 12.25%, a three-year high

Answer: Mean, Median, and Mode

22 January 2015

Question: Discounting using a zero rate provides what piece of information?

ECB chiefs target 50bn (euro) a month for landmark bond-buying plan – Pg. 1

- ...buy roughly 50bn (euro) of government bonds a month for between one and two years, in a landmark stimulus package to counter deflation in the Eurozone
- The Federal Reserve began buying US Treasuries in late 2008
- But QE has been more contentious in Europe. It is opposed by the Eurozone's most powerful state, Germany, where officials argue it will reduce the urgency for countries to reform their economies

Volatility fears rise over Fed tightening – Pg. 3

- Some of the world's most senior bankers have warned about the risk of damaging volatility in credit markets once the US Federal Reserve starts to raise interest rates
- Asset managers have fretted since the financial crisis about a drop in US corporate bond inventories held by banks

Collapse in oil price pushes central bank to cut interest rates to 0.75% - Pg. 4

- Canada's central bank unexpectedly cut interest rates by 25bps to 0.75% as policy makers scramble to offset the impact of falling crude oil prices on its economy
- The BoC, which has kept rates unchanged at 1% since September 2010, has faced calls in recent months to cut rates amid signs the economy was running out of steam
- According to some estimates, oil and gas, and supporting industries, account for 7.8% of Canada's GDP, while investment in these sector makes up another 4.8%

S&P settles over mortgage securities – Pg. 16

- S&P's was misrepresenting the rigour and conservatism of its ratings on mortgage securities as recently as last summer,...
- The largest credit rating agency had engaged in a "race to the bottom" to win business...its failings extended beyond faulty ratings on commercial mortgage-backed securities, which triggered investigation in 2011
- It has been banned from rating certain types of CMBS deal for a year, in the largest settlement since the SEC assumed greater enforcement powers over rating agencies
- S&P misrepresented its methodology for assessing residential MBS between 2012 and last summer, having changed to a less conservative model and implemented "ad hoc workarounds that were not fully disclosed to investors" (Prof Note: Fines???...nothing more than a cost of doing business. Who is going to jail?!)

Answer: Determines if original principal is returned

21 January 2015

Question: What is WACC in finance?

Central banks offer cautionary tales to Eurozone embarking last on QE – Pg. 2

- ...the ECB is at last expected to fall in line with the world's other big central banks tomorrow by unveiling a programme of full-blown qualitative easing
- Central banks purchase large quantities of sovereign bonds as they seek to lower their yields and push investors into riskier assets
- QE should help businesses by lowering the cost at which they can borrow money. In theory, this should be true regardless of whether corporates raise funds via a bank or directly on the capital markets: in either case, central bank purchases of sovereign debt make government paper less attractive, pushing investors to lend their money elsewhere

- When the BoE and Federal Reserve embarked on their QE programmes, their interest-rate setting bodies rallied unanimously behind the new policy

China expands at weakest rate in 24 years – Pg. 4

- China's economy grew at its slowest pace in almost a quarter of a century last year even as it overtook the US to become the world's largest in purchasing power terms
- The annual expansion of 7.4% in 2014 is the slowest since 1990, when the country faced international sanctions in the wake of the 1989 Tiananmen Square massacre
- China's economy grew 7.7% each year in 2012 and 2013 and until 2010 it had maintained an average growth rate of more than 10% for more than 30 years
- The slowdown is expected to continue in the coming years, partly as a result of a far larger base – 7% growth this year is equivalent in absolute terms to 10% growth a couple of years ago

US bond rally quickens as rate rise moves back – Pg. 22

- A rally in long-term US government bonds is accelerating as investors push back expectations for a rise in benchmark borrowing costs in the world's largest economy amid a sharp drop in oil prices and subdued inflation
- Expectations that long-term US interest rates will rise are at their lowest since May 2013, ...
- The prospect of long-term interest rates staying low for longer, combined with a stronger dollar and a spike in market volatility worldwide, has boosted the appeal of US fixed income assets
- The six-month rout in oil prices has dragged inflation expectations to their lowest in more than a year,...
- The rally in government bonds has pushed the yield on the 30-year US government bond to the lowest level on record, at 2.35% last week,

Answer: The weighted average cost of equity and debt remembering that interest on debt is tax deductible and therefore the cost of debt must be multiplied by $1 - \text{tax rate}$.

20 January 2015

Question: When comparing the cost of equity and debt, what is special about debt?

Swiss franc storm claims scalp of top forex broker – Pg. 1

- A leading European FX broker filed for administration yesterday and a Danish bank conceded it faced heavy losses at the UK's market regulator stepped in to assess the damage wreaked on the industry by last week's violent swing in the Swiss franc
- Global markets were left reeling last Thursday when Switzerland unexpectedly abandoned its currency ceiling against the euro. In one of the most damaging currency swings in the modern trading era, the Swiss franc soared in value, leaving banks across the world with big losses and hitting foreign exchange brokers particularly hard

- The fallout from the Swiss franc's move has heightened scrutiny of a lightly regulated industry in which customers are often offered large amounts of leverage by companies to entice them to trade

Russia faces 5% contraction, development bank predicts – Pg. 2

- Russia's economy will shrink by close to 5% this year,....
- The development bank for the former communist bloc said plunging oil prices and western sanctions would lead to a contraction in Russia of 4.8% this year, compared with its September forecast of a 0.2% drop
- The downgrades reflect how Russia's economy is being battered by falling prices for oil, its main export, and financing difficulties caused by EU and US sanctions imposed over the crisis in Ukraine, as well as the implications of the slowdown for the whole region

Danes cut interest rates as speculators go in search of next target – Pg. 4

- The Danish central bank has bowed to pressure and cut interest rates to a record low as currency speculators search for their next target after forcing Switzerland to abandon its defense of the franc
- The decision by Denmark's nationalbanken to cut its deposit rate from minus 0.05% to minus 0.02%, equal to the record low of 2012, also comes ahead of the expected launch of the ECB's programme of quantitative easing this week – an initiative that would probably add pressure on the krone
- At the end of last year the total balance sheet of Denmark's Nationalbanken was 27.6% of GDP compared with 85% for the SNB

Calpers to cut back on private equity – Pg. 13

- Calpers...is slashing the number of private equity managers it uses and teaming up with other investors to drive down fees, as it extends to review a alternative investments that has resulted in it pulling out of hedge funds entirely
- Last year, the \$300bn pension fund unsettled the investment industry by axing its allocation to hedge funds, arguing that they were too costly and complex
- US public pension funds face political pressure to justify the fees they pay to private equity and hedge fund managers, who can charge 1.5% a year plus 20% of the returns made

Answer: Interest on debt is tax deductible

17 January 2015

Question: The cost of a 1bps increase in mortgage rates translates to how much over 30 years?

ECB set for QE to stave off deflation – Pg. 1

- ...bowed to German pressure to ensure that its taxpayers are not liable for any losses incurred on other countries' debt
- ...most likely option at this stage for the ECB to force the 19 national central banks that make up the Eurozone to stand behind their own sovereign bonds

- The move will bring the ECB closer in line with the US Federal Reserve and the BoE, which adopted QE after the global financial crisis

US consumer prices take biggest monthly fall for six years – Pg. 6

- US consumer prices had their biggest monthly fall in six years in December, complicating the Fed Rsv's deliberations over the timing of an interest rate rise
- Excluding volatile energy and food, prices were unchanged compared with the previous month – only the second time this has occurred since 2010 and confounding analysts' forecasts for a small rise
- The Fed's 2% goal is based on the personal consumption expenditures index, a gauge from the commerce department that has not been at 2% since April 2012

Goldman toils amid trading slump as net income falls 7% - Pg. 10

- Goldman Sachs reported lower profits for the fourth quarter, as fixed income trading revenues tumbled, but narrowly beat analysts' estimates after cutting costs
- Revenues in fixed income trading, which has previously powered Goldman's earnings, fell 29% in the fourth quarter to \$1.2bn, or 19% after stripping out a 2013 gain from the sale of Goldman's European insurance business
- A slight decline in bonuses meant that Goldman paid its employees the second-smallest share of revenues in its 16 years as a public company, only surpassed in 2009 when it paid out 36%

Swiss 10-year debt yields turn negative – Pg. 13

- This is the first time a major nation's 10-year bond yield has turned negative at least as far back as the 1980s, ...
- It is probably unprecedented in modern financial history
- Any launch of full-blown quantitative easing next Thursday by the ECB would be likely to precipitate massive demand for the Swiss franc, widely seen as one of global markets' stronger havens ...
- So-called "negative havens", assets where investors pay for safety, have grown in popularity, with the volume of negative yielding, Eurozone government debt swelling to a record 1.2tn (euro)

Answer: \$1,000

16 January 2015

Question: What is the current level of student debt in the U.S.?

Markets stunned as Swiss central bank abandons its currency cap – Pg. 1

- The Swiss currency surged as much as 39% against both the euro and the dollar, one of the sharpest appreciations in recent history, ...
- The ECB is next week expected to embark on a sovereign bond buying programme aimed at reviving growth and saving the Eurozone from the ravages of deflation

- The ceiling was introduced in 2011 after the Eurozone debt crisis saw investors pile into Swiss assets as a perceived haven, strengthening the franc and alarming central bank officials who wanted to protect exporters

India cuts interest rate as inflation falls – Pg. 3

- India cut its key interest rate by 25bps at an impromptu meeting yesterday in an effort to boost economic growth, becoming the latest big central bank to grapple with collapsing inflation
- The cut, which is expected to herald a steady easing of monetary policy over the coming year, prompted an early morning jump in the local stock market

Norway holds crisis talks over drop in revenue – Pg. 3

- Norway's economy is one of the world's most oil dependent. However, it is cushioned by the government having squirrelled away most of its petroleum revenues in the world's largest sovereign wealth fund
- The government is allowed to use up to 4% of the \$850bn oil fund each year in its budget
- Norway's oil production has been consistently falling for more than a decade and is now half of its level in 2000

Answer: \$1,000,000,000,000.00 (approximately)

15 January 2015

Question: If the world is in balance and student debt is increasing, what is falling?

Abe sidesteps fiscal squeeze in budget – Pg. 2

- Overall spending for 2015 will rise 0.5%...as Japan spends more on its ageing population and on defence, in response to rising tensions with China. Interest payments will also increase, underlining the difficulty the prime minister faces to get Japan's finances back on a firm footing
- The economy is robust enough to deliver a 9% rise in tax revenues, to a 24-year high...
- Higher revenues should flow from income taxes, forecast to rise by 12% in 2015, while consumption tax revenues should rise by a similar amount because of higher consumer spending and the effects of the rate rise
- The education budget has been cut by 1.3%, while energy has been reduced by 6.8%

Sweden central bank governor defends inflation strategy as price increases stall – Pg. 4

- ...raise interest rates seven times in 2010-11 has been criticized for pushing Sweden towards deflation
- ...negative inflation rates in 18 of the past 26 months,...
- The Riksbank is not the only central bank fighting falling prices. The Eurozone sank into deflation in December for the first time in five years. Inflation rates have also fallen in recent months in the US, UK and Japan

- Unlike the US and UK, Sweden did not have “to put the pieces back together after a catastrophe” in the banking sector...

California battle over university fees reflects pressure across US – Pg. 5

- Across the US, tuition fees are rising as colleges feel the pressure of funding cuts.
- ...want to raise tuition fees by 30% in the next five years to support rising enrollment and make up for past budget cuts
- Over the past decade, state funding for UC schools has fallen more than 50% per student...
- As tuition fees continue to rise, student debt loads are increasing
- The high cost of private education means US graduates collectively owe more than \$1tn in education debt, which experts say contributes to falling rates of home and car ownership among young people

Answer: automobile and housing debt, i.e. individuals are purchasing less...

14 January 2015

Question: Why is IRR a weak measure of performance when considering risk?

Government bond yields fall amid low inflation fears – Pg. 1

- Government borrowing costs tumbled yesterday as the spectre of exceptionally low inflation, driven downwards by the collapse in oil prices, loomed larger over advanced world economies
- Yields on government bonds – which move inversely with oil prices – fell across Europe amid mounting skepticism about the ability of central banks to lift inflation in the face of crude oil’s continuing decline
- The falling yields also reflected a growing conviction among investors that central banks will delay still further any official interest rate increases
- Underscoring worries about sluggish growth further reducing inflation, the World Bank cut its forecast for global growth, warning that the world economy remained overly reliant on the “single engine” of the US recovery (Prof Note: Agreed!)
- In Japan, yields on five-year government bonds also fell, touching zero for the first time

World Bank cuts global growth forecast – Pg. 2

- The World Bank has cut its forecast for global growth, warning that the world economy remained overly reliant on the “single engine” of the US recovery
- ...weak confidence among consumers and businesses and the inability of big central banks to cut interest rates below their record low levels to boost inflation expectations
- ...forecasts the world economy to expand 3% this year and 3.3% in 2016
- The bank lifted its forecast for growth in the US this year from 3 to 3.2%, while slashing those for the Eurozone from 1.8 to 1.1%. The UK economy is expected to grow 2.9% in 2015. Middle income countries were hit by downgrades, with Russia expected to contract by 2.9% instead of growing by 1.5%. South Asia provided a rare bright spot, with forecasts for 2015 lifted by 0.2% to 6.1%

UK inflation at lowest level for 14 years after oil and food prices fall – Pg. 5

- Lower oil and food prices have pushed UK inflation down to 0.5%, its lowest level for more than 14 years, weakening sterling and trimming bond yields
- The consumer price index in the year to December was half the 1% recorded in November and should provide a boost to household finances that have yet to see a sustained rise in wages
- The fall was driven almost entirely by falling fuel prices and stable, rather than rising, domestic gas and electric bills. Core inflation, which strips out volatile elements, rose to 1.3% year on year
- ...the possibility of deflation hitting developed markets is sending yields lower
- Weak inflation was traditionally a big concern for central banks that feared a prolonged period would alter consumer expectations and lead to a vicious circle whereby consumers delayed spending while they wait for prices to fall

Answer: Considers risk constant throughout the life of a project.

13 January 2015

Question: A real estate pro forma, what does it model?

Big-money investors say they will stick with under-ripe hedge fund sector – Pg. 1

- Institutional investors plan to put more money into hedge funds this year despite lackluster investment performance and two of the world's biggest public pension funds deciding the sector is no longer worth its high fees
- Hedge funds last year had their worst year of investment performance since 2011, ...
- Once the preserve of wealthy individuals, hedge funds now draw a third of their \$3tn of assets from pension funds, many of which are in deficit and facing mounting scrutiny of how they management investments

Thousands queue for free food, even in wealth Milan – Pg. 2

- About 6.2m people in Italy live in absolute poverty, one in 10 of the population, a figure that has almost doubled in the past two years, ...
- In addition, 4m are considered to suffer from hunger, of whom 10% are children under five and 14% are older than 65
- Real incomes are lower than 15 years ago
- ...Italy's unemployment rate is at a record 13.4%

US recovery stirs debate on way to tackle inequality – Pg. 4

- ...tepid wage growth and a historically low labour participation rate mean many middle class households have yet to see an improvement in their finances. Average hourly earnings rose just 1.7% in December over the previous 12 months, barely ahead of inflation

- The median wealth of the nation's affluent families in 2013 was nearly seven times the wealth of middle-income families, the widest gap seen in three decades, and 70 times that of lower income families, ...

US banks urge action on clearing houses – Pg. 14

- US banks have urged Jack Lew, the US Treasury secretary, to take action to shore up clearing houses, arguing that the likes of CME Group and LCH.Clearnet could cause the next financial crisis instead of preventing it
- ...there is a concern among the big banks over what would happen should a clearing house itself fail and frustration over a lack of action from regulators
- The largest derivatives clearing houses in the US, operated by CME Group, Intercontinental Exchange and LCH.Clearnet, have resisted the banks' calls, arguing that increasing their "skin in the game" would expose risk managers to greater credit risk at the very moment the market needs the operator to be resilient

Answer: The cash flow diagram of the target entity and, hopefully, the risks associated with achieving the cash flow projections.

12 January 2015

Question: Who disappointed me in the past week?

South American countries seek fresh economic model as deficit pressures build – Pg. 4

- In Columbia and Peru, where commodities account for two-thirds of exports, current account deficits are forecast to reach 5% of GDP this year
- At one extreme are spendthrifts such as Venezuela, where investors fear a bond default following the halving of the price of oil, which accounts for 95% of its exports
- The first is improved economic policy making, especially the use of floating exchange rates, which act as a buffer. The Brazilian, Columbia and Chilean currencies have dropped more than a quarter in the past two years.
-Argentina and Venezuela have fixed exchange rates, while oil-exporting Ecuador is dollarized
- Elsewhere, weaker currencies can close trade gaps by boosting exports
- Another reason for optimism is that most of the region has low debt and enjoys access to abundant international liquidity to plug financing gaps
- First, belt-tightening will limit growth. Second, the region needs a new post-boom economic model, especially if local manufacturing were to be hollowed out by cheap Chinese imports

Bankers fight over smaller bonus pool – Pg. 13

- Bankers on both sides of the Atlantic are fighting over a diminished bonus pool this year,...
- In the UK, most investment banks expect to see bonuses fall after a tough year, (Prof Note: Bonuses???) After the record fines! Bonuses need to be in the form of dividends to shareholders!)

Answer: Barack Obama, John Kerry, and Eric Holder. Perhaps Eric did not realize that there are cabs in Paris and he could have hopped in one seeing as how he was already in Paris! I realize there can be reasons for Barack Obama to not be there but (1) I would like to read them and (2) Is it not John Kerry's job? Granted, I truly believe Eric did not realize Paris had cabs and it was probably too long a walk.

10 January 2015

Question: What was the common theme for the Central Banker educations?

Best US job creation figures since 1999 lift expectations of Fed rates increase – Pg. 1

- The world's most important economy created 252,000 last month, better than the 240,000 that economists had predicted.
- Total US job creation for 2014 hit 2.95m, ...
- The outlook for the US economy contrasts sharply with that of the Eurozone, which has plunged into deflation for the first time in more than five years
- ...expectations are also growing for the ECB to embark on a full-blown bond-buying programme to stimulate the currency zone
- ...US unemployment rate in December, from 5.8% to 5.6%, ahead of predictions of 5.7%
- Wage growth – another worry for the Fed – also disappointed, with average hourly earnings dropping 0.2% from November to rise just 1.7% over the previous 12 months

Obama pledges community college fee cut – Pg. 4

- US president has rolled out a plan to make two years of community college free for millions of students...(Prof Note: ENOUGH!!! We cannot give everything away for free! Let us focus on quality of education!!!)
- ...waive tuition fees for "responsible" students who attend college at least half of the required time, keep up with their course work and maintain a certain grade average (Prof Note: HALF the time?! This is a joke!!!)
- Under the proposal, modelled on similar programmes in Tennessee and Chicago, the federal government would cover three-quarters of the average cost for students who meet eligibility guidelines for community colleges, which offer more vocational courses than other colleges
- The White House said the programme would cost roughly \$60bn over 10 years. That would mean students could receive an annual tuition subsidy of about \$8bn: \$6b from the federal government and \$2bn from state houses
- The programme is aimed squarely at middle-class households struggling to pay for the soaring costs of college courses, where tuition fee increases have outpaced the rate of inflation. During the 30 years from 1984-85 to 2014-15, average published tuition fees at private, four-year institutions rose 146%, ...(Prof Note: Not only is tuition going up but administrations are taking away student benefit which is what G'town SCS administration, i.e. above Bill H, for whom I have come to have no respect, tried to do in December but a letter writing campaign prevented it....WE ARE GEORGETOWN!)
- In the housing market, where the recovery remains uneven in parts of the country, the president proposed lowering mortgage insurance premiums from 1.35% to 0.85%...(Prof

Note: We are becoming WAY too entitled....hard work....lets get back to what made this country GREAT....hard work!)

Deflation decoded – Pg. 5

- Deflation fears rattled the stock market, with global shares plunging on Monday before paring back their losses
- Investors know that once an economy falls into outright deflation – a persistent and generalized fall in prices – it is very difficult to climb out
- As consumers expect goods to become cheaper in the future, they postpone purchases, worsening the slump. If price levels keep sliding, nominal incomes may start to fall, making it much harder to service debt. A wave of bankruptcies can follow, compounding the misery

Deflation fears blur interest rate outlook – Pg. 11

- The benefits of higher overnight rates include rewarding savers and restoring a sense of normality across markets in terms of higher volatility, seen by policy makers as curbing excessive risk taking
- This week's release of the Fed's meeting minutes for December signaled that the central bank is on a trajectory towards a midyear rate rise
- Coupled with falling US inflation and a strengthening of the dollar that reflects tighter financial conditions, some in the bond market think there is a risk that any rate rise arrives later in the year, or perhaps not until 2016
- A key question for the US rate outlook therefore rests on whether the economy can expand and remain relatively insulated from global headwinds

Answer: All were highly educated, most had Ph.Ds or an equivalent, and all had studied economics.

Note: Finance is found under the discipline of economics.

9 January 2015

Question: What is Mr. Haruhiko Kuroda's, Governor Bank of Japan, education?

Japanese optimism declines to 2-year low – Pg. 2

- ...first two years of Abenomics – in which a plunge in the yen lifted corporate profits while pushing core inflation as high as 1.5% - have set the stage for a new phase in which companies grow confident enough to raise wages, feeding a virtuous cycle of higher pay, consumption and output
- Employees' real incomes have been falling for 14 months in a row, squeezed by the inflationary effects of the weaker yen and also by the 3% rise in consumption tax last April

Britain's self-perpetuating property racket – Pg. 7

- ...every country has its sacred cows, and Britain's is housing
- First, the number of houses constructed in the UK in the financial year 2012-13 was the lowest since the second world war, at just 136,000
- Second, this decline in output has not been due to any diminution of demand

- Only 11% of England's surface area is urbanized
- The restrictions on land availability are mad-made. They are due to a control system of baroque complexity that has not only constrained supply, but, far worse, has created a set of powerful vested interests in its continuation
- ...the wealth accumulated by property owners is fundamentally unproductive

US the dominant derivatives superpower – Pg. 18

- CME this week reported a 19% year-on-year growth in average daily volume to 7m contracts. By contrast, ICE recorded a 28% fall on the same measure...
- The CME's volume numbers were a reflection of its dominance in products related to movements by the Federal Reserve, such as Treasury and Eurodollar futures. The winding down of the Fed's quantitative easing programme in October and expectations of rising interest rates stimulated demand in two-year and five-year notes on the exchange.

Answer: BA Law, University of Tokyo, M.Phil Economics, University of Oxford

8 January 2015

Question: What is the education of Glenn Stevens, Governor for Reserve Bank of Australia?

Eurozone slide into deflation adds to pressure on ECB to launch full-scale QE – Pg. 1

- The Eurozone fell into deflation for the first time in more than five years, making it near certainty that the ECB will embark on a full-scale government bond-buying spree despite German opposition
- Consumer prices fell 0.2% in the year to December, ...
- The eurozone's slide into deflation will exacerbate fears about the health of the global economy amid disappointing growth in developed countries and a rapid slowdown in emerging market expansion over the past 18 months, particularly in China
- The price declines are expected to accelerate in January...
- While central bankers usually ignore falling oil prices, and core inflation – a measure that excludes energy costs – edged up to 0.8%, persistently low headline readings have raised doubts about the credibility of the ECB's pledge to keep inflation just below 2%

Petrobras fallout hits builder OAS – Pg. 13

- Fears are growing over the systemic impact of the corruption scandal at Brazil's state oil producer, Petrobras, as one of the construction groups linked to the allegations edges closer to default and the country's credit rating comes under pressure
- OAS, which is building the world's third-largest dam and revamping Sao Paulo's international airport, has missed two debt payments over the past week after the scandal restricted its access to funding, forcing it to preserve cash to pay for ongoing operations
- The warning comes as President Dilma Rousseff is battling to protect Brazil's coveted investment grade rating with a series of market-friendly measures – efforts that could be obscured by the prospect of bailing out Petrobras, ...

Worst year for commodities since 2008 – Pg. 20

- Last year will go down as one of the most difficult years for commodity investments, ...seep price falls and liquidations triggered a \$50bn decline in assets under management
- Commodities recorded their biggest annual loss since the global financial crisis in 2008...
- Rising supply and slowing demand growth hit oil prices – Brent fell almost 50% last year...
- Other factors were a stronger US dollar and negative roll yields, where investors replace expiring futures contracts with more expensive later-dated ones

Bonds send clear signal to central banks – Pg. 22

- Ong-dated bonds in Japan, Germany, and the UK and the US have again surprised some investors by registering dramatic declines in yield as the ongoing collapse in oil prices and fears of weak growth encourages a flight to havens
- On Tuesday US 10-year Treasury yields dipped below 2% for the first time since October, ...
- In a world where big central banks have long anchored interest rates near zero per cent and, in the case of Japan, the UK and US, have deployed quantitative easing to generate inflation, the decline in bond yields suggests the global economy remains on shaky ground
- In the US a market measure of inflation expectations followed by the Federal Reserve has dropped below the levels of late 2008 when deflation concerns triggered a cut in interest rates and the first round of quantitative easing

Answer: Bachelor and Masters (Prof Note: Interesting)

7 January 2015

Question: What is Stephen Poloz's, Governor of the Bank of Canada, education?

A world of debt – Pg. 5

- The gross government debts of developed countries now stand at an average of 108% of GDP
- ...rule of thumb that developed countries should try to keep their debts below 85% of GDP, while emerging economies should aim to stay below 70%
- Even without debasing the currency, local debts are usually less susceptible to crises, as domestic savers and investors are more willing to fund their government than foreign investors in times of distress
- ...history has shown that looking purely at government debts can be misleading. Nominally private debts have a nasty way of becoming public liabilities in severe crises – especially when bloated banking sectors implode and governments feel compelled to bail them out, as happened in Ireland and Spain in the Eurozone crisis
- Defaulting is almost always a political decision
- Growth – the simplest solution to excessive debts – cannot be conjured up by magic, and often proves stubbornly elusive when it is needed most

Finra to investigate US bond trading – Pg. 18

- A top regulator for the US brokerage industry said it would begin examining the bond market, including the operations of electronic debt trading platforms that were proliferating as investors seek new ways of trading fixed-income securities
- Large trades of many fixed-income securities, but especially corporate bonds, have historically been struck over the phone between investors and dealers at big banks, but more of the transactions are migrating to new electronic trading venues as many financial institutions retreat from the bond trading business
- The lack of liquidity in parts of the bond market has worried regulators,...
- In addition to looking at the fixed-income market, Finra said it would step up its monitoring of financial companies' ability to withstand data breaches and electronic attacks, to make cyber security another one of its top priorities for the year

Answer: Bachelors and Ph.D.

6 January 2015

Question: What is Mark Carney's, Governor of the Bank of England, education?

Energy stocks lead Wall Street lower as US oil dips below \$50 – Pg. 1

- US crude oil dropped below \$50 a barrel for the first time in five-and-a-half years, ...
- ...euro sank to a nine-year low against the US currency
- Investors sought long-dated government bonds as insurance against further downward pressure on inflation and global growth prospects with the US 30-year Treasury bond at its lowest yield since August 2012
- The euro dropped to \$1.1864 in early trading...

German inflation drop bolsters case for QE – Pg. 3

- The slump in global oil prices pulled Germany inflation to its lowest level for five years, to just 0.1%, raising the prospect of falling prices in the wider Eurozone and bolstering the case for an ambitious programme of government bond buying by the ECB
- The fall in German inflation followed the release of worse than expected Spanish inflation data last week, ...
- While central bankers usually ignore movements in oil prices, the latest falls come on the back of a period of persistently weak price pressures in the Eurozone
- Household energy and motor fuel prices in Germany have fallen 6.6% over the past year

South Korean households pile up debt – Pg. 4

- As part of the so-called Choinomics, the government also eased rules on mortgage lending, allowing higher ratios of debt to borrower income and loan to property value
- Because of such efforts, apartment prices rose 2.4% in 2014, with retail sales rebounding 1.9% in November from the previous month, ...
- ...ratio of debt to disposable income at about 160%, which is higher than the average for the mainly rich nations of the OECD and also above the US figure at the beginning of the subprime mortgage crisis

- The government plans to address the problem by increasing household income, vowing to reduce the country's household debt to disposable income ratio by 5% by 2017

Answer: Bachelor Harvard, MPhil in economics, DPhil in economics Oxford

5 January 2015

Question: What is Mario Draghi, Chairperson for the European Central Bank (2011 – 2019), education?

Massive QE push will not revive Eurozone, economists warn – Pg. 1

- A stuttering recovery and a worrying drop in inflation have raised fears of another crisis in the currency bloc and put pressure on policy makers to cast aside powerful German opposition and begin purchasing sovereign debt

Shale glut gives Obama dilemma on oil export ban – Pg. 4

- Critics of the crude export ban – including oil industry executives and some Republicans – say it is a 1970s anachronism that should be scrapped as a glut of shale oil undercuts the global market by reducing US import needs
- Ending the export ban could encourage more shale investment or at least offset the discouraging effects of the low oil price
- The export ban is supported by US refiners that want to process American crude and by manufacturers that are grateful for cheap domestic energy
- Most economists agree that large-scale US oil exports would lower the international oil price even further by increasing the global supply, although there is no consensus on the likely magnitude of the impact
- The debate over exports is heating up just as US consumers get used to the low oil price giving them cheap petrol, which has outsized impact on US consumer sentiment

Perpetual cash machines – Pg. 5

- Now many of the world's savviest hedge fund and private equity managers think they have found a way round the problem. Instead of traditional funds that allow investors regular opportunities to redeem their money, or buyout funds that wind up after 10 years, they are looking to raise money for vehicles that bring cash in that can be invested in perpetuity. In the industry parlance, this is known as "permanent capital" and is seen as a new holy grail (Prof Note: Remember the first rule of investing: Do NOT go to jail and a very close second: Return OF Capital!!! This is insane!!!)
- Advocates in the industry believe permanent capital vehicles hold the answer to another long-running frustration of alternative asset managers: the stock market's refusal to value their businesses as highly as traditional fund management companies
- Permanent capital vehicles typically must be listed on a stock market to allow investors the option of getting out – and that comes with disclosure requirements that would be anathema to hedge fund managers a decade ago
- (Prof Note: Permanent Capital funds is the definition of insanity! Have we learned nothing?! Return OF Capital!!!)

Answer: Ph.D. MIT

3 January 2015

Question: What is Jack Lew's, Secretary of the Treasury, education?

Births in Japan fall to record low but deaths rise – Pg. 4

- Death outnumbered births in Japan last year by the widest margin on record, underscoring the scale of challenge facing the government as it tries to ensure a dwindling pool of workers can support growing ranks of pensioners
- ...Japan's population fell by a record 268,000
- Abenomics has improved Japan's fiscal situation. A combination of higher corporate profits and the 3% consumption tax increase last April seems set to push tax receipts to a 22-year high in the next fiscal year
- If the current nationwide fertility rate of 1.4 stayed unchanged, a task force warned in November, then Japan's population of 127m would drop almost a third by 2060 and two-thirds by 2110
- Even if the fertility rate were to rise to the replacement level of 2.07 by 2030 and then stay there, the population would keep falling for another 50 years before stabilizing at a little less than 100m

Finance sector revival puts squeeze on London space – Pg. 9

- London's office market is booming as the capital's resurgent banking and finance sector encounters a shortage of new space – prompting warnings that rents are set to soar
- Office space in London is coming under pressure from a change in government planning policy that was intended to encourage the delivery of new housing. The office to residential conversion policy makes it easier for developers to turn existing office space into homes

Anatomy of a global skyline – Pg. 9

- Real estate is emerging as a mainstream asset class, and the world's biggest most eye-catching buildings are particularly in demand by investors
- (Prof Note: Everyone better wake up...real estate is physical AND financial! It requires an understanding of both markets. It is deceptive in its complexities.)

Oil slips below \$56 as output climbs further – Pg. 11

- Oil started 2015 on the back foot with a stronger US dollar and concerns about a supply glut sending prices to levels last seen in 2009
- Brent fell below \$56 a barrel yesterday...

Dollar surges on Fed rate rise expectations – Pg. 11

- The dollar started the year on a strong footing, rising against all other major currencies to hit a fresh nine-year high as investors remain confident the US will raise interest rates in 2015

- Against the dollar the euro hit a low of \$1.2011, its weakest level since the market turmoil triggered by the Eurozone debt crisis in the summer of 2010 – and a fall of 0.6% on the day

Answer: Harvard AB, Georgetown Law, i.e. WE ARE GEORGETOWN!!!

2 January 2015

Question: What is Janet Yellen's, Federal Reserve Chairperson, education?

Japan's shrinking workforce puts women in the driving seat – Pg. 2

- Japan's shrinking workforce, a consequence of one of the world's most rapidly ageing populations, is helping to push a shift in male-dominated industries such as road haulage and construction
- This reflects a national trend. Between January 2007 and October 2014, Japan's working-age population declined by 7% to 77.8m...job vacancies now outnumber applicants by 10%
- In the increasingly challenging search for labour, companies are turning to women: the proportion of working-age women in employment has risen to record levels, reaching 67% in October

Egypt bourse yields world's highest share price returns – Pg. 11

- Egypt was the best destination of stock market investors in 2014, providing a total return including dividends and share price rises of more than 30% in a year in which the US led equity rallies in developed economies
- The best-performing major developed market was the US, where the total return reached 14.5% on signs of a broadening and accelerating economic recovery...
- Germany and France recorded losses equivalent to 9.3% and 9.1% respectively after dividends and price movements
- The UK made a return of minus 5.8% - better than Italy's minus 8.5% but not as good as Spain's minus 3.8%
- Portugal was the worst-performing country, with minus 37.2% (Prof Note: Use this as a worst-case scenario in your portfolios...are you properly hedged?!)

Dollar rise continues after its clean sweep – Pg. 18

- Expectations that the Federal Reserve will raise interest rates in 2015 from historic lows have been a major factor of dollar strength, as central banks in other countries including the ECB and the BoJ continue to ease policy. The euro and the yen both fell 12% in 2014
- The dollar index, which weights the US currency against a basket of major trading counterparts, hit its highest level in nine years in the last week of 2014, a rise of 13% over the year
- Russia's rouble fell 46% as lower oil prices and sanctions imposed on the country amid the Ukraine crisis took their toll.

Answer: BA/BS Brown, Doctorate Yale, i.e. she's a Bulldog!!! Trevor V. there is another one of you!