



New Year's Eve: Have a happy and safe New Year's Eve. Might I encourage everyone on New Year's Day to set some goals for the New Year (if not tonight) and make some resolutions. Be certain to review (or create) your Will. Is it accurate? Be certain to review retirement accounts for allocation and beneficiary change(s). Are you comfortable with current allocations and choices? Be certain to review (or create) Powers of Attorney, i.e. Financial and Medical. Are these updated? Create (or update) a complete home inventory list (I am creating a database that I will share to capture this data) and review insurance coverage(s). Are they sufficient? Create an annual budget by month and stress test your model. What happens if I or my wife are no longer employed? Review your short- and long-term disability and care policies. Do you even have any? Review life insurance. Is it sufficient? Have you had a life change that means the amount must be changed? Finally, forecast what life looks like at age 65 and assume that you earn zero active income, i.e. must live on investments. Do you have sufficient income? If not, what can you do today to change your future?

One can never think too soon of end-of-life issues and retirement. If you are young you have time. If you are older, hopefully, you have income and assets. Plan to succeed!

I thank everyone for allowing me to be a part of your lives! Happy New Year!!!

Roger

31 December 2016

Question: What does the song Auld Lang Syne mean?

Dollar forecast to hit euro parity as experts factor in US rates and Trump – Pg. 1

- The euro is on course to hit parity with the dollar for the first time in more than 14 years, helping the Eurozone maintain its recovery by making exports more competitive...
- The single currency traded at \$1.05 yesterday – far below its 2008 peak of \$1.5979. It has not fallen to \$1 or below since December 2002, the year euro notes and coins were introduced (Prof Note: I celebrated New Years that year in Lisbon. The fireworks were mis-aimed and ended up falling on the crowd by the harbor. Ahhhh....youth!)
- The single currency lost 4% against the dollar in 2016, with market participants expecting further weakness as US rates rise.

Lovers' trysts bring French luxury hotels a rendezvous with success – Pg. 8

- Traditionally, room rental by the hour has been the preserve of seedy establishments or, more recently, "love hotels" found in countries from Argentina to Japan. But luxury hotel groups have embraced the hourly model in France

- Hotel chains, including Accor and Marriott, have signed up to a French start-up online booking platform called Dayuse.com, ...
- According to Dayuse, which launched in 2010, 70% of rooms are empty during the day and it says it has generated more than \$20m in revenue for those hotels signed up to its service
- On the site customers can, for example, rent and 800euro-a-night room at the four-star Marriott Opera Ambassador in central Paris for 99euro between 11am and 4pm. To have a “love Box” filled with adult toys is an extra 40euro and a bottle of champagne 70 euro

Top US shares set for strong recovery – Pg. 11

- The S&P 500 index is poised for an 11% gain in 2016, reflecting a wider rebound in global stock indices after a brutal start to the year that at one point sliced more than \$5.1tn off the FTSE-All-World index
- Investors are also increasingly hopeful that the stronger economic backdrop will allow the Federal Reserve to continue normalizing monetary policy after holding rates near historic lows since the financial crisis

Answer: Just forget about the past and look ahead to the New Year with hope.

30 December 2016

Question: What is the first country to celebrate New Years Eve each year?

Flurry of big deals fires M&A to second highest level since 2007 – Pg. 1

- Merger and acquisition activity in the fourth quarter reached \$1.2tn, the busiest period for dealmaking in 2016. A slowdown in Chinese acquisitions in earlier quarters was offset by the year’s largest deal in October: AT&T’s agreed purchase of media group Time Warner for \$108bn, including debt
- In total, the volume of global M&A was \$3.6tn in 2016, a 17% drop from last year’s record \$4.37tn but enough to make the year the second highest for dealmaking since 2007,....
- Chinese companies became a significant force in cross-border M&A in 2016, accounting for \$220bn of transactions – almost double the amount of 2015

House price rises in China’s capital will be halted, vows mayor – Pg. 2

- Flatlining prices will delight residents paying the world’s most unaffordable rents, but dismay investors who had bought houses in a city where prices have risen more than 25% this year
- Since September, more than 20 city governments have tried to suppress housing demand by restricting house purchase and increasing the minimum downpayment required for mortgages. Property developers have been banned from borrowing to buy land
- As a result, residential house price increases in Beijing and other top-tier cities slowed almost to a standstill in November

Forecasting the world in 2017 – Pg. 13

- But we got the big ones wrong [for 2016 predications]. The UK did not vote to remain in the EU, Hillary Clinton did not win, and that is what mattered most
- Will Article 50 be triggered by the end of the first quarter? (yes)
- Will Marine Le Pen win the French presidency? (no)
- Will Angela Merkel win re-election in Germany? (yes)
- Will the Iran nuclear deal collapse? (no)
- Will Donald Trump and Vladimir Putin do a Syria deal? (yes)
- Will President Trump build the Mexican border wall? (yes – but not much of it)
- Will Isis be destroyed as a significant global force? (no)
- Will North Korea successfully test a nuclear-capable missile? (no)
- Will China allow its currency to devalue by more than 10%? (no)
- Will Venezuela default on its debt? (no)
- Will the UK's annual growth rate fall below 1% in 2017? (no)
- Will the Fed funds rate be higher than 1.5% at the end of 2017? (no)
- Will the S&P 500 finish the year above 2300 (roughly its current level)? (no)
- Will oil finish over \$50? (yes)
- Will EU inflation be 1.5% or higher by year end? (no)
- Will Apple be the most valuable company in the world at year end 2017? (yes)
- Will Uber go public? (no)
- Will either Goldman Sachs CEO Lloyd Blankfein or JPMorgan Chase chief Jamie Dimon step down in 2017? (no)
- Will a major European bank fail in 2017? (yes)

Mutual funds suffer investors' ire – Pg. 15

- The number of mutual funds launched in the US fell sharply in 2016, reflecting the crisis of confidence in active management and the shift by investors into exchange traded funds
- As a result, the number of US mutual funds is on course to fall in 2016 for only the fourth time in the past 20 years. From 8,190 funds at the start of the year, ...recorded just 8,061 at the end of November
- The industry has previously only shrunk after large stock market sell-offs but the reduced interest this year comes even as investors have enjoyed decent returns from stocks and bonds
- The difference this time is that investors have absorbed years of data showing that most active managers fail to keep up with the passive, index-tracking funds that are more commonly available in ETF form

US mortgage business run set to end – Pg. 16

- US mortgage lenders are heading for the quietest year for refinancings since 2000 as rising interest rates are expected to turn some borrowers off deals, hitting what has been an important source of revenue for the industry
- American homeowners have rushed to take advantage of the drop in interest rates to historic lows through refinancings, which allow them to lock in cheaper mortgages in return for a fee

- About \$8.2tn worth of refinancings have been completed through an estimated 30m transactions since 2009
- Higher interest rates should, overall, still be a boon for the banking industry. Banks are expected to be able to push up interest charges on loans while keeping deposit rates on hold – pocketing the difference
- The benchmark 30-year mortgage rate ... has risen from 3.36% to 4.17% over the same timeframe
- Customers are typically charged about \$2,000 to refinance, ...

Answer: New Zealand #1, Australia #2

29 December 2016

Question: What percentage of Americans pass out prior to the clock striking midnight New Years Eve?

Japan sidesteps UN pension rule to flatter its public debt – Pg. 3

- Japan plans to duck new US rules on accounting for public pension liabilities while recognizing pension assets in a way that will obscure the size of its huge public debt
- ...Japan will continue to include assets backing pensions for teachers, police and local officials on the public balance sheet, as well as assets held by the Government Pension Investment Fund to support social security pensions
- The decision will flatter the true size of Japan's public debt – the biggest in the world at a net 125% of GDP, ...and hamper efforts to compare its debt with other countries
- Japan's situation is extreme because the state holds assets worth about 48% of GDP to support social security as well as employment-related pensions for public servants such as the police

Plan to scrap US estate tax rekindles fierce debate – Pg. 4

- The truth about forced sales matters because it will figure in the debate over estate tax in 2017, if Republicans follow through on their vows to scrap what some on the right call a "death tax" or a "grave robber tax".
- Until 1976, only estates worth less than \$60,000 were exempt from the tax. Since then the exemption has gone up in leaps and bounds, so in 2016 an individual could leave \$5.45m to their heirs and pay no estate tax. Any assets above that are taxed at a top rate of 40%. With roughly 2.5m people dying each year, and estates of only about 5,000 – just one in 500 – have to pay the tax, the Tax Policy Center estimates. Of those, only about 50 are farms or other small businesses
- (Prof Note: To few focus on these issues until it is too late. Estate planning is critical and this starts with how assets are owned. When owning foreign holdings the complexity increases exponentially as the laws that govern are foreign, i.e. not domestic. For instance, Puerto Rican property transfers outside of probate, regardless of a U.S. will.)

Answer: 22% (according to my internet source)

28 December 2016

Question: Why do we celebrate the New Year on January 1?

Corporates lead surge to record \$6.6tn debt issuance – Pg. 1

- Global debt sales reached a record this year, led by companies gorging on cheap borrowing costs that are not threatened by Donald Trump's pledge to fire up the US economy
- The bond rally that dominated the first half of the year helped entice borrowers that issued debt via banks to take on just over \$6.6tn, ...breaking the previous annual record set in 2006
- Companies accounted for more than half of the \$6.62tn of debt issued, underlining the extent to which negative interest rate policies adopted by the ECB and the BoJ, as well as a cautious Federal Reserve, encouraged the corporate world to increase its leverage
- Corporate bond sales climbed 8% year-on-year to \$3.6tn,
- The remaining debt included sovereign bonds sold through bank syndication, US and international agencies, mortgage-backed securities and covered bonds
- After touching a record low of 1.32% in July, the yield on the 10-year US Treasury – an important benchmark for corporate borrowing costs – has surged more than a percentage point to 2.57% (Prof Note: Remember a single basis point based on a 30-year loan with an approximate mortgage of \$450,000 costs the borrower \$1,000 or \$125,000 for a 125bp increase)
- With the universe of negative-yielding bonds touching almost \$14tn at one point, money managers willing to stomach lower returns. This year's debt sales were buoyed by China and Japan-based issuers, up 23% and 30% respectively, ...

US workplace safety crackdown in doubt – Pg. 3

- The US Department of Justice, under a year-old Obama administration initiative, has been combating workplace safety violations using laws designed to protect the nation's air and water
- The reason is straightforward: tougher punishments. Under the Occupational Health and Safety Act, the principal workplace safety law, actions that cause employee deaths are misdemeanours, subject to a maximum fine of \$10,000 and six months in jail
- But environmental crimes such as knowingly endangering human life by mishandling hazardous waste are felonies punishable by up to 15 years behind bars, even if they involve no fatalities

Bypassing the banks – Pg. 7

- The banks have felt the impact: earlier this year, the share of the biggest three Dutch banks – Rabobank, ABN Amro and ING – in new mortgage lending fell below 50% for the first time, though they still dominate in terms of outstanding mortgages
- The US securitization market remains large, but in Europe issuance is now a quarter of its size at the 2008 peak
- Post-crisis regulation have contributed to the rise in non-bank lending. Solvency II, the EU-wide regulation for the insurance industry that came into effect at the start of this year, discourages investment in asset-backed securities

Answer: Because Julius Caesar said so!

Christmas Eve 2016

Question: Name the eight original reindeer.

Banks in \$12.5bn subprime payout – Pg. 1

- Deutsche Bank and Credit Suisse have cleared one of the last big hurdles of the financial crisis by agreeing settlements worth a combined \$12.5bn with US authorities for allegedly fueling the 2008 market meltdown by mis-selling toxic mortgage securities
- Weeks before Donald Trump takes office, the Obama administration is rushing to fulfil its pledge to punish the banks that played a central role in packaging subprime mortgages that left investors nursing huge losses
- The DoJ lawsuit against Barclays claims the bank “securitized billions of dollars of loans it knew had material defects” and defaulted “at exceptionally high rates early in the life of the deals”
- From 2005 to 2007, Barclays fraudulently sold more than \$31bn of mortgage-backed securities in 36 separate deals,

Europe’s banks end the year on a high – Pg. 11

- A dramatic rebound for European bank stocks after a year of financial and political turmoil has left the sector set for its largest rise in value since 2009
- The Euro stoxx banks index has risen 30% in value since the start of October, approaching the 33% increase in the three months to September 2009
- A broad rally has followed the election of Donald Trump as US president, and the quarterly performance is part of that. But banks’ gains also highlight stark swings in sentiment towards some of Europe’s largest institutions in a year when government policies to support economic growth have prompted questions about the profitability of lending
- To profit from lending, banks need a gap between the short-term interest rates they pay to raise funds, and the longer-term rates they charge customers. As bond yields dropped to record lows in August and September, bank valuations plunged along with estimates of future profits
- However, rising bond yields, an increase in overnight interest rates from the US Federal Reserve and a reduction in monthly bond purchases by the ECB from 80bn (euro) to 60bn (euro) have prompted a reassessment of the chances of higher growth and inflation

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

23 December 2016

Question: Which country gifts the Christmas tree that is placed at Trafalgar Square in London, according to Christmas tradition?

Beijing fires trade warning after Trump appoints China hawk – Pg. 1

- China has warned Donald Trump that “co-operation is the only correct choice” after the US president-elect tapped a China hawk to run a new White House trade policy office
- A Harvard-trained economist and University of California Irvine professor, Mr Navarro is author of Death by China and other books painting the country as the US’s most dangerous adversary
- China has been scrambling to assess Mr Trump’s stance since he took a congratulatory phone call from Taiwan President Tsai Ing-wen this month, defying almost four decades of precedent. Under the One China policy, Washington has abstained from official interactions with the island, which Beijing regards as a rogue province

Credit cards – Pg. 7

- ...Mr Kelly runs The Points Guy, the most popular of a host of websites that help cardholders compare air miles and other perks on offer for signing up to a new cards and for putting purchases on them
- Between 2010 and the end of 2015, the six largest US card issuers paid more than \$100bn in credit card rewards, ...
- The six issuers – which also include Capital One, Citigroup, Bank of America and Discover – are on course to pay \$22.6bn in rewards this year, 18% higher than in 2015 and more than twice the sum they paid out as recently as 2010. Amex, with an estimated \$6.8bn in rewards costs, remains the most generous, but at \$6.6bn, Chase has almost closed the gap
- Perhaps the biggest factor is the regulatory changes wrought in the US by Dodd-Frank Wall Street reform. While more esoteric forms of lending and market activity have been penalized, big banks have found that standard credit card lending to consumers is more lucrative, hence the dash to grab market share
- Amex has traditionally earned the bulk of its revenue from the fees that merchants pay on each transaction, while banks collect more from interest on customers’ balances. In the jargon, Amex has a “spend-centric” model, while banks are “lend-centric”. That means Amex and banks are trying to encourage different patterns of use by their cardholders
- (Prof Note: When you are younger and starting your career one has limited ability to adjust revenue. However, focus on what one does control, i.e. expenses. Are these minimized? Are you smart in how you are paying for items, i.e. maximizing rewards from credit cards, etc.? One must focus on expenses as much as revenue. In many ways expenses are easier to control, i.e. he who as the gold has the power. Maximize your benefit.)

The shears are out for hedge fund fees – Pg. 13

- The willingness to negotiate on fees shows how the longstanding 2 and 20 formula for hedge fund fees is becoming outdated.
- Managers are offering discounts by using a scale of fees based on assets under management or time spent invested, so when assets rise or a certain amount of time passes, the early investors pay less...
- According to Barclays, two-thirds of funds offer a fee discount of some kind
- Macro funds were the most willing to discount the management fee only, while systematic managers, who often have the lowest overheads because they trade based on computer

algorithms, offered to discount both management and performance fees more than half the time.

- The average charge has already fallen from 2 to 20, ...
- (Prof Note: I am beginning to question the wisdom of investing and working at hedge funds, Private Equity, etc. From an employment perspective, yes there is high-income potential. However, this is a high-profile job with considerable stress and lots of litigation risk when things go bad AND they will go bad eventually. As we close out the year I like to ponder, I use to believe the answer to everything was formal education, i.e. University system. Now, not so certain. There is honour in being a tradesman, there is honour in running your own company, there is also personal pride. Finally, there is also considerable anonymity. I still say if I were to do it all over again (not that I am unhappy with my station in life, as I am) I would get a dual degree in mortuary science and accounting. I would be a mortician and branch out to own funeral homes. Non-cyclical business model with customers of short-duration. Just a thought...)

Pound extends fall on UK economy fears – Pg. 18

- The pound stumbled towards Christmas, falling for the fourth consecutive day against the euro, reflecting investors' concerns about the UK's economic prospects in 2017
- Against the dollar, the pound dropped below \$1.23, its lowest level since November 2

Answer: Norway

22 December 2016

Question: What are the first and last states in the U.S. to recognize Christmas as a holiday?

Goldman pulled into rate-rigging storm with \$120m fine over vital benchmark – Pg. 1

- ...claims that its traders tried to rig a vital benchmark in the \$300tn market for interest-rate swaps
- ...penalties for Citigroup (\$250m) and Barclays (\$115m) in May
- It drags Goldman into a global rate-rigging probe that began with Libor and euribor, two interbank lending rates, and moved on to foreign exchange
- According to the CFTC's order, traders at Goldman carried out transactions in such a way as to try to influence the published US dollar Isdafx rate to benefit its own derivatives positions. In addition, the bank made "false reports" on Isdafx, skewing its rate submissions to benefit the bank at the expense of its derivative counterparties and clients
- The misconduct went on for at least five years through March 2012, ...

UK pension reform: one size fits no one – Pg. 10

- Nuclear bombs produce indiscriminate fallout. UK lawmakers are taking a risk in proposing "a nuclear deterrent" against companies that dump underfunded pension schemes without official sign-off. Fines of three times an employer's obligation to pensioners would wipe out jobs as well as shareholder returns

- Other incentives are misaligned. Legacy schemes largely benefit workers who have retired, and do not help companies retrain staff. Bosses can bolster their bonuses by spreading pension contributions over decades. The pension protection fund, a “lifeboat for orphaned schemes, just creates more moral hazard

Real estate suffers after S&P 500 split – Pg. 18

- The US real estate sector’s split from financials ranks as one of the ugliest separations of the year for Wall Street
- The S&P 500 real estate sector – which consists of real estate investment trusts that deliver any additional income to shareholders within a tax-efficient structure and real estate management and development companies – became the 11th major group within the broad benchmark in mid-September
- Since its official inception, however, the real estate sector is down 3.1%, while financials have delivered a gain of 23%
- Signs of a divergence in performance beckoned during October when banks reported better than expected results in the third quarter, giving their shares a shot in the arm
- Financials stand to see their net interest margin – the difference between the amount banks earn in interest from borrowers and the amount they pay out to savers – improve
- In contrast, Reits are very sensitive to rising longer-term interest rates, and the gap between the 10-year yield and the real estate sector’s dividend yield has shrunk
- Indeed, the yield in the US 10-year Treasury now sits at 2.55%, compared with 3.34% for the S&P 500 real estate sector, ...
- The dividend-paying real estate sector, like utilities and telecoms, was sought out by yield-hungry investors in a low-rate environment, but higher rates elsewhere have now made real estate look less attractive
- The vastly differing fortunes since the split means the real estate sector is up 0.5% year to date, compared with a 22% gain in financials
- The split has been in the works for some time as real estate had come to represent 3% of the S&P 500’s market valuation, putting it on a par with utilities, telecommunications and materials
- **(Prof Note:** Something odd is happening in real estate. I had two units, both empty as of 1 December. They leased up in less than two weeks. This is unheard of for December. One unit was in VA and the other in MD. Both realtors were shocked at the speed of lease-up. There were multiple offers/interests on each. Very odd...)

Answer: Alabama and Oklahoma, respectively.

21 December 2016

Question: How many points does a snowflake traditionally have?

BoJ raises growth outlook as yen slides – Pg. 2

- The BoJ has kept monetary policy on hold and turned optimistic on the growth outlook as a slide in the yen sharply improves the country’s prospects for 2017

- The central bank said it would keep overnight interest rates at minus 0.1% and cap 10-year bond yields “at around zero”
- It would continue to purchase government bonds at a pace of ¥80tn a year, equities at a pace of ¥6tn annually and corporate bonds at a pace of ¥3.2tn
- Rising interest rates around the world have put pressure on the BoJ’s yield curve cap in recent weeks, prompting market speculation that the central bank could be obliged to raise it at some point...
- Inflation in Japan remains close to zero, almost four years after the BoJ began an enormous monetary stimulus, as low oil prices and a period of yen strength dragged down prices

Lagarde conviction risks undermining IMF’s authority – Pg. 2

- The board of the IMF moved quickly to back Christine Lagarde after her conviction by a French court this week on charges of neglecting her ministerial duties (Prof Note: ...never wonder why we have financial crises! It is because society holds no one in key positions responsible for their actions. I applaud Wells Fargo for their actions...rare as they are!)
- One particular task now confronting her is managing her relationship with the US , the fund’s biggest shareholder

China debt row hinges on disputed seal – Pg. 18

- A Chinese investment bank is under pressure from more than 20 financial institutions to honour a bond financing deal agreed by a rogue employee who allegedly forged an official seal
- Chinese bond prices fell sharply last week after the US Federal Reserve indicated faster monetary tightening than markets had expected

Trump optimism drives Dow to within a whisker of 20,000 mark – Pg. 19

- The “risk-on” mood in the markets left US Treasury prices and gold sharply lower while the yen – viewed by many as a “haven currency” came under additional pressure after the BoJ left its policy stance unchanged
- The broader S&P 500 equity index was up 0.3% at 2,268 ...
- The rebound for the dollar and Treasury yields helped kill off a modest two-day rally for gold, leaving the metal down \$8 at \$1,130 an ounce

Answer: Six

20 December 2016

Even More Detailed Answer: “After leaving Bethlehem, to which country did Joseph, Mary, and Jesus travel?” (clearly I need to verify my sources...)

More biblical scholars: **My ex-wife is a biblical scholar, so . . . second hand . . . Your first answer was “correct” relative to (most) traditional (20th Century Sunday school) teachings. I also notice that Biblical scholars agree on the fact that they typically don’t all agree on much . . . other than the scholarship is (at the end of the day) open to interpretation. So . . . your second answer is “correct”**

according to many (though certainly not all) biblical scholars. Another answer might be “The Bible and the traditions that spring from The Bible (and the traditions) has/have many answers to the same question” Merry Christmas! You jumped into the never ending debate. ;-)

Roger Comment: I am always humbled by the intellect and willingness of everyone to share on this list-serve...thank you. I enjoy the commentary and am honoured that everyone continues to make me smarter! Thank you...now I will stick to Santa Clause trivia....

Question: Two of the reindeers are named after weather phenomenon. Name the reindeer.

IMF board meets after Lagarde found guilty of negligence by French Court – Pg. 1

- The court, dedicated to judging ministers, said Ms Lagarde failed to prevent a 403m (sterling) payout that Paris made to flamboyant entrepreneur Bernard Tapie in a long-running dispute with the state. The payment was later ruled to have been fraudulent
- People close to major shareholders said that in the absence of a prison term – and with continuing support from the French government – Ms Lagarde would probably be able to stay in her position (Prof Note: So what exactly is the penalty of her guilty status?!)

Australia growth worry sparks rating fears – Pg. 4

- Australia’s government has downgraded its growth forecasts and predicted larger than expected budget deficits over the next four years, heightening concerns that the country could lose its coveted triple A credit rating
- GDP growth was forecast at 2% this year, down from a previous estimate of 2.5%
- Australia is one of a shrinking group of countries that still hold triple A ratings from all three big rating agencies – S&P, Moody’s and Fitch Ratings – following S&P’s decision in Juen to strip the UK of the coveted rating
- Losing the triple A rating would probably lead to some increase in the cost of borrowing for the federal and state governments as well as Australia’s banks

China’s curbs on lending help stall prices of new city homes – Pg. 4

- Price growth of newly built homes in China’s “first tier” cities of Beijing, Shenzhen, Shanghai and Guangzhou slowed to 0.1% in November compared with the previous month, ...
- Property developers have also been barred from pushing up land prices by borrowing to buy land
- Overall, prices of newly built and second-hand homes across 70 Chinese cities slowed in November compared with the month before

German two-year yields sent to new low – Pg. 20

- German short-term interest rates dropped to a fresh record low yesterday as traders anticipated the effect of new year policy changes announced by the ECB this month, at a time when market activity begins to ebb in the final days of the year
- The record low follows the announcement that the ECB will next year start to buy debt yielding less than 0.4%, ...removing a constraint which had prevented many short-term bonds being purchased under its 80bn (euro) per month quantitative easing programme

- Two-year debt is one of the most actively traded parts of the short-term bond market. Bond yields drop as prices rise in response to demand, and traders anticipate the central bank will soon swell the ranks of buyers
- German Bunds are regarded as some of the safest securities available, and so are used as collateral in repurchase, or repo, transactions

Answer: Donner, which means thunder in German, and Blitzen, which means lightening.

19 December 2016

Question: Every Elf has this ornament on the tip of their shoes. Which ornament are we talking about?

Loans strain China's capital crackdown – Pg. 2

- The dominance of bank lending and portfolio investment as a source of Chinese capital outflows casts doubt on whether Beijing's recent clampdown on big-ticket foreign deals by the likes of Dalian Wanda and Anbang Insurance can shield the renminbi from downward pressure, intensified by the US Federal Reserve's interest rate rise on Thursday
- Beyond loan repayments and securities sales, illicit flows are also increasing prominent
- China has taken substantial steps since 2012 to liberalize cross-border money flows as it sought to internationalize its currency and pursued the IMF's endorsement as a reserve currency. Those steps have opened the door to unprecedented capital outflow pressure as hot money now leaves through the same deregulated channels through which it entered

Ireland wants builders back as construction starts to recover – Pg. 4

- After Ireland's financial crisis and property crash, tens of thousands of construction workers left to seek work. Now the country wants them back
- After a decade when almost no new homes were built, the crisis in Ireland's construction industry, a vital part of the economy, is finally showing signs of easing
- A strong showing by the sector helped Ireland's GDP grow by 4% in the third quarter,...
- At its peak in 2007, construction contributed 23% of Ireland's economic growth. As the crash showed, that level was unsustainable – historically, the building sector has accounted for roughly 14% of Irish GDP, compared with about 12% in the EU. It currently contributes about 7 to 8%
- The biggest problem in the housing market today is the failure of supply to keep pace with demand. About 12,000 homes will be built in Ireland this year, even though demand is running at about 30,000 a year as the Irish economy recovers and the population grows

Economists cast doubt on forecast for three US rate rises next year – Pg. 13

- The Federal Reserve will wait six months before raising interest rates again, according to a survey of economists that suggests policymakers will maintain a cautious approach to tightening policy until they see the economic package US president-elect Donald Trump has promised...
- Officials will raise the Fed's key short-term rate just twice in 2017, starting in June...

- The US will grow an additional 0.2% in 2017 thanks to a stimulus package from Mr Trump, putting overall expansion at 2.2%,
- Following the Fed's December meeting, interest-rate futures now put the odds of policymakers following through on three rises in 2017 at 46%

Gun stocks misfire after Trump's election win – Pg. 15

- The election of Donald Trump as US president has rocked the nation's gun trade sending shares of firearm makers sharply lower amid predictions that consumers will slow down weapon purchases with a Republican in the White House

Answer: Bells

17 December 2016

Detailed Answer: "After leaving Bethlehem, to which country did Joseph, Mary, and Jesus travel?" (clearly I need to verify my sources...)

Actually, they went back to Jerusalem to have him consecrated on the 8th day. Then they moved back to Nazareth in Galilee. (See Luke 2). Most scholars believe that the events in Matthew 2 did not take place until Jesus was a toddler (including the magi/wise men, which were definitely not at the birth as our nativity seem to make us believe).

Question: Everyone is familiar with the mistletoe tradition. What is the colour of the berries of the plant?

Beijing's defence of its currency hands Japan the title of US creditor-in-chief – Pg. 1

- China has ceded its status as the US's largest creditor nation to Japan after spending a large portion of its foreign exchange reserves to defend the renminbi
- Beijing's ownership of US Treasuries fell by \$41.3bn to \$1.12tn in October...Japan's holdings fell by \$4.5bn to \$1.13tn for the same period
- The fall in Treasuries holdings is part of a larger campaign by Beijing to stem capital outflows. China has also recently introduced curbs on Chinese companies' overseas acquisitions and dividend remittances by foreign investors
- But the reversal – China overtook Japan as the biggest holder of US Treasuries in 2008 – is likely to continue as pressure mounts on the renminbi after this week's interest rate rise by the US Federal Reserve

Wells Fargo account openings dry up in wake of sales scandal – Pg. 10

- Wells Fargo has said the number of customers opening accounts has dropped sharply for a third consecutive month – underlining the scale of the fallout from the recent scandal over its sales tactics
- Customers opened 41% fewer Wells Fargo current accounts in November than they did a year before and made 45% fewer credit card applications

- On Tuesday, US authorities barred Wells Fargo, the third-largest lender in the country with \$1.9tn in assets, from establishing new international units or from buying companies that are not banks, after it failed a regulatory test for reasons unrelated to the sales debacle
- A new repercussion of the account opening scandal emerged earlier this week when Prudential Financial became the first outside company to take action over it: the insurer suspended a distribution deal with Wells while it assesses how its life policies were sold by the bank

The real shock in global markets in 2016 – Pg. 13

- The first shock changed all that. “the big sell-off of the year was actually around china, in January, not Brexit or Trump. It was meaningful because it destroyed the consensus for four Fed hikes in 2016 and caused a big sell-off in the dollar”...
- Japan announced a surprise experiment with interest rates below zero
- The ECB turned to new measures, such as buying corporate debt
- The Bank of England cut interest rates after the UK vote, as fears for long-term economic fallout prompted a rush for safe government debt
- The story of the year can also be seen in prices for bonds issued by the riskiest companies. Lending to those businesses with too much debt, or in too fragile a shape to warrant an investment grade assessment from the credit rating companies, would be dangerous if an economic slowdown was in prospect
- Yet high-yield debt of European non-financial companies has produced an investment return of almost 10% this year. For the US equivalent, the gain is 16%

Fatigue sets in for the dollar and bonds after Fed sends rate rocket – Pg. 14

- Global markets showed signs of fatigue at the end of a week that saw Wall Street reach yet more record highs and the dollar and US Treasury yields hit multiyear peaks after the Federal Reserve raised interest rates and adopted a more hawkish stance

Answer: White

16 December 2016

Fun Story from List-Serve Yesterday (permission to share granted): Lots of interesting Trump picks coming out. Fun fact: in college I spent a week catering exclusively to Rex Tillerson and a handful of ExxonMobil execs and spouses in a private sponsor's hospitality cabin at the Masters golf tournament. An older gentleman snuck through the woods and approached me asking if there was any way he could get a quick peek into the new cabin...I turned around and it was Arnold Palmer. I pretty much told him I was quite certain he would not be kicked out.

Question: After leaving Bethlehem, to which country did Joseph, Mary, and Jesus travel?

Dollar soars to 14-year high after Fed signals stronger US growth – Pg. 1

- The US dollar hit its highest level in 14 years yesterday as investors took their lead from a hawkish Federal Reserve in pricing in a stronger US economy under Donald Trump

- The rise in the dollar index pushed the euro to its lowest level in more than a decade and roiled emerging markets, which had been enjoying a strong recovery until Mr Trump's election victory
- Europe's single currency was among the hardest hit, falling through the \$1.04 level to trade at its lowest since 2003...
- The price of gold slumped to a 10-month low, taking the precious metal's losses from a July peak to 18%
- ...US two-year note has neared 1.30%
- The renminbi fell to its lowest level in more than eight years. There were big falls in Brazil's real, the South African rand and the Mexican peso

Markets sense change of gear even as Yellen plays down Trump effect – Pg. 3

- ...Wall Street was transfixed by bullish interest rate forecasts from the Federal Reserve on Wednesday,....
- For the time being the Fed is going to be living in a "cloud of uncertainty" and it should not make quick assumptions about what a Trump administration means for the economy,...
- Ms Yellen declared the central bank is not "behind the curve" having raised rates only twice since the recovery began, in the most lethargic rate-lifting cycle on record
- The Fed is expecting unemployment to drop to only 4.5% next year, well below its longer-run estimate of jobless rate of 4.8%, as the jobs market marches closer to full employment
- Ms Yellen's words point to a willingness within the Fed to lean against fiscal expansion with tighter monetary policy if necessary
- Markets are now conversely showing signs of converging in the Fed's direction. Late on Wednesday they gave 45% odds of the Fed raising at least three times by end-2017 – in line with the Fed's new median forecast. Odds of two or more moves were 76.5%

Subprime Loans Millions of borrowers at risk of defaulting – Pg. 3

- ...millions of Americans with weak credit scores, high debt burdens or low incomes are expected to struggle to make loan repayments
- About 92m consumers who have loans with variable rates, such as credit cards, face higher monthly debt service payments as a result,
- A group of about 9.3m borrowers may be at risk of defaulting on at least one type of loan as a result of the rate increase...
- Consumers who fail to pay off their credit card balances each month already face average interest rates of 12 to 14% - and considerably more if they are deemed higher risk
- Subprime loans have been the fastest-growing part of the credit card market
- Savers, meanwhile, are unlikely to benefit from the Fed's rate increase. Banks are already awash with deposits, and there is limited competition on these savings rates

Yellen sends wake-up call to bond investors – Pg. 20

- The entrenched complacency in the \$13tn bond market about the US central bank's likely message was clear in the reaction that followed...the yield on the policy sensitive two-year note surged from 1.16% to 1.30% - its highest level since 2009

- Interest rate futures are pricing in almost three quarter-point rate rises by the end of next year
- The yield on the 10-year Treasury rose above 2.60% yesterday, its highest since September 2014. The five-year note yield has surpassed 2% for the first time since May 2011

Answer: Egypt

15 December 2016

Question: Who did Trump pick for Treasury?

Fed raises rates and points to faster pace of 2017 increases – Pg. 1

- The Federal Reserve has raised short-term interest rates for the second time in a decade and forecast a faster pace of tightening next year as it responded to a US economy that is gathering momentum and the prospect of further stimulus from Republican tax cuts
- With the US on the cusp of full employment and inflation gradually approaching the Fed's target, the central bank raised the target range for the federal funds rate by a quarter-point to 0.5-0.75%, as widely expected by financial markets
- Treasuries slid after the Fed decision, with the yield on the two-year note climbing 10bps to 1.27%, its highest since 2009. The S&P500 slid 0.6% to 2,258 and the Dow fell away from the closely watched 20,000 level. The dollar rose 1.8% to a 10-month high against the yen of ¥117.24
- Recent data suggest the Fed is already closing in on its employment and inflation goals. Steady hiring has driven the unemployment rate to just 4.6% as of November, below Fed policymakers' median estimate of its long-term rate. Inflation as measured by the personal consumption expenditures price index, excluding food and fuel, is at 1.7%, not far from the Fed's 2% target

New York pension systems buy hedge fund assets – Pg. 13

- NYCERS cut its \$1.5bn allocation in April because of "exorbitant fees" for poor returns and a lack of transparency. It pulled money from several struggling managers including Brevan Howard and Perry Capital, as well as from some with stronger performances
- ...the amount of money overseen by hedge funds rose to a record \$2.97tn at the end of the third quarter, ...
- For the fiscal year through to the end of June, the police pension system generated 1.2% and the firefighters' system 1.4%, compared with 1.5% for NYCERS

Borrowing costs near 5% for US corporates – Pg. 20

- US companies on the lower rungs of investment grade are facing long-term borrowing costs of almost 5%, a sharp reversal of a six-decade low touched just a few months ago, as the sell-off in sovereign bonds ripples out in the corporate debt market
- Yields fell as low as 4.15% in July, a level last touched in 1956, as the universe of negative-yielding bonds swelled to nearly \$14tn alongside central bank easing

- Rising corporate bond yields have been fueled by sharp selling in sovereign debt markets following the election of Donald Trump as US president, with the yield on 10-year Treasuries briefly breaching 2.5% this week, up from a low of 1.71% on election night
- The value of negative-yielding paper has since fallen below \$11tn,
- Investors demand for US corporate paper has offset some of the losses tied to the decline in benchmark Treasuries. While yields have climbed, spreads – the difference in yield between corporate bonds and Treasuries of the same duration – have compressed. For the long corporate US bond index from Bloomberg Barclays, spreads have fallen from 1.89% on election day to 1.7% this week

Answer: Steven Mnuchin

14 December 2016

Question: Who did Trump pick for Secretary of State?

Strong dollar threatens trade deficit plans – Pg. 4

- Since the election the trade-weighted dollar is up by about 3.3%
- The US current account deficit is on track to widen from 2.7% of GDP this year to nearly 4% by 2021
- The US can weather currency strength much better than many other major economies because of the relatively small role exports play in the economy
-declare a balance of payments emergency and invoke a 1974 law that would allow the president to unilaterally impose tariffs up to 15% or other restrictions on Chinese goods for up to 150 days

Fed faces dilemma over how high rates should go – Pg. 4

- The big question is whether short-term pressures for higher US interest rates are strong enough to overturn long-term global forces that push borrowing costs ever lower – such as an older population, rising inequality and falling productivity growth
- The two-year US Treasury bond yield rose on Monday to its highest level since 2010 at 1.15%
- The OECD expects 2018 growth of 3%, boosted by 0.8% from fiscal stimulus –
- Economists have put forward various explanations for the underlying fall in interest rates. An ageing population tends to lead to a higher desire to save for a longer life. Greater inequality has concentrated more income in the hands of groups that save more and spend less.

Fed back in focus as Trump's elevation nears – Pg. 22

- Central banks recognize the limitations of their easy money policies and have repeatedly encouraged politicians to drive growth through fiscal stimulus
- The yield on the 10-year Treasury note, a benchmark for corporate borrowing, has jumped from 1.85% to 2.5% since Mr Trump's defeat of Hillary Clinton

Answer: Rex Tillerson (exxonmobile)

13 December 2016

Question: Who did Trump pick to lead Housing & Urban Development (HUD)?

IMF's Lagarde has her day in French court – Pg. 1

- The IMF chief is accused of negligence in her handling of the payment to a political ally of her then boss,
- French authorities have determined there were irregularities in the way Mr Tapie's case was handled, but Ms Lagarde has long denied wrongdoing....
- If she is convicted, she faces a maximum penalty of a year in prison and a 15,000 (euro) fine

Lagarde missed vital memo, court hears – Pg. 4

- Ms Lagarde, a former lawyer, has been caught up in the affair since her appointment to head the IMF in 2011
- She is accused of negligence in public office in relation to the misuse of public funds, ...

FT Person of the Year Donald Trump – Pg. 9

- Most historic dates are shorthand for greater forces. Archduke Ferdinand's assassination in 1914 did not cause the first world war. It triggered it. Mr Trump did not upend US democracy on November 8, 2016. It has been dysfunctional for years. It is no coincidence that Mr Trump's victory took place in the same year as Brexit, the No vote in the Italian referendum and other populist eruptions across the western world
- The biggest is a general revulsion against established politics
- ...Trump...such as in his six bankruptcies, his gut apparently failed him -
- He reportedly used a \$196m business loss as a write-off to avoid paying taxes for two decades, a feat he boasted about
- A bigger concern may be a lack of knowledge about the world beyond his business empire
- What he knows better than anyone is how to divert public attention. This is the man who ended two political dynasties, the Bushes and the Clintons, while spending a fraction of their costs – revolutionizing the modern campaign in the process

Sovereign bond yields hit new highs – Pg. 20

- The prospect of a more aggressive Federal Reserve and a surge in the oil price hit global bonds yesterday, sending the yield on the benchmark 10-year Treasury note above 2.5% for the first time since 2014
- The bounce in US government yields was echoed across European markets, with the yield on the 10-year German Bund touching its highest level since January, as investors square up to likely rate rise from Fed officials this week and the possibility that they project a more aggressive tightening cycle next year
- The yield on the 10-year Treasury bond jumped as much as 5bps to 2.52%. The yield on the 10-year German bond rose 5bp to 0.42%

- Since Mr Trump's election, US equities have risen to record highs as investors anticipate higher government spending and tax cuts designed to lift the economy's annual growth rate to 4%
- The Bank of England is not expected to change its record low policy rate this week or to shift the parameters of its rebooted quantitative easing measures on the back of encouraging data on UK growth after the Brexit vote

Answer: Ben Carson

12 December 2016

Question: How many homicides has Baltimore suffered this year to date?

Republican tax plans cast cloud over outlook for US interest rates – Pg. 3

- On Wednesday, the Fed is likely to raise rates a second time following its upward move in December 2015, as the US hovers at or near full employment and inflation edges slightly higher than the central bank expected a year ago
- ...House Republicans have been pledging to slash taxes, which could lift growth and the budget deficit – prompting the Fed to rein in any inflationary pressures
- Interpreting Fed interest rate forecasts issued after Wednesday's meeting of the FOMC will be harder than usual because of uncertainty over whether some policymakers are factoring in the prospects of a fiscal boost as they submit projections for official borrowing costs
- Mr Trump's plans would add an estimated \$7.2tn to the national debt over 10 years and House Republicans tax plans would add \$3tn, ...
- The trade-weighted dollar's 3.5% appreciation since November 8 has also tightened financial conditions – as well as making it harder for Mr Trump to achieve his aim of reducing the trade deficit
- The Fed's rate rise at the end of 2015 was followed by a period of market volatility that helped to derail forecasts for a number of rate increases over the course of the year. The Fed started 2016 forecasting a median of four rate rises; it now appears set to deliver just one

Waning use of renminbi hits Beijing bid to rival dollar – Pg. 15

- ..the amount of China's foreign trade settled in renminbi surged from zero in 2010 to 26% in 2015, but has since fallen to 16%. Cross-border renminbi payments over the first nine months of this year fell 16% compared with the same period last year, reflecting the fall in renminbi usage for trade and cross-border investment
- Waning demand for the renminbi has been largely driven by expectations of continued depreciation against the dollar and concerns about the outlook for the Chinese economy, which is growing at its slowest annual rate in a quarter of a century. After a decade of steady appreciation against the dollar that peaked in early 2014, the renminbi has since lost 13% of its value against the greenback

- Its recent decline against the dollar would have been even steeper without central bank backing. The PBoC has been selling dollars to support the renminbi – a strategy that has contributed to the 25% fall in China’s foreign reserves to \$3tn

Answer: 301

9/10 December 2016

Question: “.....the 10-year Treasury yield rising from as low as 1.71% on the night of the US election on November 8 to 2.42% yesterday”. If we ignore segmentation theory (which we always do anyway when we value derivatives contracts) and assume an equal shift in the 30-year mortgage rate, what did this cost the American Consumer over the life of their new 30-year loan?

Michigan passes law to allow driverless car testing on roads – Pg. 12

- Michigan has passed rules allowing vehicles without drivers, pedals or steering wheels to be trailed on its roads, as the US state seeks to grab the lead from California as the test bed for autonomous cars
- A self-driving system in a car “would be considered the driver or operator of the vehicle and would be deemed to satisfy electronically all physical acts required by a driver or operator of the vehicle”...
- The new laws represent a compromise between car companies and tech groups after months of wrangling
- The move creates the first statewide set of self-driving regulations and puts Michigan, where Detroit has been home to the established US motor industry, ahead of California in embracing the development of driverless systems
- The ability to test cars on public roads is key, because interaction with other drivers is one of the largest hurdles facing developers of autonomous systems
- (Prof Note: I am 100.0% this is going to disrupt real estate pricing! Think of parking garages, no longer needed in CBD as the car can go park itself on an outer lot! Commutes can be longer as you can sit in the car and work!)

Investors hedge against Fed rate rises – Pg. 15

- Investors made the biggest shift in more than three years into funds that help provide protection against rising interest rates ahead fo next week’s meeting of US Federal Reserve policymakers, who are expected to increase overnight borrowing costs for the first time this year
- Funds invested in leveraged loans attracted \$1.7bn of inflows in the week to December 7, ...
- The funds hold securities consisting of floating-rate loans made by banks to companies that protect portfolios in a climate of rising official interest rates
-the 10-year Treasury yield rising from as low as 1.71% on the night of the US election on November 8 to 2.42% yesterday
- Interest rate futures price with near certainty that the central bank will raise its federal funds corridor from 0.5 to 0.75%

- Economists expect the benchmark rate to climb to 1.25% by the end of next year, signaling at least two rate rises in 2017, and a further increase in Libor, the reference rate for floating-rate securities and derivative contracts

Answer: \$71,000 or about 1.5X the median annual income for a family of four in the U.S.

8 December 2016

Question: The equation for population standard deviation typically has a capital “N” in the denominator. What is the capital “N”?

China’s foreign exchange reserves fall \$70bn – Pg. 2

- China’s foreign exchange reserves fell nearly \$70bn last month as the country’s central bank burnt through more of its war chest in its battle to defend the renminbi from greater depreciation on the back of accelerating capital outflows
- Reserves at the People’s Bank of China fell \$69.1bn to \$3.051tn in November, a decline of 2.2% from the previous month and the largest drop since a 3% fall in January
- About half the decline is likely to have been because of the dollar’s rally. The dollar index, which tracks the US currency’s value against a basket of peers, rose 3.1% in November, lowering the value of China’s reserves in other currencies....
- The renminbi has been among the better-performing emerging markets currencies in the wake of last month’s US president election. Yet it is down 6.1% since the start of January and on track for tis worst year since Beijing ended its hard dollar peg in 2005

US rate rise would expose Chinese frailties – Pg. 2

- The country is home to the world’s most leveraged corporate sector, a notoriously volatile property sector and a swath of banks that depend on borrowing on the money markets to fund loans
- That makes the Chinese economy particularly sensitive to expectations of increasing interest rates which together with the strong US dollar since Mr Trump’s election have already sparked a rush to sell emerging market bonds and stocks
- The vast size of China’s corporate debt mountain – which stands at more than 250% of GDP, up from 125% in 2008 – means that even minor increases in short-term interest rates may squeeze corporate activity and precipitate defaults, thereby hampering economic growth
- Some 15 to 21% of loans in the Chinese banking system are already non-performing, ...
- A strong dollar makes US assets more attractive relative to those held in a depreciating renminbi, prompting Chinese to search for ways around recently-strengthened capital controls to send their money offshore

Answer: Population size

7 December 2016

Question: What are the four parameters needed for each asset to assess portfolio efficiency?

US Supreme Court decision clears way for wider insider trading prosecution – Pg. 1

- The US Supreme Court has unanimously upheld a broad definition of insider trading that makes it easier for authorities to prosecute over the misuse of confidential information
- ...insiders who give market-sensitive information to friends or relatives can be prosecuted even if they do not receive something tangible in return
- The case was closely watched because insider trading is not defined in US law.
- In the Salman case, the Supreme Court reaffirmed a 1983 ruling which held that when an insider gives trading information to a relative or a friend, it is, in effect, the same as if the insider had traded on the information himself and then given them the profits

Tax evasion – Pg. 10

- By the end of the year countries from Albania to Vanuatu will have instructed financial services companies to begin collecting details of bank balances, interest, dividends and income from insurance products earned by clients living overseas
- The US made the first move: its 2010 Foreign Account Tax Compliance Act has forced foreign banks to start handing over their clients data or face a 30% tax. More than 100 other countries from China to the Cook Islands have followed suit, promising to exchange bank information through a system known as the Common Reporting Standard
- A growing number of countries including the US, Canada, France, the Netherlands and Japan impose exit taxes when people leave

Three banks fined over rate-rigging – Pg. 14

- Brussels will hit HSBC, JPMorgan and Credit Agricole today with multimillion-euro fines for rigging the Euribor interest rate benchmark, closing a five-year cartel probe into the scandal
- US regulators levied \$5.6bn in forex fines against six banks last year – Barclays, Citigroup, JPMorgan Chase, RBS, Bank of America and UBS – for manipulating foreign exchange markets from December 2007 to January 2013
- Global banks have already paid more than \$9bn in fines to settle charges over rate-rigging to regulators across four continents

Pros and cons of a renminbi devaluation – Pg. 24

- Picture it: rumours of a renminbi devaluation keep growing. Residents rush to open accounts offshore as experts warn Beijing will get off on the wrong foot with a relatively new US administration if a big depreciation happens.
- The gradual decline in the renminbi may be more preferable for investors who recall the shock of the sharp depreciation of August 2015, but that has not stopped a relentless flow of capital out of the country
- The argument goes that a one-off devaluation would end the drip-feed pressure on outflows, and reset the renminbi at a level viewed by the market as relatively cheap
- The consensus in FX is that dollar strength is here to stay for a while
- China has just achieved its goal of having the renminbi admitted to the IMF's reserve currency basket – hardly an opportune time for a sharp devaluation

Answer: Weight, return, risk and correlation coefficient (covariance) of assets

6 December 2016

Question: Where did Donald Trump study?

Taking over the markets – Pg. 9

- ETFs are taking over markets.
- Their assets under management were negligible 20 years ago, but now exceed \$3tn. They hog flows of new money and are revolutionizing the business of long-term saving, once led by traditional mutual fund groups
- Both mutual funds and ETFs are collections of securities packaged into a fund. Almost all ETFs track an index, like passive index-tracking mutual funds. The difference is that mutual funds are “open-ended” – investor can pay directly into the fund or withdraw from it. This is done once a day, at prices set at close of trade
- With an ETF, investors buy and sell shares without directly adding to or taking away from the fund itself. Instead, the shares trade on an exchange and market makers buy, sell and create new shares to ensure they move in line with the value of the fund
- The advantages, as far as investors are concerned, are twofold. First, they can buy or sell at any time of the trading day, at the latest price. Second, the fund itself bears fewer costs. And in the US there is a third advantage: ETFs’ tax position is superior
- Stocks now tend to move close in alignment with each other most of the time, and then divert sharply in response to corporate announcements
- ETFs are a scale business – the more money they can attract, the lower the costs and the higher the profit margins – meaning that a few companies, all based in the US, have come to dominate. The top three hold more than 69% of all ETF assets, or more than \$2.3tn...

Negative-yielding debt shrinks \$2.5tn – Pg. 20

- The global stock of negative-yielding debt has tumbled by more than \$2.5tn since the summer, underscoring the dramatic sell-off in bond prices and easing the burden on pension funds that have been starved for income by low rates
- The value of bonds outstanding with sub-zero yields has fallen to \$10.79tn, from \$13.44tn in mid-August...
- More than 40% of the \$2.65tn decline in negative-yielding bonds occurred in November alone amid the worst rout for the fixed income since at least 1990, as \$1.7tn in market value was wiped from the broad Bloomberg Barclays Global Aggregate index

Answer: University of Pennsylvania

5 December 2016

Question: Where did Donald Trump Jr. study?

UBS chairman warns investors over market jolts from swing in global rates – Pg. 1

- Investors are dangerously unprepared for a sharp rise in Eurozone bond yields when US interest rates march higher and European quantitative easing ends...
- The jump in US rates could spark big jolts in the markets as the long spell of aggressive monetary easing across the globe has left many investors off-guard over a swing in the global rate cycle....
- In recent weeks, benchmark 10-year Treasury yields have risen sharply on expectations that Donald Trump's new government will launch policies to boost US growth as well as the strong likelihood that the Federal Reserve will raise short-term interest rates this month

China investor target Brazil in growth push – Pg. 4

- China is seeking to expand lending and investment in Brazil and elsewhere on the continent, as it shifts from its traditional resource focus to manufacturing, logistics and even technology
- With its own growth slowing, China is turning into an international financial investor, looking elsewhere for returns on investment as profit margins at home turn thin. That means considering a broader range of industries than it has been targeting
- China and Brazil are finalizing details of a \$20bn Sino-Brazilian bilateral investment fund, first announced last year, to which China will contribute \$15bn. The new fund falls under the umbrella of the China-Latin America Industrial Co-operation Investment Fund, adding to its existing \$30bn investment mandate

Fully loaded – Pg. 10

- ...\$2.1tn wiped off global bond prices since the election
- Over the past decade corporate debt in the US has risen by three-quarters to \$8.4tn, ...
- Money market obligations, which include short-term company borrowings, lift that figure to \$11.3tn. Only the market for US Treasuries has climbed at a faster pace
- Top-rated US companies have amassed 2.4 times net debt compared with their earnings before interest, taxes, depreciation and amortization – a scrutinized investor metric. This is the highest level since 2002 and the fourth consecutive quarter it has increased...
- Credit ratings have been dragged lower by the boom in debt issuances. Two decades ago, more than 66% of the companies rated by S&P held an investment grade rating; today it is 45%
- Now only two US companies – Microsoft and Johnson & Johnson – carry the highest triple-A opinion (Prof Note: “NOTE” the “OPINION”)

Answer: University of Pennsylvania

3 December 2016

Question: Where did Ivanka Trump study?

Trump inherits healthy economy – Pg. 1

- The US added 178,000 jobs in November with the jobless rate falling to 4.6%, its lowest since August 2007. The data added to expectations the Federal Reserve will raise interest rates for only the second time since the crisis when its policy committee meets this month
- Yesterday's jobs report did contain some cautionary data. Average hourly earnings dipped 0.1% from the previous month.

Treasuries rise and dollar retreats as participants digest US jobs data – Pg. 16

- Global stocks ended the week on a hesitant note while government bonds rallied and the dollar fell as participants digested the latest US jobs report and looked ahead to Italy's constitutional referendum tomorrow
- ...annual growth rate down to 2.5% from 2.8% in November
- The S&P was up just 0.1% at 2,193 at midday in New York, leaving it 0.9% down from the record close set a week earlier
- The euro was up 0.1% at \$1.0673, against \$1.0584 a week ago, while the dollar was down 0.4% versus the yen at ¥113.63 – but up 0.5% for the week
- Gold was up \$5 at \$1,176 an ounce yesterday...

Answer: University of Pennsylvania

2 December 2016

Question: How valuable is Airbnb as a company?

US growth hopes and oil surge fuel worst bond rout since 1990 – Pg. 1

- Surging oil prices and a commitment by the incoming Trump administration to turbocharge economic growth intensified a sovereign bond rout yesterday that last month left investors nursing their worst losses since 1990
- Yesterday, the 10-year US Treasury yield climbed to 2.49%, the highest since June 2015. Comparative sovereign bonds in the UK, France and Germany, Australia, Italy and Spain rose between 5bps and 6bps
- In November, the Bloomberg Barclays Global Aggregate bond index lost \$1.7tn, its worst performance since at least 1990
- ...Brent crude prices surged above \$54 a barrel to a 14-month high....

Eurozone jobless rate in single figures – Pg. 3

- ...fallen to 9.8%. Eurostat also improved the figure for September from 10% to 9.9%
- ...joblessness in the Eurozone was much higher than in the US and the UK
- Unemployment and growth rates improved more quickly in the US and Britain, while the Eurozone also has a higher rate of structural joblessness, with a greater proportion of workers permanently out of work
- In Greece and Spain, the jobless rates, while also falling, remain high at 23.4% and 19.2% respectively
- Youth unemployment is more than 40% in Greece and Spain and at 36.4% in Italy

Airbnb bows to pressure with ceiling on rentals in London and Amsterdam – Pg. 13

- Airbnb has agreed to restrict the number of nights that hosts can rent out their homes in London and Amsterdam – bowing to pressure from regulators in two key European markets
- The decision marks the first time online accommodation service, has agreed to enforce annual rental limits
- Starting next year, the online service will automatically prevent hosts in London from letting their homes for more than 90 nights a year, unless they have the required “change-of use” planning permission from their local authority
- In Amsterdam, Airbnb will enforce the city’s 60-night limit on short-term rentals and will start noting any neighbours’ complaints about Airbnb units

Stimulus hopes buoy high-yield US debt – Pg. 22

- Bond investors are turning to riskier corporate debt in a bet that Donald Trump will ignite faster economic growth when he becomes president
- Investors have been warming to the idea that a burst of stimulus will buoy the sales of US companies, while tax cuts bolster margins and earnings
- Riskier US corporate debt tends to benefit when interest rates are rising and economic growth is accelerating, because the buffer between their yield and those of government notes is greater

Answer: \$30.0bn

1 December 2016

Question: Who is the highest paid dead musician in the U.S. for 2016 and how much were they paid?

Trump’s economic team promises to slash taxes and end ‘dumb trade’ – Pg. 1

- Donald Trump’s new economic team has vowed to push ahead with his proposals to slash taxes, loosen bank regulation and shake up US links with China and other trading partners

RBS stress test failure delivers blow to Downing St hopes of quick stake sale – Pg. 14

- Royal Bank of Scotland has emerged as the biggest failure in the UK’s annual stress tests, forcing the state-controlled lender to present regulators with a new plan to bolster its capital position by at least 2bn (sterling)
- The outright failure of RBS – partly caused by heavy litigation costs – underlines how the Edinburgh-based lender is still struggling to regain a stable footing eight years after being bailed out with 45bn (sterling) from the taxpayer in the midst of the financial crisis
- It is also a blow to the UK government, which wants to start selling down its 72% stake in the bank, and to shareholders’ hopes for the resumption of dividend payments
- RBS stock fell 1.2% yesterday

Basel fails to agree key risk measures – Pg. 16

- At issue is how banks can use internal models to determine the riskiness of their loans – a subject on which US and European policymakers have clashed

- So-called “output=floors” are meant to be part of the package,...these floors, which are backed by the US, restrict banks’ use of models to assess their loan books

Answer: \$825.0m for Michael Jackson

30 November 2016

Question: How is the highest paid U.S. musician and how much were they paid in 2016?

Strong US growth signals outlook for new president – Pg. 2

- US growth heated up more than initially thought in the third quarter, while a key measure of housing prices surpassed its pre-recession peak,
- The world’s biggest developed market grew at an annualized rate of 3.2% in the third quarter, ...
- That compares with Wall Street estimates of 3% and an initial reading of 2.9%
- Consumption growth, a key element of US economic output, was revised higher to a 2.8% pace, from the previous reading of 2.1%
- The Case-Shiller national price index reported a 5.5% annual gain in September, surpassing a high notched in July 2006 amid the housing boom
- ...a gauge of sales of previously-owned homes ticked up to an annualized pace of 5.6m in October, from a low of 3.5m in 2010, but was still far away from the high of 7.3m hit in 2005, ...

Regulators identify fewer ‘problem’ lenders – Pg. 14

- The number of banks on US regulators’ list of lenders that are at risk of collapse has reached a seven-year low, a reflection of how much the industry’s health has improved since the crisis even as its profitability remains depressed
- Problem banks identified by the FDIC fell from 147 to 132 over the third quarter. That compares with a high of 888 hit in the first quarter of 2011. Meanwhile, the proportion of banks that were unprofitable during the period was the lowest since 1997, at 4.6%. Only two of the near 6,000 banks insured by the FDIC failed during the period
- Banks have been piling on loans – balances rose almost 7% from a year ago – while the Federal Reserve’s accommodative monetary policies have kept a lid on borrower defaults. Although the average net charge-off rate rose from 0.4% the year before to 0.44%, this remains low by historical standards

Central bank’s trading fix bolsters renminbi – Pg. 22

- The renminbi strengthened against the dollar yesterday after China’s central bank tightened its currency trading band for a second straight day
- The renminbi remains near an eight-year low against the US dollar as the election of Donald Trump has intensified longstanding depreciation pressure

Answer: Taylor Swift @ \$170.0m

29 November 2016

Question: When was China's one-child policy instituted, i.e. what year?

India to seize 85% of undisclosed deposits made with illicit notes – Pg. 2

- India has unveiled plans to seize a significant portion of any black money deposited in the nation's bank accounts after the government's surprise ban on the use of high-value currency notes this month
- The government plans to allow black money holders with stocks and now banned Rs500 and R1,000 notes to retain up to 50% of the money – if they voluntarily admit that the cash, now being deposited in bank accounts, was previously hidden from tax officials
- However, those who fail to make such a disclosure risk having 85% of their newly deposited funds seized if tax authorities discover at a later date that the cash in question was previously undisclosed black money
- The prime minister stunned Indians on November 8 with an unexpected prohibition on using Rs500 and Rs1,000 notes – which account for about 86% of the cash in circulation – to try to catch those who had accumulated illicit cash, or who regularly evade taxes
- The banned notes must now be deposited in bank accounts by the end of the year, when Mr Modi has promised they will become “worthless pieces of paper”
- Under the tax amendments, Indians who admit their post-cash ban deposits were previously unaccounted cash can pay half of the total in income tax, penalty and surcharge, then keep the rest. But half the remaining sum, or a quarter of the total amount deposited, will be locked into an interest-free deposit scheme for four years, before being returned to the depositor
- Meanwhile, those who deposited previously unaccounted money but do not admit to it before the end of the year face paying up to 85% of their formerly hidden wealth if the tax inspectors catch them out

OECD backs Trump's infrastructure plan for growth – Pg. 4

- ...the global body of mainly rich nations predicting the president-elect's infrastructure plans would increase US growth, combat inequality and energise discouraged workers
- ...outlook is cool on the UK, marking down Britain's economic prospects on the view that it is heading for a hard Brexit in 2019
- Equity markets have already rallied on expectations of a boost to US growth from looser fiscal policy and the OECD's support markets the first such organization to validate financial market bets
- Before the US election, international financial institutions, such as the IMF and World Bank, feared a Trump presidency and officials discussed him as akin to Voldemort for the global economic order – like a villain in Harry Potter, his name spoken in hushed tones and behind closed doors
- The US is expected to be the best performing large advanced economy in 2017, growing 2.3%, with the Eurozone growing 1.6%, the UK 1.2% and Japan only 1%

China's birth rate suffers as fertility among men worsens – Pg. 6

- Last year less than a fifth of young men who donated sperm in the inland province of Hunan had sufficiently healthy semen to qualify as a donor...in 2001 more than half qualified
- China's fertility rate – the number of children a woman is expected to have during her child-bearing years – was 1.05 last years...
- The lowest territories in a World Bank 2014 survey – South Korea, Portugal, Hong Kong and Macau – had fertility rates of 1.2, against a global average of 2.5
- China is ageing rapidly, leading to a shortage of young workers and warnings of a pensions crisis, but its fertility rate has long been in decline. From a peak of 6.4 births per woman in 1965 it has fallen to 2.8 by 1979, the year the notorious one-child policy was introduced amid fears of a runaway population growth. That regime led to wide-spread sex-selective abortion, resulting in a significantly skewed sex ratio
- The blanket policy was scrapped late last year for a two-child policy

Answer: 1979

28 November 2016

Question: Where did Kellyanne Conway, Trump's campaign manager, go to law school?

Clinton labelled 'sore loser' over recount – Pg. 2

- Donald Trump and his transition team have accused Democrats of being "sore losers" after Hillary Clinton's campaign backed an election recount effort based on suspicions foreign hackers manipulated this month's result in key states (Prof Note: Hillary's memory may not be long enough to remember the chants in DC, "Gore Loser!", when Al Gore did the same thing!)
- The Trump offensive came as the president-elect faced fresh questions about how his property empire's international ties may influence his conduct of foreign policy and more scrutiny of the messy nature of his transition and the divide within his party over key appointments
- With counting still under way in California, Mrs Clinton's lead in the national popular vote count hit 2.2m at the weekend

Seven lessons from the FT's business book prize judges – Pg. 12

- The first is obvious: people whose time is precious must set priorities
- Second, preparation is everything
- Third, team decisions require deft chairmanship, including a willingness to hear all points of view before voicing your own
- Fourth, a diversity of approach yields the best decisions
- Fifth, flexibility is important
- Sixth, use any veto sparingly
- Finally: compromise with care

Answer: George Washington University

26 November 2016

Question: When is the inauguration in the U.S.?

Japan inflation hopes rise after US election result weakens yen against dollar – Pg. 4

- Prices in Japan are showing signs of bottoming out as the strength of the dollar since Donald Trump's US election victory gives new hope in the fight against deflation
- Combined with fresh monetary stimulus from the BoJ in September, and a fiscal stimulus that is just starting to hit the economy, analysts say Japan is well-placed for a pick-up in growth and inflation next year
- Under Prime Minister Shinzo Abe and Haruhiko Kuroda, central bank governor, Japan has spent the past four years battling the escape from its decades of on-off deflation. Mr Kuroda launched a huge monetary stimulus in 2013, which led to steep falls in the yen, and generated early success in pushing up prices
- The BoJ's new monetary policy, which caps the 10-year bond yield at zero, is likely to amplify the effects of whatever Mr Trump does

Markets – Pg. 7

- ..fresh exuberance has prompted a shift from bonds to stocks. About \$500bn has gushed from equity funds into bonds this year but last week the flows reversed, with investors yanking more than \$18bn from fixed-income vehicles and pouring \$27.5bn into stocks...
- "The US market has opted for Keynes over 1930s pre-New Deal economics as a breakout from subpar growth, better a temporary surge than permanent stagnation"
- Bond investors have taken note. Ten-year US Treasury yields hit a postwar low in July, then started to nudge higher ahead of the election, and have shot up to 2.4% this week
- Futures markets signal certainty that the Fed will raise rates next month, normally bad news for stocks. But the tectonic shifts had started in the US equity markets in the summer, in readiness for a new regime
- Banks are the biggest victors, with investors hoping that Mr Trump will repeal parts of the post-crisis Dodd-Frank legislation.
- Among other prominent winners are healthcare stocks, which have shown relief that the threat of price controls under a Clinton administration has been lifted
- One obvious risk to the "Trumplation" rally is that a strengthening dollar – it is now its highest since 2003, having rallied 43% since the global financial crisis – will choke off the profits of large companies and damage exporters. Wage growth will also crimp profits

Answer: 20 January 2017

25 November 2016

Question: Is Trump, for certain, the next U.S. President?

Ross set for commerce as Trump eyes loyalists for economic posts – Pg. 1

- Billionaire investor Wilbur Ross, known on Wall Street as the “King of bankruptcy” for his record of buying falling companies, is in line to be Donald Trump’s commerce secretary, putting an advocate of renegotiating US trade packs in a key economic post
- A former investment banker who specialized in corporate turnarounds, Mr Ross has been particularly outspoken on the need to overhaul business taxes, advocating cuts in corporate rates and incentives for US groups to repatriate profits parked overseas
- Mr Trump has reached beyond his immediate inner circle in recent days to pick outsiders for education secretary, UN ambassador and housing secretary. But those posts have relatively little power in Washington – key education and housing decisions are made by local governments...
- Mr Ross has strong free-market views and long experience in one of the more ruthless corners of finance, but is known for a low-key, self-effacing style, a stark contrast with other high-profile Wall Street figures

China sets world record for patents – Pg. 2

- China has become the first country to receive more than 1m patent applications in a year – a record the World Intellectual Property Organization (Wipo) said reflected “extraordinary” levels of innovation in the world’s most populous nation
- China is also becoming a more attractive jurisdiction for patent infringement disputes, given the speed with which its court system processes cases. Companies whose intellectual property has been stolen can also secure banks that prevent the infringement party from selling in China’s vast market or exporting from the country – a crippling blow given China’s centrality to global supply chains
- Mr Trump recently won a protracted trademark case against a Chinese construction services company that had registered the Trump brand

Fannie and Freddie risk writedowns – Pg. 12

- US taxpayers face pumping billions of dollars into mortgage guarantors Fannie Mae and Freddie Mac if Republicans push through tax cuts that would force the pair to take big writedowns
- Some investors believe that development would spur the Trump administration to privatize the pair, which are bedrocks of the \$10tn US home loans market
- Fannie and Freddie benefit from US rules that allow companies to use losses incurred in previous years to lower taxes on future profits. But if Republicans reduce corporate tax rates, those “deferred tax assets” would be worth less and would have to be written down
- By the end of 2015 they had paid about \$241bn worth of dividends since the crisis. Their capital buffers, already dwindling, are due to drop to zero by 2018

Rate fears spur mortgage applications – Pg. 22

- Home loan applications in the US soared last week as the mortgage rate hit 4% for the first time this year, underlining how consumers are resetting their expectations for interest rates in the wake of Donald Trump’s election victory
- Applications from homebuyers jumped 19% on a seasonally adjusted bases, ...as a sharp increase in the cost of loans encouraged consumers to act quickly

- The rise in the rate for the average fixed 30-year mortgage from 3.94% to 4.03% this week reflects the sell-off in the US government bond market, which has been hit hard by expectations that Mr Trump and a Republican Congress will turbocharge the economy – and in doing so generate inflation
- Data this week from the Federal Housing Finance Agency showed that the average mortgage had reached \$310,000, the highest level since 1990
- US house prices have struggled during the past two years to sustain the pace of recovery that followed the housing crash of 2007-08
- Interest rate futures show a 96% chance that the Fed's Open Market Committee will raise rates in December

Renminbi at 8-year low as dollar surges – Pg. 22

- Broad currency weakness against the dollar has come as the bond market fully expects policy tightening by the Federal Reserve at its December meeting. Investors are also looking to next year and trying to gauge the extent of further Fed tightening under the proposed fiscal stimulus from president-elect Donald Trump
- Several EM currencies fell to record lows or levels last seen during the Asian financial crisis of 1998 as investors rotated out of the sector into US assets, including stock markets, which traded around record highs into yesterday's Thanksgiving holiday

Answer: no, the electoral college has not voted yet. This could be a nail bitter! 😊

24 November 2016

Thankful: I am thankful for all of you that allow me to share my life and thoughts each day. The last four years have been difficult on me with the questionable deaths of my family and four-year legal battle. While this is largely behind me at this point, I want everyone to know how thankful I am for all of you. There were days where the only thing that brought me from darkness was the thought, “gotta get the Financial Times Summary distributed. People are counting on me.”

I am proud to tell you that one of the titles for part deux of my life will be “Advocate”. I commit to all of you that I will use my blessings to advocate for equal justice for all. The support that all of you provided me over the past four years will never be forgotten.

In time I will share more of my trials and tribulations of recent years. I intend to use my experiences, knowledge and blessings to better society by demonstrating why planning and transparency is so important. For now, please know that I am so very thankful and grateful for each of you. On my darkest days, you were there for me...thank you!

Question: Approximately how many turkeys are eaten each year on Thanksgiving in the United States?

US bonds hit as election result and sales data drive bets on inflation – Pg. 1

- The US government bond market suffered a fierce, renewed sell-off and the dollar powered to a 13-year high yesterday, as stronger economic data bolstered the case for an interest-

rate increase and reinforced the view that the multi-decade bond bull market has reached a turning point

- ...president-elect Donald Trump's promise to unleash a \$1tn economic stimulus package of tax cuts and infrastructure investment, has caused a seismic shift in global bond markets, with prices tumbling and borrowing costs rising as investors bet that inflation will finally reappear
- The 10-year Treasury yield shot up by as much as 10bps, its biggest move since the presidential election, to over 2.4%, for the first time since the summer of 2015 (Prof Note: I am looking BRILLIANT with my rate lock at the end of October! (luck helped!))
- The yen led a retreat, while the gap between US and Japanese yields widened, opening the prospect of the Bank of Japan having to intervene in the bond market to retain credibility

Honeymoon ends for Saudi prince as reform begins to hurt – Pg. 3

- Many Saudis acknowledge the need to transform the kingdom and understand the impact of low oil prices on the economy. But voices of dissent are emerging over the means and pace of change
- The sense of drift in the economic reform plan comes as popular disapproval rises over the foreign consultants – such as McKinsey, Boston Consulting Group and PwC – that have been drafted to reshape the country

Ireland refuses to relax mortgage lending rules – Pg. 5

- Ireland's central bank has defied political pressure to relax restrictions it had imposed on mortgage lending, which critics complained made purchasing a home out of reach for many families
- The central bank's main concession means that from January 1 next year first-time buyers can borrow 90% of the value of a home with a 10% deposit and a tiered borrowing rate
- ...the central bank is determined to avoid another house-price bubble and bust, which has left some Irish households in long-term negative equity
- ...Irish house prices rose 400% between 1994 and 2007, and fell by over 50% between 2007 and 2013. Many of the houses built at the height of the price bubble were in far-flung towns in the midlands and the north west, where demand has now disappeared, giving rise the phenomenon of "ghost estates"
- Demand is concentrated in Dublin, where the median price of a home has risen in the past two years from 220,000 (euro) to 280,000 (euro). Few houses are being built, which is driving prices for the few homes available up even further. That is what prompted the bank to act in 2015

Landlords hit by rise in office subleasing space – Pg. 15

- Enough office space for about 21,000 workers is being offered for subleasing by businesses shrinking their London footprints, increasing pressure on landlords and rent levels in the city
- Take-up of new offices has been subdued since the Brexit vote, and so far this year has been 30% below the figure for 2015 as some companies delay office moves until the shape of the UK's EU departure becomes clearer

Answer: Ok, a number of people responded stating 280.0 million was not correct. I rechecked my random thanksgiving trivial web page and it shows 280.0 million. However, I tend to agree with my peers that all stated the number was closer to 50.0 million. What does the internet know anyway?!

23 November 2016

Question: Which southern state was the first to adopt a Thanksgiving Day in 1855?

US economy – Pg. 9

- ...US manufacturing has lost about 5m jobs, or 30% of its workforce, since 2000
- Manufacturing has provided a declining share of GDP, but factor output has kept growing, and hit record highs this year.
- In places like Buffalo there is evidence that US manufacturing has a bright future
- Where once, rules stipulated one worker per machine, Eastman can now have one worker running three computer-controlled machines
- China's competitive advantage has been eroded by rapid pay growth, which has prompted a surge of investment in automation
- ...the companies that need low—cost labour will find it outside the US

Fidelity chairman hands power to daughter – Pg. 14

- Fidelity chairman Ned Johnson, who has run the Boston-based financial group for 39 years, is turning over his last remaining responsibilities to his daughter Abigail, putting her in full control of the family-owned company
- Fidelity faces an increasingly competitive landscape for retirement savings with challenges continuing in its historic asset management division
- The group oversees \$5.5tn through retirement plans and brokerage accounts, and \$2.1tn in its own investment products such as mutual funds
- Fidelity, the largest administrator of retirement savings in the US, argued against the Obama administration's "fiduciary rule", which aims to prioritize customers' interests.

Answer: Virginia!

22 November 2016

Question: Approximately how many turkeys are eaten each year on Thanksgiving in the United States?

US banks face higher costs after tit-for-tat Brussels blow – Pg. 1

- Brussels is proposing to tighten its grip over overseas banks operating in the EU in a tit-for-tat step against the US that will raise costs for big foreign lenders and potentially hurt the City of London after Brexit
- The European Commission will disclose provisions tomorrow that mirror controversial US "intermediate holding company" rules ringfencing foreign bank capital.
- If adopted in EU law, the commission proposals would force big US investment banks such as Goldman Sachs

- US banks say that they are already forced to hold significant amounts of capital and liquidity in their large UK operations. But if Europe presses ahead with the latest proposals it could force them to increase the amount of resources they have tied up in Europe
- The holding-company requirements are included in revisions to the capital requirements directive, which introduce rules to prevent banks from becoming “too big to fail”
- These include a measure, known as total loss absorbing capacity, that aims to force the very biggest banks to fund themselves through equity and hybrid debt that can absorb losses in a crisis

Infrastructure spending urged to ease Fed burden – Pg. 4

- Boosting spending on infrastructure and improving education could relieve some of the burden on the US central bank to support the economy,...
- Stanley Fischer, vice-chairman of the Federal Reserve Board, said the central bank did not need to be the only game in town and that well-targeted fiscal policies could lift America’s economic potential. He singled out reforms including better public infrastructure and encouraging private investment, as well as improvements to regulation

Social Media – Pg. 9

- The viral success of fake news on Facebook and the role the sharing of these articles might have had in tilting the election for Mr Trump have caused considerable angst inside the company
- Google and Facebook moved last week to prevent their advertising from appearing on sites that carry fake news, a belated attempt to make lying less profitable. Twitter suspended a batch of alt-right accounts – linked to US rightwing extremist groups – for hate speech
- Bots – automated systems designed to imitate people – did much to circulate fake news headlines on Twitter,
- (Prof Note: ...and hence why I do not use Facebook....never have....)

Wells Fargo hit by restrictions on operations – Pg. 14

- An influential US regulator has imposed restrictions on Wells Fargo in the wake of the bank’s sham account debacle, a sign that the watchdog is flexing its muscles before the incoming administration of Donald Trump changes its leadership
- Wells must also get the OCC’s approval before it changes senior managers or directors, or makes “golden parachute” payments to executives – potentially making it harder for the bank to attract new staff
- The head of the OCC is appointed by the US president with the consent of the president

Bets on higher inflation blindsided gold bulls – Pg. 22

- Gold has eased 7.2% since November 4 to a six-month low. Holdings in the world’s largest gold-backed exchange-traded fund, the SPDR Gold Shares, have fallen to their weakest in more than four months

Answer: 280.0 million

21 November 2016

Question: Which Indian tribe taught the Pilgrims how to cultivate the land and were invited to the Thanksgiving meal?

AIG to bolster home loans exposure – Pg. 16

- AIG is to make a push into residential property loans with plans to make “direct investments” in mortgages
- Insurers have been exploring alternative asset classes as ultra-low bond yields hurt their returns, although portfolios in the sector are still dominated by traditional fixed income investments
- AIG has less than \$4bn of residential mortgages on its books, a small fraction of its \$515bn balance sheet, although it is a bigger operator in other real estate markets
- The group has about \$24bn of commercial mortgages,...
- The move would give more financial backing to the \$1.9tn US residential mortgage market, the most important consumer credit sector. Banks have been in retreat since the financial crisis as they grappled with tougher regulations and mis-selling penalties
- Non-banks are on track to account for over half of US mortgage origination in 2016 for the first time for 30 years
- AIG does not intend to originate residential mortgages itself, however. Instead it plans to acquire loans from direct mortgage lenders – both banks and non-banks – and securitize them

Weak US earnings drag down global dividends – Pg. 18

- The slump in dividends in the third quarter is the weakest performance in more than a year as lackluster company earnings and low special dividends in the US undermined headline growth at a time of rising concern over the global economic outlook
- Underlying dividend growth, which excludes specials, has also been slowing as profits have disappointed. As the US is the largest contributor to dividends, this has a significant impact...
- Other investors say the election of Mr Trump has also created uncertainty, while the repercussions from the Brexit vote continue to reverberate
- Global dividends fell 4% on a headline basis...
- In Asia, slow growth continued, up 2.8% in headline terms and 0.5% higher on an underlying basis

Answer: Wampanoag

19 November 2016

Question: How long did the first Thanksgiving last?

The unbearable lightness of a stronger US dollar – Pg. 8

- Investors trying to map out the implications of Donald Trump's presidency have been looking to history for inspiration. They often alight on Ronald Reagan, who similarly promised tax cuts and delivered both those and a splurge in government spending. Together with the tight monetary policy practiced by the Federal Reserve under Paul Volcker, Reagan's policies produced a rise in the dollar so great that it led to an international effort, the 1985 Plaza Accord, to massage it down
- Loose fiscal and tight monetary policy is the standard textbook prescription for a stronger currency
- If Mr Trump means what he says about infrastructure spending, the US may see a rebalancing of policy towards fiscal stimulus for which many economists have been calling, a rise in interest rates and an immediate boost to the dollar
- ...biggest beneficiaries would be Germany's already competitive exporters. A fall in the euro will be less welcome if it is accompanied by a global rise in borrowing costs and driven in part by rising fears of populist election victories in Austria, Italy and France
- If a rising currency widens the current account deficit, the president might replace Ms Yellen with a pliant Fed chair who will keep monetary policy loose and weaken the exchange rate
- The downward pressure will only increase if Mr Trump follows through on his threats to slap big tariffs on imports. The resulting rise in import prices will push up inflation, reducing real interest rates and tending to weaken the currency. In the longer term, even if the Fed raises nominal interest rates to combat inflation, sustained protectionism would weaken growth and push the currency lower
- ...if Mr Trump's tax worsen the US's long-term fiscal deficit the US policy becomes less predictable, it could undermine faith in the dollar as a reserve currency. Ultimately it is governments, not central banks, that stand behind currencies. The dollar's reserve status has survived a lot, including Congress bringing the US to the brink of sovereign debt default last year, but it is not infinitely enduring
- Currency markets are inherently unpredictable. Investors now are betting that they will see some version of the Reagan fiscal-monetary combination, driving the dollar higher

US stock funds attract record inflows – Pg. 13

- A record amount of cash flows into US stock funds in the week after the presidential election, underlining the renewed appetite for equities at the end of a year that has been dominated by a historic rally in bonds
- The data highlight the conviction behind the so-called reflation trade, as money managers bet Donald Trump's pledge to stimulate the economy through tax cuts and infrastructure spending will work and generate inflation.
- The move into US stock funds contrasts with the sell-off in bonds and emerging market equities.
- Yields on 10-year Mexican sovereign bonds denominated in US dollars have jumped more than 90bps since the vote
- The benchmark S&P500 has climbed 2.2% since the election....

Answer: Three days

18 November 2016

Question: What was the currency name Germany had prior to the Euro?

Yellen lays out the 'critical importance' of Fed freedom – Pg. 1

- ...an increase in short-term interest rates could “become appropriate relatively soon”, raising expectations of a rise at the Fed’s next meeting in December. New economic figures showed a surge in housing starts and a pick-up in inflation
- Ms Yellen said it was “critically important” that central banks have the freedom to make judgments about how best to pursue their goals.
- Data released yesterday showed the biggest rise in US consumer prices in six months in October and a jump in housing starts that took them to a nine-year high.

India – Pg. 9

- India, at the start of this year, began requiring retailers that received more than \$3,000 in cash from a customer to report details of the sale – and the buyer’s taxpayer identification number – to tax officials
- Strict monitoring of large cash payments was the opening salvo in Prime Minister Narendra Modi’s campaign to crack down on “black money” – cash earned through illegal activities, or earned legally but never declared to tax officials
- The scrapped currency – together worth more than \$220bn, or 86% of India’s circulating cash – are no longer legal tender and are not supposed to be used for any transactions, except buying fuel at state petrol pumps or in government hospitals
- In India, circulating cash is 14% of GDP, compared to less than 5% in other large economies. Nearly 80% of consumer transactions are in cash. Many of those have now come to a halt
- But, until now, large-scale overnight demonetization and currency replacement exercises have only occurred in countries in the midst of state or economic collapse – such as in Germany after the second world war, or the former Soviet Union – or in the throes of hyperinflation. Such disruption has never been inflicted on a country that was ticking along nicely like India, where GDP grew 7.1% from April to June this year
- India’s tax to GDP ratio is just 16.6%, some 5.4% less than comparable countries, the government estimates. Just 5.5% of Indian earners pay income taxes, while nearly 85% of the economy is outside the tax net
- Indian’s attachment to cash – and tendency to conceal their income – dates back to the socialist-era of Indira Gandhi in the 1970s, when income tax rates rose to nearly 98% and government officials had extensive control over business. Income tax rates have fallen sharply since. But property purchases are still taxed heavily, giving buyers and sellers a shared incentive to understate property values
- Property prices have also been hard hit, with implications for the employment-intensive construction sector. In the longer-term, it is seen as good news for aspiring homebuyers.

BoJ flexes muscle in yield curve battle – Pg. 20

- The Bank of Japan has launched its first infinite bond tenders – promising to buy as many bonds as investors want to sell at a fixed price – asserting its new cap on the yield curve with unlimited firepower

Answer: Deutsche Mark

17 November 2016

Question: What is the definition of inflation, i.e. a definition?

Saudi Aramco's listing to lift lid on level of kingdom's oil reserves – Pg. 1

- Saudi officials have consistently said there are about 260bn barrels of proven reserves at the world's largest oil exporter since the formerly US-controlled Saudi Aramco was nationalized in the 1980s
- ...Saudi Arabia said it was looking at a stock market listing of Saudi Aramco that could value the company at \$2tn
- Saudi Arabia's sovereign bond prospectus last month said the country's reserves could last for about 70 years but said the estimate had not been reviewed by a third party

Bets on steeper inflation gather pace – Pg. 18

- Global investors' expectations of inflation have surged to their highest level in more than a decade,
- More than 80% of those surveyed this month by BofA ...believe the global level of prices will rise over the next 12 months
- Anticipation of higher inflation has skewered the bond market, with the yield on the benchmark 10-year Treasury note rising by almost half a percentage point to 2.24% since Mr Trump defeated Hillary Clinton and the Republican party retained control of Congress
- In a further sign of the reverberations the US election has triggered in financial markets, the amount of cash held by global investors had its biggest monthly drop in seven years in November. Cash levels fell to 5.8% from 5% in October
- Banks have been one of the big winners of the rotation out of the more defensive stocks that flourished in the first half of the year, with the S&P Banks index up 12% in just over a week

'Shrinkflation' takes a bite out of chocolate – Pg. 18

- The redesign of Toblerone bars sold in the UK is the latest example of the industry embracing "shrinkflation" – where the price of the product remains the same but the portion size gets smaller
- During the past few years, Mars and Snickers bars have shrunk; a 1kg tin of Quality Street has been cut to 820g and a six-pack of Cadbury's Crème Eggs has become a five-pack
- A synthetic mile chocolate price – a mixture of the price of cocoa butter, cocoa powder – has jumped almost 40% this year,
- The chocolate price had been creeping up since 2013 because of concern that the El Nino weather phenomenon might hit cocoa production in west Africa

- The big question this year, however, is why the chocolate price is rising and shrinkflation happening when the price of cocoa has been falling
- The answer lies in cocoa butter. It is made from cocoa beans, and other ingredients, including sugar and whole milk powder, that have each risen more than 50%, ...
- Cocoa butter has risen almost 40% this year despite the decline in the price of beans, which is at a three-year low, down 26% this year.

Answer: Year-over-year price change of a basket of goods as weighted and defined by a governmental agency.

16 November 2016

Question: When was Basel I?

Top Trumps Runners and riders for leading administration posts – Pg. 2

- Treasury Secretary
 - o Jamie Dimon 60
 - o Chief executive of JPMorgan Chase. Mr Trump once called the Wall Street prince “the worst banker in the US”
 - o Steven Mnuchin 53
 - o Former Goldman Sachs partner...
 - o Jeb Hensarling 53
 - o Texas congressman since 2003 and chairman of the House financial services committee
 - o Tom Barrack 69
 - o Real estate investor and Colony Capital founder
 - o Roger Staiger 46
 - o Advocate, Philanthropist, Author/Speaker and accurate predictor of Trump’s victory

Swedish central bank considers move away from cash – Pg. 4

- Sweden’s Riksbank is debating whether to become the first significant central bank to issue digital currency as it responds to an increasing move away from cash in the Scandinavian country
- The world’s oldest central bank – it was the first to issue paper banknotes in the 1660s – is launching a project to examine what a central bank-backed digital currency would look like and what challenges it would pose
- But a dramatic drop in Sweden in the use of cash – the amount of notes coins in circulation has fallen by 40% since 2009 – has forced the Riksbank’s hand

Wall St rotates to Trump’s priorities – Pg. 20

- A pronounced sector rotation is dominating the US stock market as investors scramble to adjust their portfolios to benefit from the prospect of faster economic growth and less regulation under Donald Trump’s future administration

- The rush to buy sectors such as financials and healthcare – both boosted by expectations of looser regulation – has come at the expense of large-cap technology shares that had led the wider market before last week's election
- Investors are also embracing smaller US companies as they expect their limited exposure to a rising dollar will help them outperform large multinationals
- ...small-cap companies, with a capitalization of between about \$300m and \$2bn, are considered to be more geared to the US economy, since they have smaller international businesses than their larger counterparts

Answer: 1992

15 November 2016

Question: What is the name of the equation that allows for adjustments of a corporate beta through changes in capital structure?

Bond rout accelerates as Trump stimulus vow spurs inflation bets – Pg. 1

- A global bond market rout intensified yesterday while the dollar strengthened as investors bet that US president-elect's commitment to economic stimulus will herald faster growth and the return of inflation
- Yields on US, UK, German and Japanese government debt are now rising from record lows and fixed-income investors have lost nearly \$1tn since the election
- The 30-year US Treasury yield jumped above 3% for the first time since January before paring its losses while 10-year yields rose 4bps to 2.19%, the highest level since January
- The dollar has also strengthened against its major rivals, with the euro falling 1% to \$1.0747 and the yen 1.3% weaker at ¥108.06 per dollar. The pound dropped 0.8% to \$1.2494
- ...US investors now anticipating higher corporate profits

Global banks cut Asia headcount – Pg. 13

- The world's biggest lenders have cut up to 15% of their Asian investment bankers' jobs since 2012 as the gap between lower deal fees paid in Asia and those paid by western clients grew to its widest level in more than a decade
- The data show consistently lower fees paid in Asia across all deal sizes, and that the gap has been widening: by 2015, Asian fees were more than 55% lower than in the US

US banks in sharpest rally since crisis – Pg. 20

- US bank shares have staged the sharpest recovery rally since Wall Street emerged from the financial crisis in 2009, underlining the start shift in investor sentiment that has gathered pace since Donald Trump was elected US president
- The S&P500 banks index, a gauge of the largest US banks, has turned a year-to-date fall that, at its worst, reached almost 25%, to a gain of 12.1%. The roughly 35% recovery is the most vigorous since the bull market began in 2009, when the index cut a 64% tumble to a fall of 8.9%

- Stronger economic growth, spurred by lower taxes and infrastructure spending, may also heat up inflation that, in turn, could force the Fed to raise interest rates at a quicker pace. That spectre has already played out in the fixed income market, where the yield on the 10-year Treasury bond surged from roughly 1.8% before last week's election to almost 2.30% early yesterday

Answer: Hamada Equation

14 November 2016

Question: (ok...really a rant) What is "Governor" Chris Christie's job?

Fears of US trade war with China played down – Pg. 3

- Advisers to president-elect Donald Trump have begun playing down the prospect of a full-blown trade war with China, amid concern that a new era of US protectionism would have damaging consequences for the global economy
- ...argues that Mr Trump's campaign threat to impose a 45% tariff on Chinese imports – seized on by economists as the potential trigger for a trade war with Beijing – has been misunderstood and amounts only to a negotiating tactic
- Such a figure would be dependent on a finding that China's currency, the renminbi, was undervalued by 45%, ...
- Mr Trump has promised to direct his treasury secretary to label China a currency manipulator within the first 100 days of his administration, something outgoing President Obama avoided doing for fear of provoking Beijing
- ...Mike Pence, Mr Trump's running mate, who has taken charge of the transition, is a free trader who as governor in Indiana has travelled to China to court investment

Baltic states fearful of US policy changes – Pg. 4

- Bear Slayer's Day honours Latvian freedom fighters who secured independence in 1919 against Russian forces. This year, US troops were in Riga for the commemoration – part of Nato's attempt to reassure the Baltic state, as it faces a renewed threat from the big bear to the east
- The Nato presence, and the possibility of a US disengagement, has been the talk of Latvia and other Baltic states since the election of Donald Trump, after he set alarm bells ringing during his presidential campaign by appearing to make US support for the Baltics conditional on their spending more on defence
- ...Nato's collective defence clause has been invoked only once – to aid the US after the terror attacks on September 11, 2001. Nato allies have all contributed soldiers to US-led campaigns in the war on terror, with the loss of many lives
- The three Baltic states – Latvia, Lithuania and Estonia – have anchored themselves to the west after regaining independence a quarter of a century ago, joining the EU, Nato and the euro
- The mood is different from that in 2014 in the immediate aftermath of Russia's invasion of Crimea. Then, many in the Baltic states were afraid of being Moscow's next target. Now,

several big moves by Nato have provided reassurance. The alliance has beefed up its air-policing operation – Estonia’s airspace has been violated six times by Russia this year – and promised to station an international battalion each in Estonia, Latvia, Lithuania and Poland. The first will begin arriving next year

- Latvia is seen as perhaps the most vulnerable Baltic country because of its large ethnic Russian minority – more than a quarter of the population

France – 7

- In the 1990s when Europe underwent large scale privatizations the French state remained more committed to owning companies and using its power to meddle in day-to-day corporate affairs
- ...growth in France lags behind the UK and Germany, while unemployment remains stubbornly above 10%

A badly-designed US stimulus will only hurt the working class – Pg. 9

- ...result has been a rise in real interest rates and inflation expectations, along with a strong stock market and strong dollar
- ...the plan presented by his advisers, Peter Navarro and Wilbur Ross, suggests an approach based on tax credits for equity investment and total private sector participation that will not cover the most important projects, not reach many of the most important investors, and involve substantial mis-targeting of public resources
- The Mexican peso has depreciated about 10% relative to the dollar over fears of new protectionist policies, and many other emerging market currencies have also fallen sharply. The impact of this change is to raise the cost of anything the US exports to Mexico and to lower the cost of anything Mexico exports to the US
- It will also make Mexico and other emerging markets much cheaper relative to the US for global companies. So US workers, particularly in Manufacturing, will see increased pressure
- The plan seems to assume that we can pressure countries not to let their currencies depreciate, as suggested by the intention to have the new treasury secretary name China as an exchange rate manipulator. This is ludicrous

Are college and qualifications enough to propel women to the boardroom? – Pg. 10

- There is still a paucity of women at the top of corporate life. In the US, women hold 23 of the Fortune 500 chief executive roles and only 14 of Europe’s largest 350 groups have female chief executives
- This year, 35% of MBA students in the Financial Time’s ranked schools were women, compared with 29% a decade ago
- Professors have to eliminate “invisible women syndrome”, in which women are overlooked in discussions (Prof Note: I had a long comment about this and erased it out of fear. With different cultures and sensitivities, calling out individuals in a classroom setting can place the professor at ‘risk’. That is all I will say on this subject.)

US under Trump poses questions for investors – Pg. 16

- ...for a Trump victory; bond prices tumbled and equities soared, particularly in sectors that are likely to benefit from Trump policies, such as pharmaceuticals and healthcare
- We are likely to see reduced market bullishness amid uncertainty about what the president-elect will actually get through Congress in 2017. In a globalized world – with US blue-chips reliant on foreign revenues – trade barriers and a much stronger dollar are not ideal. Indeed, the poor performance of US technology shares since the election stands out as a red flag

Answer: Governor of New Jersey, I think. I also would think that requires him to actually ‘govern’ New Jersey. I wonder if he cashes his paycheck from the people of New Jersey while he is clearly not governing.

12 November 2016

Question: What is Hillary Clinton’s net worth?

Trump sticks to \$1tn stimulus and tax cuts – Pg. 1

- The rapid change in sentiment has led to a shakeout across asset classes, with financials rallying in hope of a deregulation push; tech stocks selling off amid fears of trade wars hitting their Asian supply chains; and US Treasuries plummeting in anticipation of a heightened government debt and inflation
- A new debt-fuelled spending plan has spooked the bond market, with yields on US Treasuries jumping to their highest levels in 10 months as investors prepare for the prospect of renewed inflation. Bond yields rise as their prices fall

Democrats see silver lining as Clinton era ends – Pg. 2

- Nearly 25 years after they first conquered the White House and captured the commanding heights of the Democratic party, the Clinton family crashed to earth on Wednesday, shattering the ambitions of Hillary Clinton and her clam of fiercely loyal operatives
- During the race, Mrs Clinton struggled to swipe her MetroCard while taking a well-publicised ride on the New York subway – a sign, critics said, that she was out of touch with the common voter. While harmless on the surface, the incident seemed to highlight senior aides’ top fears: that she had spent so many years in high-profile positions, she had ended up in a sort of bubble – ensconced in various private jets and limousines and surrounded by acolytes

Dimon rumours reconnect Washington with Wall St – Pg. 3

- The transition team of the president-elect called Mr Dimon on Wednesday night to sound him out about serving as Treasury secretary,...
- A move for Mr Dimon, a trim and fit 60-year-old, would certainly add glamour

Fed sticks to its guns and readies markets for another rate rise – Pg. 5

- Even as global markets churned in the wake of Donald Trump's stunning election win, the US Federal Reserve appeared to be sticking to its guns on monetary policy yesterday as one of its top officials laid the ground for a second increase in short-term interest rates
- Speculation that the incoming Trump administration will be pushing for a reflationary fiscal stimulus has triggered tumult in global markets, provoking the worst week for global fixed income since the taper tantrum in 2013
- Wage inflation now stands at its quickest pace since 2009

US election – Pg. 8

- Mr Trump is the first person with no government or military experience to become the US commander-in-chief
- Even Ronald Reagan, another outsider who shook up the Republican party establishment with his landslide over Jimmy Carter in 1980, had to face a Democratic House
- Having promised to help the forgotten blue-collar worker, his administration will have to find a balance between his populist pledges to rein in free trade and free-market demands of the Wall Street and corporate allies who comprise his inner circle
- One clear message from his advisers is a belief that the costs of ultra-easy monetary policy have outweighed the benefits by creating a "false economy" that inflates asset prices and penalizes savers with low rates
- Mr Trump has vowed to rip up or renegotiate deals like the North American Free Trade Agreement and stroke back at China's unfair trade practices by imposing punitive tariffs on its imports promise that helped him win key rust belt states
- An extreme way for Republicans to overcome opposition in the Senate would be to eliminate the "filibuster" – a process where opponents of a measure require the other side to garner 60 votes to pass a bill

Answer: \$45.0m (internet search)

Marijuana Comment: I wanted to share some feedback I received regarding my comment on making Marijuana legal. In truth and fact, I know virtually nothing about substance abuse. I personally have never tried a drug or taken a drag from a cigarette. No judgment on those that have but just not me. My point, my comment was uneducated and tongue and cheek.

Hey Roger,
Its NNN! ZZZ shared with me your email regarding the election. You most certainly shared some in-depth information. I certainly had to smile when I read your note regarding marijuana.

(Prof Note: My favourite insight, "If you have two tables of two men. One table is smoking pot, the other is drinking alcohol; where will the fight break out?" That put everything in perspective for me!)

It comes across as implying that the fight would begin at the table where the individuals are drinking alcohol.

My question is.....how much do you know about the impact and side effects of marijuana? Having spent

years in the area of substance abuse this comes across as a very uneducated example. Most of the public seem to focus on "the outward" of both alcohol and marijuana. Example, "chilling out" or appearing "calm" or "laid-back" for the marijuana smoker...or being "loud", "obnoxious" and "out of control" for the alcoholic. Unfortunately, by focusing on and determining an opinion based on these outward appearances, the public has bypassed both the short-term and long-term medical effects.

Oh my, I sound like I'm preaching. Didn't mean to go there. Hope all is well!

Take care,

11 November 2016

Question: What is the difference between real and nominal inflation?

Prepare for an overdue reversal of the monetary rules – Pg. 11

- Back in 1980 most of the establishment – and gilded students – sneered at the idea of a former B-list Hollywood actor in the Oval Office. Almost nobody guessed that Reagan might end up a Republican icon
- But one striking detail about this week's events is that his victory speech was calm and conciliatory. That might – just possibly – suggest Mr Trump the president will not be quite the same as Mr Trump the angry candidate
- A second important detail is that the president-elect, like Reagan before him, appears to recognize that he needs to rely on advisers to compensate for his lack of policy knowledge
- Mr Trump is deeply protectionist, reluctant to reform benefits such as Social Security and favours an extensive infrastructure programme
- They want to cut personal taxes and slash corporate tax rates from 35% to 15%, ...
- They want to use tax incentives to repatriate companies' overseas cash piles.
- They also plan widespread deregulation, ranging from a "bonfire of energy rules" to a reversal of new fiduciary rules for asset managers and a repeal of Obamacare, the US's healthcare act

London's US expats vote with feet after poll – Pg. 14

- ...there was little direct impact on the personal plans of most expats.
- Peter Hahn, an American professor at the London Institute of Banking & Finance, said the US vote would be accepted more quickly than the Brexit decision, even by those who are appalled

Trump-stoked inflation looms over bond rally – Pg. 20

- Following the initial shock that met Mr Trump's win, yields on US Treasury debt have risen sharply as investors anticipate a programme of large-scale fiscal stimulus, which could spur inflation and higher interest rates

- An improving outlook for the global economy had already triggered a shift in portfolios, driving up yields on Treasuries and UK gilts, as investors demand larger risk premiums to hold assets that pay out a fixed income
- Bond prices were already under pressure after a historic rally this year, but Mr Trump's triumph has electrified the move, with the 10-year Treasury yield back above 2% for the first time since early January
- Market expectations for inflation are significantly higher, driven by the prospect of stronger growth and fears of the upward pressure on prices that would result from greater US trade protectionism
- Rising inflation means investors expect coupon payments and principal repayments to lose more of their value, resulting in a fall in bond prices and rising yields. The prices for longer-dated debt are particularly vulnerable when yields are rising, and this duration risk looms large for many portfolios
- During the bond sell-offs of 2013 and 2015, the difference between the nominal yield on 10-year Treasuries and the real yield, which strips out inflation, was minimal and market expectations of inflation were almost nonexistent. Today that gap is expansive
- US debt has almost doubled in size since the financial crisis and is approaching \$14tn. UK debt is at a record 1.5tn (sterling), while Eurozone government debt hit a high of 9.5tn (euro) at the end of last year
- The IMF puts global debt at a record \$152tn and has warned that the burden could trigger a fresh global financial and economic crisis if not addressed

Answer: Real accounts for purchasing power, nominal does not.

US election: Many individuals emailed me over the past few weeks/months asking about my silence on the US election. My reason for silence is that I did not want to influence and also out of concern that my emotion was overshadowing logic.

As I told students yesterday, what has happened is truly historic. Read and follow as much about this election as possible. Regardless of an opinion about Trump, I am in awe at his accomplishment.

Now, I fielded many emails yesterday about what I am doing as a result. Honestly, my strategy/concerns have not changed. Over the past year I have been transforming my portfolio to include physical real estate in the form of work-force housing. More recently I have been diversifying currency opening up Sterling and Euro accounts abroad. These will be utilized to purchase investments which will produce income in differing currencies. Basically I am diversifying globally and trying to minimize a concentration to U.S. markets and currency.

Note: This is NOT trading advice. (have to keep the lawyers happy!)

10 November 2016

Question: 18 months ago I made a public statement of who I wanted to win the election. What was my statement?

Trump moves to reassure shocked allies and nervous investors – Pg. 1

- Mr Trump's one-time adversaries also moved to reassure the country, and the world, that his victory would not overturn the institutions of government in Washington. Both Hillary Clinton, his vanquished Democratic rival, and Barack Obama, who once called him "unqualified" to be president, vowed to support the president-elect (Prof Note: I found this to be a disgusting comment coming from a then Junior senator with no experience when he took office. The American GOP had nominated Trump, do the voices of American's not matter?)
- The shock was felt with an immediate, sell-off during Asian trading hours and expressions of concern from US-led security and trade alliances, including the Nato secretary-general
- The efforts to reassure appeared to gain traction during the Wall Street day, with the S&P 500 benchmark index opening higher and rising during most of yesterday. US Treasuries fell sharply from Asian-hour highs as investors bet on public works spending that could raise growth and inflation. Yields on the 10-year bond – which more opposite to prices – rose nearly 40bps from their Asian lows

Washington's 'powerful people' experience 'surreal' rejection – Pg. 2

- And as supporters stumbled out of the ballroom in the early hours of yesterday after Mr Trump's victory speech, some were still shouting: "Lock her up"

Advisers hit at emphasis on fiscal measures to lift growth – Pg. 5

- The election result will unleash a shift away from monetary policy towards fiscal measures in the coming months, some of Donald Trump's main advisers have told the Financial Times
- In particular, some members of his economic advisory team are convinced that central banks have exhausted their use of ultra-loose monetary policy. Instead, in the coming months they hope to announce a wave of new measures such as infrastructure spending, tax reform and deregulation to boost growth
- The victory will cast fresh uncertainty over Fed policy after the central bank signaled a rate rise was looming next month.
- ...questions about the \$14tn market for US government debt will go unanswered until a candidate who has attacked the head of the Federal Reserve and raised the possibility of renegotiating American obligations demonstrates whether he will govern in January in the same manner as he campaigned in November
- ...the yield on the benchmark 10-year Treasury at one point tumbled to a low of 1.71% as investors dived for safety
- Mr Trump's triumph's triumph also raised some questions over the US central bank's policy

Mexican peso suffers as wave of nervousness sweeps across global markets – Pg. 5

- The Mexican peso tumbled by the most since the post-"tequila Crisis" currency gyrations in 1994-95 as Donald Trump was elected US president
- The peso was the biggest victim of a global bout of nervousness that swept over markets in the wake of Mr Trump's triumph, sliding as much as 13.4% to a record low of 20.78 against the dollar before moderating its fall to 9.2% yesterday

- Mexico also has one of the world's most respected economists at the helm of the central bank
- One policy that he has touted is slapping tariffs on goods produced by US companies in Mexico, such as cars – something that, if put into practice, could in part be mitigated by any currency devaluation for Mexican exporters. Mexico sends some 80% of its exports to the US

Tycoon delivers fateful final blow to the Clintons – Pg. 7

- ...Mr Trump's victory, which shocked the Clinton campaign, has left the former secretary of state struggling to come to terms with the second devastating defeat of her political career, following the loss to President Barack Obama in the 2008 primaries
- This time, however, there is no way back
- Having stymied the chances of the Bush family returning to the White House during the Republican primaries, Mr Trump has delivered a final and fatal blow to the ambitions of the Clintons
- Mrs Clinton will also have to live with the reality that not only did she lose the White House, but that she did so to a political outsider whom she, Mr Obama and the entire Democratic party viewed as being uniquely unqualified for the presidency
- ...she was the representative of the status quo in a year when many voters demanded something different
- Instead of Mrs Clinton giving a concession speech on Tuesday, John Podesta, her campaign chairman, went on stage at 2am to say the election was not over, only for the candidate to then call Mr Trump minutes later to concede (Prof Note: To me, this was yet another example of elitism, i.e. Hillary blew off all her supports that had faithfully waited day/night for her. She chose to sleep (or do whatever) rather than be a professional, come out, graciously admit defeat and face those that had supported her for two years!)

Marijuana legal in most US states after ballots – Pg. 8

- Marijuana has become legal in a majority of US states following the election, a move that signals how much attitudes to the drug have changed
- Voters in California, Nevada and Massachusetts decided to legalize cannabis for recreational use, while voters in four states legalized the medical use of marijuana
- (Prof Note: My favourite insight came from Meghan's father, "If you have two tables of two men. One table is smoking pot, the other is drinking alcohol; where will the fight break out?" That put everything in perspective for me!)

US election – Pg. 11

- Donald's Trump's victory is no ordinary shock. For once the word seismic is merited. On the domestic front, it was a rejection of the US establishment personified by Hillary Clinton – in much the same way Mr Trump's capture of the Republican nomination closed the book on the Bush era (Prof Note: In many ways, Trump personally took down two families: Clinton and Bush!)
- The Clintons and the Bushes are now over

- Mr Trump's victory also marks a sharp break from more than 70 years of American global leadership,...
- ...Mr Trump's win signals a disruption of almost everything the world has taken for granted about America
- Ted Cruz, the runner up, described him as a pathological liar. "The man is utterly amoral", ...Marco Rubio said Mr Trump was an "erratic individual" who could not be trusted with the nuclear codes...on election day the Bush family revealed it had not voted for Mr Trump (Prof Note: I truly hope that people are held responsible for their public statements! I am NOT advocating vengeance but responsibility. These statements spit in the face of the American public that elected Trump!)
- The median US household will emerge from eight years of Mr Obama's presidency with a lower income than when it started. That is precisely what happened under Mr Bush – the first time the US middle class had ended a business cycle poorer than where it began
- Moreover, the average life expectancy of white blue collar males – Mr Trump's most vocal voting block, and also its angriest – has been declining since the start of the century
- The gap between the average lifespan of American's richest and poorest income deciles has more than doubled over the past generation. There can be no graver measure of inequality than this
- Rising suicide rates, an opioid epidemic and broken post-industrial communities are critical ingredients of Mr Trump's hostile takeover
- ...Mr Trump's support coalesced around a shared hatred of elites. Its foundation was people without college degrees, who live in small towns and rural America and how are largely white and disproportionately male
- Mr Trump will enter office as the most powerful US president in recent memory
- He promised a historically large reduction in personal and corporate tax rates that Congress is very likely to enact. He also vowed to nominate pro-life names to the US Supreme Court.
- His fiscal plans, such as they are, will add \$10tn to the US public debt over the next several years, ...
- Add to that Mr Trump's big spending plans on infrastructure, and his seminal promise to leave US entitlement spending untouched, and you arrive at a recipe for large jump in the US fiscal deficit
- ...Mr Trump promised on the campaign trail to fire Janet Yellen...
- Mr Trump will walk away from the Trans-Pacific Partnership....
- 'I love the poorly educated'

Dodd-Frank framework faces prospect of dilution – Pg. 17

- ...repeated promise to repeal the 2,300-page Dodd-Frank Act
- The legislative framework, passed in 2010 to make Wall Street safer following the 2008 financial crisis, faces the possibility of being unraveled or diluted by the new administration
- Dodd-Frank is one of the biggest legacies of the Obama administration, reforming a spread of banking practices that were seen to have contributed to the crisis and the corruption scandals that were exposed in its aftermath. Among the panoply of new regulations, the so-called Volcker rule crimped banks' ability to bet their own money; new capital requirements obliged banks to raise equity buffers

Goldman elevates record number of women – Pg. 18

- With 84 promotions, this year's class – announced yesterday afternoon – is bigger than the 78 of 2014, the last time the firm did promotions. Nineteen of them are women, the highest proportion in the history of the bank
- Goldman also promoted eight people from non-revenue producing departments, including legal and compliance, up from none two years ago

US inflation bets rise on Trump pledge – Pg. 22

- One of the most significant market movements in the wake of Donald Trump's election victory was a sharp rise in inflation expectations, as investors anticipate a new era of tax cuts and government spending in the US
- Mr Trump's campaign message that he would spend \$1tn on infrastructure to stimulate the US economy and create jobs was one of his few concrete policies, and has spurred investor to bet on rising inflation

Answer: "Anyone not named Clinton or Bush!" I blame myself! However, I also now recognize the gravity of my statement.

9 November 2016

Question: Given that I was correct that it was Trump Tuesday, what predictions do I have for the capital markets?

Oil demand to peak in 15 years under climate deal, says Opec – Pg. 1

- ...quicker adoption of alternative fuel cars and more aggressive climate targets look set to bring more than a century of rising consumption to a halt
- Opec is not the first to argue that oil demand might soon peak, but the forecast carries weight coming from a group that collectively pumps more than a third of world oil supplies
- Predictions of a peak are predicated on the Paris Climate agreement's targets being fully implemented as well as faster adoption of alternative fuel cars
- Opec's prediction on peak demand also sounds a warning to its members who are already grappling with a prolonged price downturn. Saudi Arabia, Opec's largest producer, has been racing to reduce its reliance on oil revenues, launching an ambitious plan to overhaul its economy, including listing part of state oil giant Saudi Aramco

Blackstone in Europe's biggest office deal – Pg. 16

- Blackstone, the US private equity investor, has agreed to buy a 3.3bn (euro) portfolio of offices from German real estate group IVG in Europe's largest property deal this year
- The acquisition comes after a failed attempt to float the 1.4m sq m Office-First portfolio on the Frankfurt Stock Exchange last month
- The US real estate investor has paid "marginally" more than it was offering earlier in the year, ...

- The acquisition increases Blackstone's overall property portfolio in the country from 400,000 to 1.8 m sq m, and reflects the demand for German real estate from investors searching for income-producing assets

Securitization blossoms delicately in China – Pg. 20

- An ancient Chinese poem, famously quoted by Mao Zedong, calls for diversity: "Let 100 flowers bloom; let 100 schools of thought contend"
- China's securitization market has blossomed this year as authorities embrace financial innovation, with bankers packaging such diverse assets as dance revenues and bridge tolls
- Beijing approved its first securitization deals in 2005, but a halt was called in 2008 after regulators observed the damage wreaked by risky mortgage securities in the US. The programme was revived in 2012, starting with "Plain Vanilla" assets such as corporate loans, home mortgages and car loans
- The landmark opening of China's interbank bond market to foreign investors in February allows foreign investors unprecedented access to securitized assets
- In terms of risk, China's securitization market appears tame. Senior and mezzanine tranches are typically rated AAA and AA plus, primarily by domestic rating agencies. The equity tranche, which carries the highest risk, is typically kept on the originator's balance sheet
- Lower-quality assets are coming to market
- Companies use securitization to seek upfront cash to supplement their drawn-out revenue streams. For banks, however, the main motivation is meeting tough new capital adequacy standards under the global Basel III regime. Small banks are under the greatest capital pressure because their assets are growing the fastest, even as they face higher hurdles to raising fresh equity
- Securitization is therefore largely a tool for smoothing out imbalances in the banking system. Lenders that are short on capital or liquidity, but well supplied with borrower clients, can offload assets to others that have excess funding but few attractive lending opportunities

Answer: December rate rise off the table, replace of Janet Yellen, rates remaining low for a long time. Increased easing in the Europe and the UK. A race to the bottom for weak currencies.

8 November 2016

Question: What should you be doing tonight?

Japan investors bet on love and death – Pg. 20

- A demographic milestone, a surge in wedding dress prices and a rich abundance of stock choices have prompted Japanese investors to assess how to exploit the commercial implications of four weddings and eight funerals
- Efforts to predict the spending patterns of the soon-to-be matched or of the loved ones of the recently dispatched come as Japanese health ministry figures show the country marked almost exactly twice as many funerals (1.29m) as weddings (635,000) in 2015

- The diversified options – companies such as Heian Ceremony, that handle both – have been solid performers. The most lucrative bet by far has been on the prospect of consolidation in the fragmented wedding industry: shares in wedding organizer Novarese surged more than 140% in September when a buyer swept in
- The number of funerals may be rising at the rate of 17,000 a year, but Japan's \$20bn a year funeral industry is suffering a decline as spending on tombstones, caskets and wakes plummets
- At the same time, the number of marriages each year has fallen from more than 1m in the early 1970s: the average spent on a wedding, ...has risen steadily to a record \$35,000 despite an equally steady decline in the number of guests

Beijing's forex reserves plunge to 5-year low – Pg. 20

- China's foreign exchange reserves dropped more sharply than expected in October, falling to their lowest level in more than five years, ...
- Reserves were \$3.121tn, a level last reached in March 2011. The monthly decline amounted to a \$45.7bn, bigger than economists had forecast, with the scale of drop the largest since January when markets were thrown off course by concerns about China's economy slowing down and a falling oil price
- Dollar-renminbi currency options are at their lowest in more than a year,...a sign that the market expected stable FX market conditions in China
- However the US election poses problems for the PBoC, particularly if the dollar rallies further on the back of a Clinton victory and a likely tightening of Federal Reserve policy next month

Mexican peso to set tone on US election night – Pg. 22

- A Donald Trump victory could see the peso weaken to 21 or 22 pesos a dollar,
- A Hillary Clinton triumph would strengthen the currency to 18.30 pesos per dollar...
- The latest swing in the peso reflects how Mexico's currency has become the market's favoured proxy for election risk, as Mr Trump turned up his campaigning rhetoric on the US's nearest southern neighbor
- For markets a Clinton presidency represents a known quantity and as seen by the rally across risk assets and renewed pressure on haves such as gold, the yen and swiss franc early yesterday, investors would prefer that result
- A Trump victory will trigger significant FX volatility, notably in the Mexican peso, and a likely sell-off in other emerging market currencies
- A Clinton victory should prompt a short-term dollar rally

Answer: Watching the election results...I predict it will be historic!

7 November 2016

Question: When clearing out my mother's estate, what is the strangest thing that I found? Also, the most concerning thing I did not find?

Business students seek Islamic finance expertise – Pg. 15

- The increasing economic importance of banks in Muslim-majority countries has made Islamic finance a useful skill
- One of the drivers of this rise in demand is concern among finance students about finding a job after graduation....

US mortgage delinquency hits post-crisis low – Pg. 18

- US mortgage delinquency levels have reached new post-crisis lows, underlining how the ultra-low interest rates that are squeezing banks' lending profit margins are also giving relief to their customers
- The proportion of mortgages in which the borrower is 60 days more behind on repayments dropped 8% from a year ago to 2.29% as the end of September. That is the lowest since the records began in 2009
- The declining rate of soured loans also partly reflect banks' increased focus on higher quality borrowers, however
- There are some red flags in the aggregated data. In particular, car loan delinquencies jumped 12% year-on-year to 1.33%. Americans are borrowing more to get better vehicles and taking longer to pay off the debt. Lower quality loans have been the fastest growing part of the market

Answer: A full chemical and biological suit with respirators and head masks labeled for both my mother and my grandmother from about 10 years ago. What I did not find was one for me!!! Clearly I am expendable or expected to fend for myself!!!

5 November 2016

Question: What was the highest credit score reported for a person on this list-serve (that responded to me)?

Wage data underline solid jobs market as poll nears – Pg. 2

- The US extended its private sector hiring streak in October as wage growth accelerated to its fastest pace since 2009, underscoring the solid jobs market as Americans prepare to go to the polls on Tuesday
- Employers added 161,000 jobs in October and gains for August and September were revised upwards by a combined 44,000. Average hourly earnings rose 2.8% compared with the previous year from 2.7% in September and supporting arguments within the Federal Reserve for a rate increase in December
- At 4.9%, the unemployment rate is lower than in October 2004, 2008, and 2012, although still above the 3.9% rate in October 2000, the month before George W Bush won his first term. The rate at which people are voluntarily quitting their jobs – a sign of employees' confidence in prospects elsewhere – is higher than immediately preceding the past three presidential elections
- A key measure of the patch labour market rebound can be seen in the workforce participation rate, which measures those in work or looking for a job. This has bounced

back since it hit a trough of 62.4% in September of last year, yet at 62.8% it is well below the near 66% rate in October 2004, or indeed the rates just before the 2008 and 2012 elections

US election fears spur dash for cash – Pg. 13

- Rising anxiety among global investors propelled the swiftest weekly surge into cash since 2013 as money managers drove the longest sell-off in the benchmark S&P500 since the financial crisis
- Equity markets in Asia and Europe declined yesterday
- The price of US crude oil, which slid 1.5% yesterday to \$44 a barrel, has fallen 14.7% after closing at a high of \$51.60 in mid-October

Answer: The highest was 840. The next highest was 835 (seasoned banker). (Anyone higher?)

4 November 2016

Question: What rate did I just lock in for a new 15-year fixed rate mortgage?

Egypt devalues pound to gain IMF loan – Pg. 2

- Egypt devalued its currency by a third and allowed its pound to float freely as Cairo took steps to meet an important demand for the IMF to release a \$12bn loan to help its stagnant economy
- The central bank yesterday devalued the pound by 32% as it set a new official exchange rate to 12 to the US dollar compared with 8.88 previously. It also raised its benchmark interest rate by 300bps to 14.75%
- Since the 2011 uprising that ended Hosni Mubarak's three-decade autocratic rule and the ousting of his Islamist successor two years later, Egypt has struggled to revive its economy (Prof Note: If individuals remember, I was in Cairo just as this started. It remains one of the scariest periods of my life.)

UK central bank raises inflation forecasts – Pg. 4

- The bank of England forecast the biggest sustained overshoot of inflation since its gained independence to set interest rates in 1997 and warned that there were limits to its tolerance of higher prices
- With inflation on the rise, the committee has dropped its guidance that the next move in interest rates was likely to be downward
- With inflation projected to rise far above the BoE's 2% target and stay above the target for at least three years, the MPC is becoming more worried that it will not be able to stick to its current view that it will "accommodate" the price rises and might instead have to raise interest rates to contain inflation

US election prompt surge in peso volatility – Pg. 22

- The Mexican peso swung sharply yesterday reflecting how the currency has become an informal proxy for betting on the US presidential race

- One-month implied volatility on the peso – a measure of expectations for the severity of price swings derived from options prices – surged to a five-year high of 28.41
- The peso has weakened from around 18.50 since mid-October and peaked at 19.44 in late September
- For the year, the Mexican currency has fallen 11% against the dollar

Answer: 2.625%

3 November 2016

Question: What is the minimum number of times the Federal Open Markets Committee (FOMC) must meet per year?

Fed flags US interest rate rise as early as December – Pg. 4

- The Fed signaled that an increase in short-term interest rates is in prospect as soon as its next meeting amid a pick-up in inflation, even as it held rates unchanged yesterday
- The US central bank kept the target range for its benchmark rate at 0.25-0.5% as it avoided stirring up markets just days ahead of the presidential election
- The Fed dropped previous language that predicted inflation would stay low in the near term, saying it expects inflation to continue to pick up after rising somewhat since earlier this year
- By saying in its new statement that it only needed “some” further evidence before lifting rates, the Fed signaled that it was getting closer to lifting rates

Repo men see dark side of car sales boom – Pg. 18

- Repossessions in the US hit 1.6m in 2015, the third highest level on record for data going back 20 years, falling short of the 1.8m and 1.9m peaks seen in 2008 and 2009, respectively
- That number is predicted to rise to 1.7m this year
- The auto loan market has grown from \$750bn in 2011 to \$1.1tn at the end of June,...
- The subprime auto ABS market has grown to \$38.1bn, down slightly from its second quarter high of \$41.2bn,...
- The fear is that if losses continue to climb, investors will stop buying bonds issued by less diversified companies. If their access to funding stops, it could impair the credit quality of the issuer itself, throwing doubt over the quality of existing bonds and ricocheting through the market, raising borrowing costs for other issuers as well

Answer: eight (8)

2 November 2016

Question: What are the two rates the Federal Reserve Sets?

Wall Street’s fear gauge trembles after Clinton poll lead narrows – Pg. 1

- Tightening polls just a week before the US presidential election sent tremors through financial markets yesterday, as investors rethought their long-held bet on a Hillary Clinton victory
- Gold, regarded as the ultimate haven, rose sharply while the Mexican peso – a barometer of election sentiment because of Donald Trump’s pledge to build a wall along the US’s southern border – fell 2.1% against the dollar in volatile trading
- Investors see Mrs Clinton as heralding less uncertainty for markets, partly because her long political career means her policies are seen as more predictable

Yellen clings to caution as growth and jobs hold steady – Pg. 4

- The US Federal Reserve is likely to leave short-term rates unchanged today as Janet Yellen oversees an ultra-cautious approach in the face of firming GDP growth and a steady jobs market recovery
- ...markets are already primed for a December 14 move, with CME Group estimating traders see a more than 70% chance of a rise

Answer: Federal Funds Rate (FFR) and Discount Rate.

1 November 2016

Question: What do graduate students have that I do not have?

Carney extends term as governor of BoE – Pg. 4

- Mark Carney has said he will extend his period as governor of the Bank of England to June 2019, declining to serve a full eight-year term and instead standing down once Britain leaves the EU
- The decision means Mr Carney will remain the most important British economic policy official, seeking to maintain economic and financial stability as the nation leaves the EU
- Financial markets, which have pummeled sterling since Britain voted to leave the EU in June, have been watching developments closely for signs of further political uncertainty

Eurozone inflation reaches two-year high – Pg. 5

- Inflation in the Eurozone rose to its highest reading in more than two years but economists suggest that the European Central Bank is still likely to extend its loose monetary policy
- The uptick in consumer prices to the highest level since June 2014 came as the Eurozone economy grew 0.3% in the third quarter, confirming expectations for meagre progress
- Inflation in the 19-country bloc has been under 1% for three straight years, missing the central bank’s target that it should be close to but below 2%
- ...the measure of “core” inflation, which strips out energy, food, alcohol and tobacco, remained unchanged at 0.8% and is lower than in June and July, suggesting to some analysts that the rise in overall inflation has more to do with a rebound in energy costs than with the effects of the ECB’s monetary policy

US Justice – Pg. 7

- One initiative [in California], known as Proposition 66, is designed to unblock the execution pipeline. By ending the severe shortage of lawyers available to handle appeals and putting time limits on the process, it is meant to speed up executions
- ...Proposition 62, would abolish the state's death penalty altogether (Prof Note: A study in Kansas stated it costs \$500,000 more to execute than life-time incarceration. Besides being irreversible, i.e. if you execute someone you cannot unexecute, it burdens society with excessive cost.)
- As the only fully westernized country to use capital punishment, the US is a glaring outlier in the developed world
- Executions have been in decline across the country. Since 1999, when the number peaked at 98, the highest since the death penalty was reinstated in 1976, they have fallen steadily. The figure was 28 last year, the lowest in more than two decades. The number of death sentences handed down has dropped even more precipitously, from a peak of 315 in 1996 to 49 in 2015, as prosecutors reacted to a change in public mood
- Waning confidence in the infallibility of prosecution has been a significant factor in a string of repeals
- Illinois abolished the death penalty five years ago after discovering 13 mistaken convictions
- ...Washington DC has also abolished the practice
- Fear of executing the innocent also provokes a visceral response. Four percent of those facing the death penalty have had their convictions overturned – enough to worry many people that innocent people might have been among the more than 1,400 executed in the US since 1976 (Prof Note: 1 person, in my opinion, is enough to abolish. This is not something where mistakes can be forgiven. Society must hold itself responsible and accountable!)
- According to a state estimate, the death penalty costs Californians \$150m a year more than they would pay if the same prisoners were given life without parole

Fund assets fall for first time in five years – Pg. 12

- The assets of the world's largest 500 fund managers have fallen for the first time in five years as investment houses continue to grapple with outflows from some of their biggest clients

Investors braced for month of risk and rewards – Pg. 18

- The S&P500 fell almost 2% in October – its worst month since January – while bond yields have risen substantially from their summer nadir
- Should Donald Trump triumph, the one certainty is that the Mexican peso will suffer given the Republican's pledge to dismantle America's free trade zone with the US and Canada

Answer: TIME! Use it wisely as it cannot be purchased back!

31 October 2016

Question: What is the rule of 72?

Carney stands ready to serve full 8-year term at Bank of England – Pg. 1

- Mark Carney, governor of the Bank of England, is ready to serve a full eight-year term, facing down Brexiter critics campaigning for him to resign ahead of time
- Mr Carney is said to be leaning strongly towards staying in his post. He would like to help steer the UK economy through treacherous waters once the government triggers Article 50 in March 2017, starting a two-year clock on divorce negotiations with Brussels

US insurers poised for earnings uptick – Pg. 14

- All three of the biggest US insurers – AIG, MetLife and Prudential Financial – are poised to post improved earnings for the first time in five quarters, giving some relief to a sector hurt by persistently low interest rates
- The three largest US insurers, which control a combined \$2.2tn in assets, are all due to post rises in adjusted earnings per share, ...
- Big challenges remain...shares in AIG, MetLife and Prudential Financial have rallied since the summer but they all trade at less than 70% of the companies' prospective book values – a sign of investor pessimism

Answer: Describes doubling. Take the numbers of years you want to double, divide it into 72, and that is the required rate of return for each year to produce the doubling in that time period.

29 October 2016

Question: How many days are there in a year?

British court rules Uber drivers are 'workers' in setback for 'gig economy' – Pg. 1

- Uber drivers in the UK have won a crucial legal battle with a tribunal ruling they are "workers" entitled to the minimum wage and holiday pay
- The decision calls into question the business model that underpins many similar platforms, which use their technology to connect workers with customers without incurring the expense of employing the people themselves. The ruling followed a test case involving two Uber drivers
- "The notion that Uber in London is a mosaic of 30,000 small businesses linked by a common 'platform' is to our minds faintly ridiculous", ...
- A McKinsey survey suggests that 20% - 30% of people in the US and Europe work independently in one form or another, though just 5% of them use platforms like Uber

Exports drive US economic acceleration – Pg. 2

- The US economy expanded at its fastest rate in two years in the third quarter as an upturn in exports helped drive annualized GDP growth to 2.9%, twice the pace of the previous quarter
- One of the chief drivers was stronger exports, which rose at a 10% annualized pace, the strongest since before the dollar upsurge that battered US trade figures

- The improvement was also pushed by higher inventory investment and an increase in federal government spending. Growth was held back by soggy consumer spending, which rose 2.1% in the period, down from 4.3% in the previous three-month spell
- The US 10-year Treasury note yield, which has jumped this month to the highest level since May amid rising expectations for a December rate rise, was little changed

Japan's economic revival hit as core inflation drops to zero – Pg. 3

- Underlying inflation in Japan has fallen to zero for the first time since 2013 in a blow to prime minister Shinzo Abe's efforts to revive the country's economy
- The so-called "core-core" consumer price index, which excludes volatile energy and food prices, was unchanged on a year ago in September,...
- Stagnant core prices show that Japan's inflation slowdown is no longer just a matter of weak commodity prices but has spread across the domestic economy, highlighting how hard it will be for the BoJ to regain momentum
- The central bank is unlikely to panic, however, having capped 10-year bond yields at zero last month as part of a move to stimulate the economy
- Consumption expenditures, excluding housing, were down 0.6% in real terms and 1.1% without adjusting for prices

Premium Parking High Demand in Hong Kong pushes price of car space up to \$620,000 – Pg. 4

- Hong Kong is one of the world's most densely populated cities and prices have been driven up over the past decade by a shortage of new homes and strong demand from local and mainland Chinese people
- The amount paid would cover the cost of about 120,000 taxi journeys between nearby apartments and the city centre, equivalent to two commutes every working day for 245 years
- Hong Kong has the world's least affordable housing, with the median housing price 19 times the median annual pre-tax household income,...

Bonds bloodied by brutal October – Pg. 11

- Broad unease in sovereign bond markets has resulted in the largest drop in monthly total returns since May 2013, ...led by a sell-off in British government debt
- Markets have priced in a second rate rise by the US in December, lifting the benchmark 10-year US Treasury yields by almost 0.3% this month to the highest level since early June
- In the US, the S&P 500 has also retreated from a record high as rising yields remove one support for a stock market that has risen about 4.5%

Answer: 365.25

28 October 2016

Question: What is a "pref"?

Spanish unemployment rate falls below 20% - Pg. 3

- Spain's unemployment rate has fallen below 20% for the first time in six years, as the country's economic recovery continues to power ahead despite 10 months of political deadlock and government drift
- The unemployment rate now stands at 18.9% - still one of the highest in the western world but the lowest in Spain since the fourth quarter of 2009
- ...Spanish economy, which is on course to grow by 3.2% this year
- Spain suffered a harsh recession in the wake of the 2008 housing bust that triggered both a banking crisis and a huge spike in unemployment. At the high point of the jobs recession, in early 2013, the unemployment rate reached 27%, and more than 6.2m Spaniards were looking for work

Derivative trader seeks to avoid trial – Pg. 20

- It is claimed by the CFTC that DRW netted at least \$20m by rigging prices of an interest-rate futures contract listed by Nasdaq. Unusually DRW, which denies the allegations, has decided to contest the regulator instead of settling
- The CFTC said it needed to show only that DRW had overtly "intended to affect market prices" to prove attempted manipulation
- The legal spat underscores the difficulty of winning manipulation cases, which often turn on a trader's intent

Answer: Honestly I have no consistent definition. I define it as a coupon earned senior to distributions.

27 October 2016

Question: What are the three measures of linear association?

Treasuries volatility near two-year low – Pg. 20

- Investors are discounting the risk of market turmoil from both the US election and the Federal Reserve, sparking a pronounced drop in key measures of volatility
- A gauge of volatility in the \$13tn US Treasury market has hit its lowest level in almost two years less than two weeks before US voters go to the polls
- In currency markets, the calm has spurred more carry trades in which investors buy high-yielding currencies such as roubles, reals, rupees and repiahs funded via the euro, yen and pound

Answer: Covariance, Correlation Coefficient, and Coefficient of Determination

26 October 2016

Question: What is the minimum wage on St. Kitts and Nevis?

China order property loan curbs – Pg. 5

- China is introducing restrictions on property-related lending, as the central government takes the lead in efforts to head off a housing bubble

- Property developers are facing curbs on their ability to raise finance by issuing debt or equity, after two government regulators were instructed to step in, it has emerged
- ...the Shanghai Stock Exchange froze all bond issuances by property developers
- China's top leadership has come to worry that an out-of-control property market could provoke future social unrest, ...
- Soaring property prices have also encouraged a massive extension of loans to homebuyers and property developers in the formal and shadow lending markets
- Outstanding mortgage loans are at their highest level, rising 17%....

The effects of ageing – Pg. 7

- The Federal Reserve has an awful hunch. It suspects that the world's shifting demographics, as longer lifespans and reduced birth rates combine to increase the proportion of the aged within western societies, have rendered central banks powerless to raise long-term interest rates
- "An increase in the average age of the population is likely pushing up household saving in the US economy"
- The mechanics of how we arrived at this point are straightforward. People save most during their working years. This prompts them to buy bonds either directly or mostly through pension contributions, pushing down yields. Then in retirement they consume more than they save – and in the final few months of life tend to consume more, in expensive healthcare, than at any other time. Greater longevity has accentuated this by ensuring more people live to see an incapacitated and expensive old age. This tends to push yields upwards
- "demographic factors alone account for a 1.25% decline in the natural rate of real interest and real GDP growth since 1980"
- ...the US, western Europe and Japan have all reached the "tipping point" when the numbers of people in work compared with old and young dependants has peaked and started to fall
- "America's working population is unlikely to materially increase over the next 20 to 30 years"...
- The wealthiest find it easier to stay in work, and have a much lower propensity to spend what they earn
- Inadequate pension provision in many countries adds to the problem. In China, there is little or no social safety net. In the US where the "401(k)" pension plans offered to baby boomers have had disappointing returns, many reach 65 without sufficient savings and have no choice but to keep working.
- In the US, where it appears that many corporate and municipal pension plans will be unable to pay what they promised, courts held blocked pension funds from reducing payouts
-

Answer: EC\$8.00/hour or EC\$320/Week (\$3/hour USD or \$120/week USD)

25 October 2016

Question: What is my credit score?

Western resistance to China blocks \$40bn of acquisition – Pg. 1

- Most have fallen foul of competition and security concerns, such as takeover target's proximity to a military base, and have prompted some western governments to consider new regulatory procedures to probe Chinese deals

Push for transparency over Treasuries trading – Pg. 20

- The US Treasury has called for trading in the country's debt to be publicly reported in the most radical effort yet to bring transparency to a \$13tn market that sets borrowing costs for the corporate US and beyond
- Unlike the corporate bond and stock markets, there is no requirement to report trades in US government bonds
- Regulators such as the SEC have been trying to shine more light on the operation of the Treasury market since a wild swing in prices in October 2015 exposed their lack of insight into the sector
- Those who trade Treasuries are largely united in their support for regulators having more information, but banks have warned that making data available publicly could impair how the market functions
-

Companies confront US policymakers – Pg. SP4

- Federal employment law does not protect people on the basis of their sexual orientation or gender identity and in 28 states employers can still sack staff for being LGBT

Words Transition, too – Pg. SP11

- It was not, however, until the 19th century that the terms homosexual (1869) and heterosexual (1892) were coined, as part of a broader societal shift in viewing sexuality not as something you do (ie a behavior) but as something you are (an identity)
- Labels for these new sexualidentity categories emerged rapidly. Lesbian appeared in 1870 and by the turn of the 20th century was interchangeable with Sapphist and invert in the medical literature to describe homosexual women (with invert also referring to homosexual men)
- The term gay did not acquire its current sense until the 1950s, though it took on a meaning of sexual freedom and license 30 years before
- In 1965 psychiatrist John Oliven introduced the term transgender to replace the older transsexual. By the mid-1980s, transgender became the common label for people whose general expression does not match their sex assigned at birth

Answer: 769! I was pinged for the following: (1) Time since most recent account opening is too short, (2) Too many inquiries in the last 12 months, (3) Number of Bank or National Revolving accounts with balances, (4) Too many accounts with balances. Outrageous!!! ☺

Technology Comment: As many of you know I have had my iPhone for one year and am learning to use technology to a greater degree. In the last six months I changed over from my Franklin Planner to an iPad for my calendar (note: found the iPad a poor “To Do” list and now do this on Excel). This recent trip was the debut of my home server (If Hillary can do it, so can I!) In short...I love it! It allowed me to work exactly as I do in my office with the same exact desktop. While it could be slow at times, I worked locally on files and then saved them to the Home server.

What is also has provided me is reduced stress. I am no longer in fear of my losing my laptop, having it stolen with all files, backups lost etc. Now, laptops are vehicles to my home server with no data residing locally. It is/was liberating! No stress being separated from my laptop at airport security, no more bringing the computer to business meals as I leave it in the car without worry.

I mention this as it has made a HUGE difference in my life through stress reduction. I highly recommend if you work at multiple locations. The only downside is that it does require you to always access the internet, however, for me this is never an issue.

24 October 2016

Question: How long back in the flight from Nevis?

Singapore warns on US trade retreat – Pg. 5

- Failure to ratify the Trans-Pacific Partnership trade deal would be a “major setback” for the standing of the US in Asia, Singapore’s deputy leader has said, underlining concerns in the region that America’s Pacific pivot is in trouble
- America’s Asian allies fear the collapse of the deal will become an emblem of US retreat from the Pacific
- The 12-nation Pacific Rim trade pact has become a lightning rod for discontent over globalization a key issue in the US election, ...
- Singapore, a small economy that relies on external trade, is one of four original members of the Pacific trade grouping which led to the TPP deal.

Beijing addresses credit concerns as focus on GDP bears fruit – Pg. 5

- Economic data released in China last week revealed an approach to macroeconomic management that can be described as two steps forward and one step back
- ...Chinese economic planners kept their eyes firmly on their target range for GDP growth, set at 6.5 to 7%
- ...turn its attention to reining in some of the excesses that made this year’s better than expected growth figures possible
- ...broadest measure of credit, an aggregate referred to as total social financing, had risen 11.3% year on year in September...
- The stock of outstanding mortgages has grown to the equivalent of almost 25% of GDP, from 15% five year ago
- Corporate lending also continued to surge, up more than 13% in September

- The property outlook is especially bad in heavy industrial regions, which have been most affected by China's economic slowdown

The Fed can revive the economy with higher rates – Pg. 9

- ...the American economy is underperforming: GDP is sluggish, productivity growth is down and, though wages are ticking up, incomes have hardly budged
- With fiscal policy locked in permanent austerity mode, the Fed's easy money policy is not working
- Sustained zero rates hurt workers' pay, the incomes of the elderly and businesses' funding for long-term liabilities. Low rates destabilize the financial system.
- First, when interest rates are low for a long time, companies substitute capital for labour to an unnatural degree
- ...businesses will have borrowed all they want, sometimes even more than they need. One result is a huge cash stockpile, another the wave of stock buybacks
- Second, low rates hurt the elderly and others who depend on income-producing investments
- Third, low rates hurt households businesses and institutions that are investing today to fund future spending
- A 1% decrease in rates of return can increase savings required to make up the gap by 20%. As a result, people must save more to fund future requirements – and spend less now precisely because rates of return are so low
- Fourth, low rates hurt the financial system and create systemic risks
- ...with negative interest rates, banks cannot lend profitably

Answer: Door-to-door it is 13 hours.

Nevis News: It is October and the weather seems incredibly hot but not like August. There are discussions about increasing the port size on St. Kitts to accommodate larger and more cruise ships. The issue, however, is the St. Kitts infrastructure. There simply is not enough for the tourists to do once on the island. Other than beaches, the two main attractions are Brimstone Hill Fortress and the Scenic Railway, i.e. the Sugar Train.

There have been more restaurants pop up on Nevis including one right by the airport. Bananas remains the top spot for tourists. Several restaurants are improving the façade and this winter will be interesting to see the changes.

22 October 2016

Question: What is the approximate exchange rate of EC to USD?

German parents win childcare case – Pg. 2

- Workings parents in Germany have secured some unexpected relief in a familiar struggle – the search for good childcare for their toddlers

- ...a top court ruled this week that a local authority that failed to provide enough places must pay stay-at-home parents compensation for their lost earnings
- The groundbreaking case was brought by three mothers from eastern city of Leipzig, who argued that they had lost weeks of income because they could not find childcare when they wanted to return to work after having children
- ...this week ruled that the three women were in principle entitled to compensation from the city council if they could show that authorities had failed in their duties
- The Leipzig case stemmed from a 2013 law requiring the authorities to provide childcare for all children after their first birthday, either in a public childcare centre or with state-subsidized private carers
- (Prof Note: I remember my summer job during college was that of a school bus driver for a day care...Otto was my role model! One morning a new couple pulled up in a BMW to drop off their child for the first time. There were the usual tears from the mother and the owner was telling the husband best to just go. Well...the car was just leaving the parking lot when the passenger door opened and out flew the mother. She was running to the school sobbing. She burst through the door and went for her child and cradled the child. The man put the hazards on and is running after her. In the lobby she is hysterical. "I quit, I QUIT! I cannot leave (sorry, forgot the name)."
- The man makes a failed attempt at soothing her saying, "We discussed this. We cannot afford..." The woman yells, protectively cradling her baby, "Then we sell the house and you get another job!" The man was pale. They got into the car and we never saw them again. As per the contract they paid for three months at under a year pricing (which was high but I was not involved with that age group at all).)

Moody's says DOJ plans to sue over ratings in run-up to crisis – Pg. 10

- Moody's shares fell more than 5% yesterday after it disclosed that the US government planned to sue it over ratings it issued in the run-up to the financial crisis
- Critics have long complained such ratings were inflated to win business, misleading countless investors who relied on rating agencies to provide a good guide to the securities' risk of default
- It also revealed that various US state attorneys-general had said they expected to pursue similar claims against the firm – and these might cover a range of time periods, asset classes or activities

Biggest wealth fund urged by Oslo to lift shares allocation – Pg.

- The world's biggest sovereign wealth fund is on the verge of taking on more risk and cementing its grip on global stock markets
- ...the fund should lift its allocation to equities from 60% to 70%
- It estimated that the expected real return for the fund was likely to be 2.3% on the next 30 years...

China property: interior decoration – Pg. 18

- China's residential property sector has been on a tear. Yesterday official data showed that prices of newly-built property in 64 out of 70 cities rose in the year to September

- Concerned by the pace of these increases, China's government has ordered cooling policies in selected cities. Higher downpayments and restrictions on the number of flats that individuals can buy are among the measures introduced...
- Yet this approach is unlikely to work for long: supply shortages are as much behind the house price rally in the cities as demand.
- This year, the gross floor area of residential property sold has risen by one quarter, after rising 7% last year

Answer: 2.7:1 (basically it is fixed)

Nevis News: The past two days the water has been coming up above the sea wall. I am told that this is worse than hurricanes. Interesting. The weather remains very hot and when I asked Olive she said that Nevis has been getting hotter her entire life.

Very few tourists have been coming to this side of the island. No tourists have played the course this week, only locals and ex pats. Apparently one of the negative effects on the island economy has been the disclosure requirements imposed by the U.S. on foreign bank accounts. This has caused several ex pats to give up their U.S. Citizenship. There is no income tax on the island so it is advantageous to high wealth individuals.

Enjoy today's Nevis picture...

21 October 2016

Question: What should you never say in today's current environment at an open meeting for development on Nevis?

Education – Pg. 9

- Business degrees continue to be one of the most sought-after educational credentials with 11.7m applications to business schools each year, ...
- ...the future of the MBA is under threat from a proliferation of rival course, opportunities to study online and rising tuition costs
- Applications for full-time, two-year MBA courses fell in 53% of the US business schools this year, while only 40% reported growth, ...
- The dismantling of corporate career structures and interest among high achievers in starting their own businesses are blamed for undermining the case for business schools
- Applications for MBAs will fall further if people launching businesses, especially those in communities of start-ups, believe they can better networks outside the classroom
- The cost of tuition for two years' study at a top US business school generally runs into six figures, while MBA fees have also risen, driven by the cost of attracting the best teaching staff and upgrading school facilities
- This might be justifiable at Harvard Business School, where an MBA graduate can almost double their salary to \$172,501 three years after graduation. It is less so when the average graduate earns barely a third of this amount, with pay up by a much smaller percentage –

which is the case among alumni of the other top 100 schools worldwide (Prof Note: It is difficult for me to recommend going to a full-time MBA programme where you lose two years salary if the school is not top 10. I question the economics of the decision.)

Libor scandal traders seek top-brass probe – Pg. 16

- Traders convicted as part of the Libor-rigging scandal have hit out at the UK authorities and urged them to pursue top brass in a fresh criminal investigation into alleged manipulation of the benchmark rate
- Hayes sought to distinguish between what he did – request rates within what he says was an acceptable range – and lowballing, which is when banks allegedly submitted inaccurately low Libor rates during the financial crisis to give a healthier impression of borrowing costs
- The BoE became embroiled in the Libor scandal after Bib Diamond, the former chief executive of Barclays, disclosed a contemporaneous note of a 2008 telephone call he had with Sir Paul Tucker, a former deputy governor of the central bank. The note suggested Sir Paul told Mr Diamond to lower Barclays' rate; something Sir Paul denied in testimony to a parliamentary committee

US inflation-trade hopes spring back to life – Pg. 22

- Renewed concerns about China's economy reawakened global deflation fears in January, sending inflation-linked bonds, or "linkers", tumbling. Meanwhile, long-dated conventional government bonds – which would be the biggest losers if inflation truly did return – rallied as central banks kept their foot on the monetary pedal
- The US two-year break-even rate has risen from 0.92% in early August to 1.42% this week; the 10-year rate has risen from 1.37% in August to 1.69%
- ...there is rising optimism that the taut US labour market and easy monetary policy are beginning to boost wage growth, nudging inflation higher in the coming years. The "core" consumer price index, which strips out food and energy, unexpectedly dipped from 2.2% to 2.1% in September, but the headline gauge rose to a two-year high of 1.5%. The personal consumption expenditure (PCE) index that the Federal Reserve favours climbed to 1.7% in July

Answer: "If they build a hotel behind the course, I will build a wall blocking their view!" – Unidentified middle-aged male on Nevis.

20 October 2016

Question: What does Olive call Trump?

Saudi bond sale raises \$17.5bn to set emerging market record – Pg. 1

- Saudi Arabia has raised \$17.5bn for its debut sovereign bond issue, eclipsing Argentina's bond sale this year to become the largest debt issue by an emerging economy
- Investors put up orders of \$67bn, enabling the kingdom to increase the amount borrowed and overtake the \$16.5bn raised by Argentina as buyers queued up in search of yield

- Saudi Arabia's entrance into international markets is part of a broader plan to pivot the country's economy away from its reliance on oil, as prices slump to half the level of two years ago
- The sale comprised three maturities of five, 10 and 30 years offered at yields of about 2.60%, 3.41% and 4.63%, respectively...
- The bonds were sold at about 40bps above debt issued by neighbouring Qatar, which carries a higher credit rating, and around 100bps wider than bonds sold by oil companies BP and Shell

Airbnb is eleventh-hour scramble to fend off its New York eviction order – Pg. 1

- If it [NY law] becomes law, it would impose fines of up to \$7,500 on hosts who advertise short-term accommodations through Airbnb
- The online service, which connects owners of homes and flats with tourists and other renters in cities around the world, has often clashed with regulators who accuse the company of facilitating illegal hotel businesses and reducing affordable housing stock
- In New York, hotel unions and New York City officials have been particularly vociferous about the company's failure to comply with a 2010 law that banned short-term rentals in Manhattan – but is rarely enforced

China's growth adds to fears on debt levels – Pg. 4

- The Chinese economy expanded at an annual rate of 6.7% in the third quarter, in line with the government's full-year target but exacerbating fears of inflated corporate debt levels and over-heated property markets
- More than 20 urban governments across China have introduced measures to restrain house prices, which over the past year have increased by as much as 25% in cities such as Beijing and Shanghai
- GDP grew 6.7% in the first and second quarters of 2016, defying fears of a sharper slowdown after turmoil in the country's currency and stock markets dented global confidence in Beijing's macroeconomic management
- China's annual growth rate dipped as low as 6.2% in the first quarter of 2009 as the country was buffeted by the global financial crisis

Beijing struggles to slow housing boom – Pg. 4

- China's housing market is bubbling over. A boom in values in big cities such as Beijing, Shanghai and their environs – up 25% or higher over the past year alone, ...has spread to smaller cities this year
- Real estate and infrastructure investments have helped the Chinese government meet its economic growth targets this year
- The need to save exorbitant amounts of money for a flat helps explain why China has one of the world's highest savings rates, damping consumption
- Total mortgage loans outstanding grew more than 30% year-on-year in the second quarter, ...while mortgage rates are at historical lows
- Loans to developers and homebuyers account for 70% of new credit creation this year, ...
- ...compares China's housing bubble with Japan's in the 1980s

Answer: Troubled Trump! (this is not a reflection of my personal political views in either direction)

Nevis News: The weather is hot, Hot, HOT! We are expecting a storm to roll in as the waters are rough. The waters are coming over the breaks by the port, very uncommon. The expats are in a dither over the election. Mention the name "Trump" and prepare to be attacked!

Rumours about the Four Seasons shutting down have dissipated. Employment still is an issue on the island. The young gentleman that asked me Saturday afternoon for funds to help him purchase a ferry ticket did not show up today. He had asked me for funds in front of the tourists and when I told him to come by Tuesday (today) for a job he agreed. I could tell he was annoyed as my offer of employment ended his attempts for funds from the tourists. My offer was sincere...but he never showed up today!

Attached is a picture of a fellow Ginger's birthplace.

19 October 2016

Question: Where was Alexander Hamilton born?

Norway to give fresh boost to equities in \$880bn fund – Pg. 1

- The world's largest sovereign wealth fund should invest 70% of its assets in shares, up from today's 60%, at the expense of bonds, ...
- The move is highly significant for global markets as the oil fund owns on average 1.3% of every single listed company in the world and 2.5% in Europe
- The allocation to equities was increased from 40% to 60% in 2007
- The Norwegian government is permitted to take out up to 4% of the value of the fund each year to use in the budget. But it is using only about 3% this year
- The report estimated that the fund's real rate of return was expected to be 2.3% over the next 30 years

California's cleaner dream – Pg. 7

- Now, the nuclear-free vision that Ms Becker and so many others fought for is being realized: Diablo Canyon, the last nuclear plant in California, is to be shut down
- Diablo Canyon is one of California's largest sources of electricity generated without significant carbon dioxide emissions, providing 9% of the state's power
- Shutting its last nuclear plant while simultaneously trying to cut greenhouse gas emissions by 60% is perhaps the state's boldest energy gambit yet. By 2030, the state aims to draw half of its electricity from renewables such as wind and solar
- Technological progress has sent costs of solar and wind power plunging, to the point that the electricity they provide is often competitive, without subsidies, against new coal or gas-fired plants. But those sources cannot be relied on to deliver power whenever it is needed, even in sunny California
- The role of nuclear energy in the fight against climate change is being debated worldwide. In Germany, the policy of generously subsidizing renewables while phasing out nuclear is

- generally supported by the public, but has raised concerns about some of the highest energy bills of any country
- In Japan, it has proved politically difficult to restart nuclear plants after they were shut down following the 2011 disaster at Fukushima; only three of the country's 43 reactors are in use
 - The state's biggest carbon culprits are transport and industrial activity, which account for 37% and 24% of emissions respectively. Electricity generation accounts for just a fifth of emissions statewide

Forecasts split on sterling's direction – Pg. 17

- The pound's volatility has triggered a divergence among bank forecasts, with Goldman Sachs predicting a drop below \$1.20 while others suggest the currency is cheap and heading higher
- Sterling has fallen to the level predicted post-referendum by Societe Generale

Answer: Charlestown, Nevis

Nevis News: Major utility problems on the island. Electric and internet were out most of last night and now there is no water. Oh, in case you are feeling sympathetic, I have no hot water when the water is running.

Deposited 4 months of payroll at the Bank of Nevis and they actually thanked me for bringing the hard currency. Then they asked if I could bring more. Apparently there is a shortage of U.S. dollars on the island. We study about the U.S. dollar being the reserve currency of the globe but I feel few experience it. The BoN was actually grateful for the deposit. It was memorable.

It is hot, Hot, HOT on the island during the day. Have not seen a single tourist and after the August episode and wary about entering Four Seasons.

18 October 2016

Question: When asking Olive, my 68 year old Nevisian Nanny, about the U.S. election, which candidate did she like the most?

Bank of American raises hope that Wall Street can overcome low rates – Pg. 1

- The bank echoed rivals JPMorgan Chase and Citigroup with a resurgence in bond trading. Revenues there surged a third, helped by a flood of orders as clients sought to reposition following the UK's vote for Brexit and the fast-changing outlook for monetary policy
- Like its peers, the bank's Main Street businesses fared less well
- Big challenges remain for Bank of America, an industry powerhouse that operates more than 4,600 branches and has \$2.2tn in assets
- Ultra-low rates are squeezing banks and insurers globally, but Bank of America is regarded as among the most exposed, partly because of the scale of its retail powerhouse

Pearson tumbles on dip in demand – Pg. 13

- Pearson shares tumbled yesterday after the UK-based education group blamed a “temporary” fall in demand for textbooks on US college campuses for a larger than expected decline in revenues in the past three months
- ...an “inventory correction” at bookstores across America had driven a 7% dip in underlying revenues. In the US, sales at constant exchange rates fell 13% in the three months to the end of September
- This year John Wiley and Barnes & Noble Education have also reported sharp falls in textbook sales (Prof Note: Do not worry, my second edition will be out in 2018 buoying the results of Routledge!)

Retreat from UK commercial property leaves investment at four-year low – Pg. 13

- UK commercial property investment sank to its lowest level in four years during the quarter after the Brexit vote, ...
- Investment in Scottish property, meanwhile, dropped 74% year-on-year to 191m (sterling) amid fears of a second independence referendum
- In the third quarter, properties across the UK were selling for an average of 6% below their asking prices, having sold for above the asking price for the preceding three years (Prof Note: Julian J. you shall soon have me as a neighbor! I am looking at Paddington and am in the process of opening up my first Sterling account! You are stuck with me!)

Negative interest rate policy threatens Japan leasing sector – Pg. 17

- Japan’s leasing sector – a vital source of annual investment to millions of companies – risks becoming an unintended victim of the country’s negative interest rate policy even as the central bank tries to stimulate growth
- Instead, leasing appears to be suffering from a flattening of the Japanese government bond yield curve, a series of moves that culminated over the summer in about 80% of Japan’s sovereign debt trading at sub-zero levels

FT Property Europe (recommend reading entire special report)

Answer: She said we were in for “tough times.” However, she liked Trump’s VP candidate the most.

Nevis News: The next installment of the unidentified middle-aged male has him taking luggage from the St. Kitts airport. Apparently, in a rush to make the 3pm ferry, the gentleman grabbed a bag closely resembling his own and headed to the ferry. Upon arrival he noticed the bag was not his own and returned to the airport, bag in hand, to find a very relieved tourist filling out a missing bag claim. The unidentified male, known only by his wit and fancy dress, was presented his true bag by immigration and departed back to the ferry terminal in just enough time to make the 3pm ferry to Nevis.

Since August there has only been one capital crime on the island. There was severe electrical damage due to the hurricane and loss of vegetation but no human casualty.

Saturday night meant lobster from Suprisers. Attached is a picture of the lobster (so many requests from last time). It was \$10/lobster and so I purchased 4. Tonight’s dinner is lobster nachos! I have

figured out how to finally describe the location of Suprisers for all non-Nevisians visitors. When passing Nisbetts on your left you will come upon a mannequin dressed in lingerie (you cannot miss it, it is the only mannequin on the island), just up ahead to your right will be a white tent, broken down cars, and a grill...that's Suprisers. If you hit the medical university you have gone too far. Tell him 'Tiger sent you!'

The second attached picture is dusk on Nevis looking at St. Kitts. I call the picture, "Dusk with Donkeys!"
☺

17 October 2016

Question: How do the tourists get from St. Kitts to Nevis?

Portugal to raise pensions and cut direct tax in 'budget of the left' – Pg. 3

- Portugal's "anti-austerity" government has unveiled a draft budget for 2017 that seeks to raise pensions, reduce income tax and increase support for the poor without running foul of EU deficit rules
- A downgrade could lead to Portugal being excluded from the European Central Bank's bond-buying programme, removing a vital safety net from government financing
- The plan targets a budget deficit of 1.6% of GDP in 2017, against a forecast 2.4% this year and 4.4% in 2015. The maximum deficit allowed under the Eurozone rules is 3% of GDP
- Portugal's government borrowing has also eased, with yields on benchmark 10-year bonds last week enjoying their best period for almost four months

Tattoos bring new form of body language to work – Pg. 11

- A YouGov poll last year found 19% of adults in the UK had a tattoo. In the US, 32% of 18-44 year-olds have at least one (Prof Note: As I tell students, if I can see it, I can ask about it! ☺)
- But the increasing prevalence of tattoos, especially among those below the age of 35, does not mean they are widely accepted in the office
- ...human resources managers were less likely to hire a person if they had a tattoo, was backed up last month by Acas, the conciliation service. Its small-scale survey of hiring managers found that visible tattoos were likely to severely restrict employment prospects (Prof Note: I remember being in homebuilding and hearing of a woman who had applied to be a salesperson. Apparently she had "Nineties Hoe" tattooed on her neck. It had apparently been a band where she was backup singer in the 90s. The head of sales said in a closed door meeting, "I could have moved past the tattoo if it had been "Two Thousands Hoe" but the out-of-date reference was too much so we passed on her hire. Moral: Think before you ink!)
- Very few companies have an explicit no-tattoo policy at work, but many have a dress code with phrases such as "dress professionally" or "business wear", which is open to interpretation. (Prof Note: During the downturn I ended up as head of Human Resources (go figure). I actually had to rewrite the dress code to disallow for logod shirts not company issued or ANY writings on clothing. I had an accountant, I am not fibbing, show up with a shirt that had "SL\$T" on the front of it for work one day. When confronted she noted nothing stated it was inappropriate in the 'then' HR manual and she had a constitutional

right of expression. Whatever...I filled that gap in the HR manual that afternoon and sent her to the warehouse to do inventory for the remainder of the day!)

Answer: Every single one took the “High-Speed” which is \$80/trip. The taxi drivers are in cahoots with the owner of the “High-Speed” and they stagger arrival to increase the number of trips, i.e. it is \$80 total per passage regardless of passengers. Not one tourist was on the 3pm ferry instead paying \$80! Moral: Read the guidebooks and look for lower-cost solutions!

15 October 2016

Question: How long does it take to get to Nevis from St. Kitts on the high-speed vs. the ferry?

Warren wants SEC head fired for ‘undermining’ administration – Pg. 2

- Ms Warren accused the SEC chair of blocking greater corporate transparency, laying bare dissatisfaction among some Democrats with Wall Street reform barely three months before the end of a presidency that began during the financial crisis

Sterling’s slump signals a warning, not a boon – Pg. 7

- The currency fell to a trade-weighted level as seen in the middle of the 19th century
- The decline in sterling, in a country with a free-floating currency, is not a crisis. But it does suggest investors are re-rating the competitiveness of an economy whose government appears bent on harming the industries in which it has comparative advantage
- ...the fall in sterling was a reaction to Theresa May’s government signaling a desire for “hard Brexit”, including no longer being a member of the EU single market. That would hurt the UK’s financial services sector, which relies on regularly “passporting” arrangements to operate freely across the bloc

US bank profits held back by rock-bottom interest rates – Pg. 8

- Three of the four biggest US banks have underlined the profit-sapping effects of rock bottom interest rates, demonstrating that scrutiny over sales practices following a scandal at Wells Fargo is far from the only challenge for the industry
- Even though rock bottom rates are a relief for borrowers, there are emerging signs of strain in banks’ lending portfolios

Answer: The High-Speed takes about five minutes but involves a 20-25 minute taxi ride to get there. Then one must wait for the high-speed. The ferry is a five minute taxi ride from the airport but takes approximately an hour to get to Nevis. The best value, in my opinion, is the ferry!

14 October 2016

Question: What did security at BWI take from me?

China exports fall sharply as concerns over demand grow – Pg. 3

- A weaker renminbi failed to stop a sharp fall in China's exports in September, damping economists' hopes that demand would pick up in the fourth quarter and sending markets in the region lower
- In renminbi terms, exports fell an annualized 5.6%, ...the first drop since February when outbound shipments contracted 20.6%. Imports grew only 2.2% in local currency terms, down from 10.8% growth in August
- The outlook was bleaker when valued in dollars, with outbound shipments falling 10% year-on-year, sharpening from 2.8% the month before and far worse than the 3.3% shrinkage forecast by economists surveyed by Bloomberg
- The central bank set the midpoint for the renminbi's trade against the dollar weaker by 0.1% at 6.72960 yesterday, in the fourth consecutive day of weakening
- The Chinese currency has already depreciated 3.6% against the dollar during the year to date to reach Rmb6.7291, the lowest since 2010, the same year the central bank abandoned its hard peg of about Rmb6.83 to the dollar

Clinton discovers being wealthy comes at a cost – Pg. 4

- Since Mr Clinton left office in 2001 they have earned \$237m, mostly from speeches and writing books, ...
- In 2014 alone the Clintons reported an adjusted gross income of nearly \$28m compared with \$357,000 in 2000
- Today they boast mansions in Chappaqua, New York and Washington's Georgetown district, along with multi-million-dollar accounts at institutions such as JPMorgan and Vanguard,...
- Many former presidents faced financial difficulties after leaving office. Harry S Truman's steep income decline once his term ended led Congress in 1958 to establish the presidential pension
- On their 15-year total adjusted gross income of \$237m, the Clintons paid more than \$76m in federal income taxes

Investors are ill equipped for our unfathomable future – Pg. 11

- The banking system today is much stronger than a decade ago as a result of post-crisis reforms
- ...while the banking system looks healthier, markets do not. The issue that investors need to understand now is that many "markets" are not true, free markets because of heavy government intervention
- Central bank purchases are distorting the price of European corporate bonds and Japanese equities, with knock-on effects in numerous other asset classes
- ...these distorted markets are increasingly hostage to unfathomable political risk
- To put it another way, the real danger in finance is the not one that tends to be discussed: that banks will implode (as they did in 2008). It is, rather, the threat that investors and investment groups will be wiped out by wild price swings from an unexpected political shock, be that central bank policy swings, trade bans, election results or Brexit

Wells Fargo caves in and dispenses with chief – Pg. 15

- ...offering up the head of Mr Stumpf – ending his 34-year career at the bank and nine-year spell as chief executive
- ...the person who replaced him was his right-hand man
- It is a dramatic downfall for the man who had steered Wells Fargo through the financial crisis and helped it become the most valuable bank in the world – but who became a public hate figure as the scandal engulfed it (Prof Note: Again...what compensation did the terminated, yet employees with integrity, receive who lost their positions as they could not make goals? Is the lesson learned here to become better cheaters, liars and frauds?!))
- Mr Sloan effectively has two jobs to do – restore trust in the bank and recovering from the scandal, while also being responsible for running what remains one of the world's largest institutions with \$1.9tn in assets

Inflation fears cast pall over long-dated bonds – Pg. 22

- Investors are selling out of long-dated government bonds as worries about the corrosive effect of inflation start rivalling with central bank stimulus as the driving force in capital markets
- Inflation expectations drive the performance of long-dated debt as fixed-rate payments are less attractive over time as consumer prices rise
- Broad concern over the risk of deflation combined with the yield-compressing effect of central bank bond-buying in recent years has spurred investors into buying longer-dated bond maturities, taking on greater interest-rate risk by extending the average duration in their portfolios

Answer: Peanut Butter, two large canisters! Peanut Butter is NOT a liquid! Outrageous!

13 October 2016

Question: How does MIRR (Modified Internal Rate of Return) differ from IRR?

Blocking moves – Pg. 9

- Since the 2008 financial crisis, the world has largely avoided a new cycle of protectionism that many people fears would cause a repeat of the tit-for-tat erection of trade barriers that economists believe extended the Great Depression in the 1930s
- Policymakers, though, are worrying about the new methods countries are using to protect their industries. Whether in the innovative use of old laws, as in the US Steel case, or new standards on encryption and labelling, world trade is experiencing a wave of protectionism that some economists say is affecting global growth
- Concern has been amplified by the decline in global trade, which this year is expected to grow more slowly than world economic output for the first time in 15 years. That slowdown has been largely attributed to a collapse in global demand, but economists worrying more about the role of protectionism – or rather the risk posed if it accelerates and takes new forms
- Among the best examples of that, he says, are domestic content rules such as the “Buy America” provisions in the US. These have exploded since the crisis and require

- governments to prefer domestic products, whether steel for a bridge or shoes for the military
- US technology companies view the “Great Firewall of China”, the system Beijing uses to control its citizens’ access to the internet, as the world’s biggest trade barrier
 - The firewall is ostensibly to protect China’s population against pornography and anything the ruling Communist party deems sensitive. But the blocking of brands like Facebook, Twitter or Reuters prevents western internet groups and media conglomerates from competing in China while allowing domestic counterparts, including internet search engine Baidu or state-owned news agency Xinhua, to thrive
 - A concerted effort over the past 70 years to reduce tariffs, and the changes to rules that came with the creation of the WTO in the 1990s, has helped avoid another disastrous brush with protectionism, ...

Bank’s exit raises ‘US liquidity engine’ fears – Pg. 20

- The importance of the \$1.6tn tri-party repurchase – repo – market was vividly illustrated during the financial crisis, and by next year BNY Mellon alone will settle transactions across both US government bonds and this short-term lending market, where banks borrow cash from investors in exchange for assets such as Treasuries
- The tri-party repo market greases the wheels that keep financial markets rolling. It is fundamental to the sale of new Treasuries, as banks buy securities at auction using the credit of a settlement bank, before exchanging them for cash with investors in the repo market to pay back the credit line, usually with the same settlement bank in the middle
- Now, JPMorgan is planning to stop settling Treasury transactions within 18 months
- The risk is not lost on the Federal Reserve, BNY’s primary regulator,...
- From the Fed’s perspective, there are advantages to having only one provider. Attention can be concentrated on BNY, with policy decisions no longer subject to a balancing act between the two banks’ models. There are also problems with any potential alternative

Answer: Bifurcates discount rate and reinvestment rate, i.e. IRR considers them both the same

12 October 2016

Question: What type of equation is IRR and why is the type important?

Brainard’s star rises on low rate stance – Pg. 4

- This year Ms Brainard donated \$2,700 to the Clinton campaign, a decision described by former officials as a blunder for a governor during an election year, even if it is permissible under Fed rules. It increased the Fed’s political vulnerability while it faces assaults on its independence by Donald Trump, the Republican presidential candidate
- Ms Brainard has urged caution in part because of the risk that overseas shocks ricochet back to the US. This global focus builds on her work as the US’s top financial diplomat under former Treasury secretary Tim Geithner between 2010 and 2013, where in the grueling post of undersecretary for international affairs she was a key US figure in discussions over the euro area debt crisis, as well as the broader global fallout from the financial crash

- What gives potency to Ms Brainard's claim to become Treasury secretary is not only her economic experience, but also the helpful absence of a stint on Wall Street on her curriculum vitae

Norway's oil fund warns over lack of IPOs – Pg. 14

- The world's biggest sovereign wealth fund has sounded the alarm about the lack of stock market listings arguing that investors could end up owning companies belonging to the past rather than the future
- Norway's \$880bn oil fund is concerned about the reluctance of companies, particularly in the technology sector, to go public with the number of listed US companies having almost halved in the past 20 years
- The fund is one of the world's largest equity investors, owning on average 1.3% of very listed company in the world and 2.5% of each European stock. ...its allocation to equities from its current level of 60%
- The sovereign wealth fund is increasingly concerned that company boards are overburdened and in danger of losing out to private equity groups in recruiting the best directors

Lobster price on a roll as recipe wins fans – Pg. 18

- Lobster, which has become an affordable luxury over the past few years, may become more expensive as wholesale prices have hit the highest levels in a decade thanks to the rise of burger and lobster chains (Prof Note: Nuth'n beats Surprisers on Nevis. Saturday night, grilled 3lb lobster \$20 USD. You know where I will be Saturday night!!!)
- Lobster prices are now at an 11-year high, with wholesale prices at \$6 a pound....
- The shift in the lobster's position in the seafood market from a costly delicacy to a popular seafood is partly because of a crisis that gripped the US lobster industry
- Demand plummeted after the financial crisis in 2008 while on the supply side, warm waters led to a glut of the crustacean in Maine, on the east coast of the US. The lobster market fell to historical lows, with wholesale prices hitting \$3.70 in 2009

Answer: Polynomial, i.e. has multiple roots

11 October 2016

Question: What are the three measures of linear association?

Ryan abandons Trump in sign of Republicans losing US vote hope – Pg. 1

- Mr Ryan's statement that he would focus on limiting electoral damage in congressional races amounted to a body blow to Mr Trump, who was counting on the debate to stem the flow of party leaders abandoning him following release of a video in which he spoke in lewd terms about groping women
- The first nationwide survey since the video's release, an NBC/Wall Street Journal poll before the debate, gave Hillary Clinton a 46-35 lead among likely voters

- (Prof Note: I am reminded of a quotation from Band of Brothers, i.e. “We salute the rank, not the man!” I just wonder if it is disingenuous to pull support from Trump when he is the party’s nominee. I think I would have more respect if people, rather than pull support, resigned from the Republican party. This is not intended to defend Trump, it is me questioning the best way to distance.)

Berlin’s war on gentrification – Pg. 9

- ...tenants, who make up a staggering 85% of the population – compared with only 35% in Britain
- The aim is to prevent Germany’s capital ending up with the same kind of housing crisis as London
- Councils have reinforced rent controls, banned luxury renovations and kicked out Airbnb. They are also considering huge tax hikes to deter foreign investors
- All over the world, big cities are facing the same dilemma: how to provide enough affordable housing for all their citizens. A wealthy metropolis cannot just be a playground for investment bankers. It also needs nurses, teachers and policemen who can live within easy reach of their workplaces
- Berlin has much more flexibility to pursue policies favouring low-income tenants than London or Paris. It is the poorest of Germany’s big cities and rents have traditionally been lower than in places like Munich and Frankfurt, where pressure on housing is much greater.
- Unlike London, Berlin’s population is lower than it was before the second world war: there is more space for development than in English capital and land prices are lower
- Experts say Berlin must build an additional 25,000 homes every year to keep up with growth in its population. But last year, only 8,000 were constructed, ...
- Berlin has also introduced a “rental brake”, under which the rent set out in a contract with a new tenant cannot exceed the local average by more than 10%

US banks ease off on corporate loans – Pg. 13

- US banks have eased off on a commercial lending push in the face of slowing demand from companies, setting the stage for another mixed batch of earnings from the under-pressure sector
- ...commercial and Industrial (C&I) loans across the industry were flat between July and September compared with the previous quarter
- Commercial loan volumes have emerged as an area of concern for analysts as three of the four largest US banks by assets – JPMorganChase, Citigroup and Wells Fargo – prepare to present third-quarter results on Friday
- Mortgage and consumer lending have remained strong,...

Answer: CoVariance, Coefficient of Determination, Correlation Coefficient

10 October 2016

Question: What variable is different for the equations for Risk in portfolio and single-asset?

Bankers signal alarm over Eurozone lenders – Pg. 2

- Bankers at UBS, Goldman Sachs and elsewhere have sided with the IMF and the ECB in arguing that Eurozone banks need to carry out wide-reaching reforms – such as thinning down, cleaning up their balance sheets and specializing more – rather than blaming problems on low or negative rates
- While US banks – including Goldman – were forced to take government capital after Lehman Brothers collapsed in 2008, some European lenders instead relied on cheap liquidity from their central banks
- The latest wave of panic over Deutsche was triggered by a leak that the US Department of Justice could fine it \$14bn for its role in the scandal over the sale of mortgage-backed securities

At least fifth of European and US workers in ‘gig economy’ – Pg. 2

- Between 20 and 30% of people in the US and Europe are working independently in the so-called “gig economy”
- It also finds that, while most people are happy to be “gigging”, a substantial minority of about 30% are doing it as a last resort
- Poorer households are more likely than richer ones to participate in independent work – and to be doing it for lack of better options
- The debate over the “gig economy’ is complicated by the fact there is no agreed definition of what exactly it is

My pen pals, the jailed white-collar criminals – Pg. 13

- These included Jeffrey Skilling, former chief executive of Enron, jailed for 14 years for his role in the collapse of the energy group, and Allen Stanford, serving a 110-year prison sentence for \$7bn fraud and running an investment firm that was a Ponzi scheme
- One of the major challenges in holding people to account today is the distance, not just physically and psychologically, between the people running companies and those affected by their decisions,

Answer: Single-Asset uses standard deviation and portfolio uses covariance (also note that portfolio considers the weights of each asset as well)

8 October 2016

Question: What is the current unemployment rate in the U.S.?

May warned over ‘hard Brexit’ as pound flash crash highlights fears – Pg. 1

- Relations between the government and business reached a nadir following a series of speeches at the Conservative party conference this week that were strongly critical of UK business, including one by Mrs May herself
- Signals at the conference that the UK would put limits on immigration ahead of remaining part of the EU customs union or single market and Mrs May’s attack on the “international

elite” also prompted warnings from foreign leaders, including German chancellor Angela Merkel, that the EU would take a hard line in Brexit negotiations

- It [currency] recovered to trade at about \$1.24, but remained at its lowest level since May 1985 and saw the biggest intraday drop against the dollar since its 11.1% plunge on June 24 in the wake of the UK’s vote to leave the EU

US jobless rate increase gives boost to Fed doves – Pg. 4

- The US unemployment rate edged up last month even as more Americans returned to the labour force seeking work, supporting arguments by some Federal Reserve policymakers that there is scope for further recovery in the jobs market ahead
- The jobless rate rose to 5% from 4.9% in September, even as employers added 156,000 jobs during the month
- The civilian labour force, which includes people looking for work as well as the employed, grew by 444,000
- As a result, the participation rate rose to 62.9% of the population from 62.8% previously, as Americans are drawn off the sidelines and into the labour force amid strengthened job prospects
- Year-on-Year wage growth ticked higher to 2.6% in September, still well below the rates of more than 3% before the labour market was clobbered by the financial crash
- The Fed is heavily divided over how to read the labour market, which some policymakers arguing that the US is on the cusp of full employment and that the central bank needs to respond by tightening policy to prevent the economy from overheating down the road

Bubbly finance and low inflation cause alarm – Pg. 11

- Bond markets seem oblivious to risk: no matter how long the duration, or how dubious the credit, investors are buying securities with yields that are derisory or negative. House prices in the US are approaching their pre-crisis level. In the UK they are above that level. In Canada they are far above it
- A dozen years ago, the US Federal Reserve found itself in a similar predicament. Alan Greenspan, the celebrated Fed chairman, had cut the short-term borrowing rate to 1% - startlingly low for the pre-2008 era. He had experimented with a radical new tool, pushing down on long-term interest rates by guiding investors to expect a “considerable period” of low short-term ones. As a result of this extraordinary stimulus, house prices and financial markets were heating up. Yet core inflation languished below 1.5%, not far off today’s level
- ...the cyclically adjusted price/earnings ratio developed by the economists John Campbell and Robert Shiller, screams that the US stock market is now as overvalued as it was in 2007
- ...there is too much money chasing too few investment opportunities, and the result is asset-price inflation
- Central banks face an excruciating dilemma. Low growth and low inflation call for stimulus; markets untethered from fundamental value make stimulus seem dangerous; the right judgment will vary from country to country

Basel group warns of call for lenders to ramp up capital – Pg. 12

- Risky lenders may face a “significant” increase in capital in the latest round of bank safety reforms, ...
- The reforms include a contentious “output floor” that would limit banks’ ability to use their own internal models to assess risk. In many cases this will effectively raise the amount of capital that banks have to hold. US regulators are in favour of floors, their European counterparts believe the new rules will unduly disadvantage their lenders, which already suffering from profit stagnation and legacy bad loans

Answer: 5.0%

7 October 2016

Question: What is the world debt level?

Saudi Aramco to publish accounts for first time in run-up to 2018 flotation – Pg. 1

- It is also planning to show investors back-dated accounts in this format for its 2015 and 2016 financial years, which could be released as soon as next year
- The IPO is the cornerstone of prince Mohammed’s plan to cut Saudi Arabia’s reliance on oil by using proceeds from the flotation to diversify the economy. This has become a priority after crude’s price more than halved to about \$50 a barrel
- ...Saudi Aramco pumped 10.2m barrels a day last years – the group has never issued financial statements

Meet the ‘gig’ consultants – Pg. 11

- Defining the independent consulting sector is hard; assessing its size even harder. “Consultant” is a word that is increasingly used by any freelancer – from writers-for-hire to jobbing gardeners – to validate their sometimes precarious existence
- About a fifth of staff at the biggest consultancies leave every years, ...
- Independent consulting also appears more attractive to younger and less experienced workers and business school graduates

Japanese banks boost their US deposits – Pg. 22

- Some of Japan’s largest banks have increased their holdings of US deposits in an effort to offset incoming rules that will limit their ability to raise dollars through short-term debt markets
- Non-US banks are looking for alternative sources of dollar funding as incoming regulations for money market funds (MMF) have reduced outstanding US commercial paper from \$1.1tn this year to \$950bn on September 28
- New money market rules take effect on October 14 and some investors have exited prime funds because they fear being subjected to fees for withdrawing cash or being prevented from redeeming money

Portugal rating at risk as pressures mount – Pg. 24

- Portugal's economy is stuck in a "vicious circle" of high debt, low growth and stalling economic reforms, a rating agency has warned
- A downgrade on October 21 would threaten Lisbon's eligibility for the ECB's quantitative easing programme
- Higher government borrowing costs and a credit squeeze on banks have raised the prospect of another bailout for Lisbon two years after it exited its last one
- Annual growth is set to slow to 1% this year from an earlier estimate of 1.5%, and 1.1% next year...

Answer: \$152tn

6 October 2016

Question: Which U.S. banks contribute to LIBOR?

IMF warns record debt of \$152tn poses threat to global economy – Pg. 1

- The world is \$152tn in the red, a record-breaking level of debt...
- The figure, more than two times the size of the global economy, is the most accurate measure of the world's debt burden even calculated,...
- Levels of borrowing have substantially outpaced global growth in recent years, rising from 200% of GDP in 2002 to 225% last year. While two-thirds of the debt is held by the private sector, government borrowing has also ballooned since the global financial crisis
- Most of the debt is concentrated in the world's richest economies, although China has markedly increased borrowing in recent years

IMF urges 'deep reform' at European banks – Pg. 2

- European banks should carry out "deep rooted reforms" to reduce risks to financial stability rather than focus on problems caused by negative and lower interest rates, ...
- Many German banks are particularly irate at the impact on profits of the ECB's interest rates. The benchmark refinancing rate is at an all-time low of zero and the deposit rate is minus 0.4%, in effect imposing a levy on bank's reserves held at the ECB
- European lenders have absorbed almost all of the cost of negative rates, generally opting not to pass it on to any except their largest customers
- The IMF report said that closing a third of branches would save banks \$18bn, or just over 4% of lenders' costs

Hedge funds – Pg. 9

- ...\$3tn business – are losing faith following years of poor returns and disillusionment with fees
- ...some public pension funds are exiting the sector after the hedge funds mostly failed to match the high returns that had sparked their rapid growth

ICAP's new direction reflects changing future of derivatives – Pg. 20

- Banks transacted interest rates, corporate bonds, currencies and credit deals and hedged their own risks in futures markets. Then the financial crisis struck, spurring a regulatory crackdown from policymakers
- New rules on leverage have made it more expensive for banks to use their balance sheets to hold inventory or trade and finance positions in OTC derivatives markets

Answer: Bank of America, Citibank, and JPMorgan

5 October 2016

Question: What are the two dominant pricing theories for options?

US election and Brexit pose main threat to global growth, warns IMF – Pg. 1

- Political risk in advanced economies has emerged as the biggest threat to the global economy, ...warned yesterday as it lowered its growth forecasts for the US and other rich economies
- The IMF said it now expected the US economy to expand just 1.6% this year while the UK would grow at half the rate in 2017 that it predicted before the June vote to exit the EU. In both cases the fund made clear that politics were weighing on the economies, with uncertainty about the US presidential election contributing to a lag in investment
- The IMF lowered its forecast for advanced economies as a whole to 1.6% growth this year. But it said a rebound in emerging and developing economies – which the IMF now expects to grow 4.2% this year as a group...
- The IMF raised its forecast slightly for US growth this year to 1.8% but said it expected a slide to growth of just 1.1% in 2017, half the 2.2% it predicted in April
- The dimmer outlook for advanced economies came as the IMF said it expected large emerging economies such as Brazil and Russia to come out of recession next year, contributing to the slight increase in its growth forecast for emerging economies as a whole
- China...was managing the economy's rebalancing to a more services and consumption-driven model, with growth expected to be 6.6% this year, slowing to 6.2% in 2017

World Bank arm targets building gap – Pg. 6

- A new lending platform is being created by the World Bank's private sector arm to mobilize billions of dollars of much-needed funds for infrastructure projects in emerging markets
- The International Finance Corporation has an initial \$5bn target for its MCPP (Managed Co-Lending Portfolio Program) Infrastructure Initiative, ...
- Private financing currently accounts for less than a third of the world's total infrastructure spending,...

Investors pull back from real estate – Pg. 16

- Global property investment volumes have fallen for the first time in seven years as investors retreat from mounting international risks

- The reversal after years of rising investment marks a late stage of the property cycle and indicates worries over factors such as Chinese market instability and the UK's exit from the EU,...
- The decline in investment volumes was spread across regions and sectors (Prof Note: This comes at a time when I am personally ramping up physical purchases...)

QE purchases set for post-crisis record – Pg. 22

- Central banks are embarking on the largest quarterly purchase of assets since quantitative easing was introduced after the financial crisis, as policymakers double down on monetary loosening despite growing concern that it has reached its limits
- Central bank governors including Mark Carney of the BoE and the ECB's Mario Draghi insisted that QE has aided economic stability and prevented catastrophe. But others say inflation remains limp and asset purchases have fueled inequality, encouraged profligacy and hit the incomes of those who rely on savings
- The US Federal Reserve concluded its QE operations in 2014, but the BoJ, the BoE and the ECB are still expanding, pushing the collective balance sheet of G4 central banks to more than \$13tn
- Citigroup puts the figure at about 40% of global GDP
- QE has pushed bond prices up – and sent yields to record lows – but Japan and the Eurozone have not recorded the same boost to equities as the US did

Answer: Black-Scholes and Binomial

4 October 2016

Question: In the U.S., what is the total outstanding for student loans?

Polish women strike over plans for full abortion ban – Pg.

- Legislation working its way through Poland's parliament would outlaw all terminations, even in the case of rape, incest or a threat to the mother's health, tightening what are already some of Europe's most restrictive abortion laws
- Moves by the government to take control of national media channels and the public prosecutor, and weaken the country's constitutional court, prompted the EU to launch its first probe into a member state for threatening democracy, and saw S&P cut the country's sovereign's credit rating

ING cuts 5,000 jobs in branch cull – Pg. 13

- Dutch bank ING yesterday announced a significant scaling back of its branch network in Belgium and the Netherlands, with the loss of more than 5,000 jobs, and gave a stark warning of the challenges facing the industry
- The lender said that the equivalent of 3,150 full-time jobs would be lost in Belgium by 2021, close to a third of the total in the country

- The lender, which is based in Amsterdam, is one of the leading retail banking groups in Belgium and the Netherlands and was the fourth-largest Eurozone bank by market capitalization in 2014

Answer: \$1.2tn

3 October 2016

Question: What are the three types of traders?

Global growth 'sliding into the morass' – Pg. 2

- The global economy is faltering again with growth rates "sliding back into the morass", ...
- The Brookings-FT Tiger Index – tracking indices for the global economic recovery – suggests the world economy is still struggling to grow strongly. The index compares many separate indicators of real activity, financial markets and investor confidence with their historical averages for the global economy and for each country separately
- ...signs of an end to recessions in Russia and Brazil, the level of growth remains far below historical averages. Sluggishness continues to haunt advanced economies, which have settled into a pattern of positive but weak growth in recent years
- The IMF is likely to say the world economy is growing at a 3% rate, similar to its average over the past 40 years

World more equal since financial crisis, says report – Pg. 4

- ...twice as many countries seeing declines in inequality as increases,...
- ...the bank also found that fewer people were living in extreme poverty, or on less than \$1.90 per day. In 2013, 767m – or just over one in ten of the world's population – were struggling to survive below the line, down from 881m the year before
- Inequality and its economic consequences have drawn an increasing focus in recent years and are widely believed to have contributed to the rise of populist politicians....
- The consensus has been that the growth over the past 30 years of emerging economies such as Brazil, China and India has led to the biggest decrease in inequality between countries since the Industrial Revolution
- That progress, however, is thought to have come at the cost of an increase in inequality within other countries, particularly in the industrialized world, as competition with new powers like China has hurt workers in the developed world, while the wealthy have benefited from the rising value of financial assets
- The most unequal countries in the world were South Africa and Haiti
- Globally, the world's poor continue to be concentrated in South Asia and sub-Saharan Africa with almost 650m of the 766m people surviving on \$1.90 or less a day living in those regions in 2013
- Of the more than 100m people falling out of poverty between 2012 and 2013, 71m came from east Asia – mainly China and Indonesia – although 30m of that number was attributed to methodological changes in China

US companies set to show sales growth – Pg. 16

- US companies are expected to report revenue growth in the third quarter, breaking a streak of declines that have lasted since the first quarter of 2015, ...
- A return to sales growth would relieve some of the gloom caused by continued falls in profits and the bearish outlook that have contributed to low bond yields
- Rising sales might also raise the risk of renewed inflationary pressures, which at present appear almost totally absent

Five scenarios for Deutsche Bank as it teeters on edge – Pg. 17

- Best settlement scenario
- Dilutive capital raise
- Further asset sales
- Crisis of clients – and confidence
- Government steps in

Answer: Speculator, Arbitrager, and Hedger

1 October 2016

Question: What are the five “Greeks” used for portfolio risk assessment/quantification?

Balance sheet doubts widen Deutsche Bank credibility gap – Pg. 13

- Deutsche Bank has a 35bn (euro) credibility gap. That is the difference between the value of the bank’s tangible assets and its 16bn (euro) market capitalization
- Most analysts and investors blame the bank’s chronically low earnings and a potentially huge fine from the US Department of Justice. But there is another big issue that some experts have been highlighting for years: whether its 1.8tn (euro) balance sheet is worth what Deutsche says
- Concerns about European Bank’s balance sheets are usually over whether they have been understating bad loans. Not so at Deutsche, where loans make up less than a quarter of total assets and those loans are mainly to high-quality borrowers in Germany
- At Germany’s biggest bank, the assets under the microscope are the 985bn (euro) of financial assets largely linked to its markets business – in particular the 28.8bn (euro) that are valued using models that rely on “unobservable” inputs
- These 28.8bn (euro) of so-called “level 3 assets” – and another 10.9bn (euro) of liabilities – are valued in that way because they are illiquid and their particular characteristics mean there are no “observable prices”. The results? “Valuation of level 3 assets is inherently uncertain”...
- All banks have level 3 assets, but Deutsche’s amount to just over half of its tier one capital....this means there is “huge uncertainty about the value of its (Deutsche Bank’s) capital”,
- Those who regard the level 3s as a red herring point out that the valuations methods for these illiquid instruments – which include long-dated interest rate swaps, equity stakes in companies and exotic sovereign debt – are overseen by regulators and auditors

European fund outflows near \$100bn – Pg. 17

- Redemptions from European equity funds have approached \$100bn as investors race out of an asset class rattled by uncertain health of the continent's financial sector
- Anxiety about the European banking system, which has culminated in a rise in short-selling interest in Deutsche Bank, has persisted from the year's start and weighed on the region's nascent recovery
- The European Central Bank has unleashed a wave of stimulus in a bid to rekindle growth and inflation but has been unable to assuage investor concerns
- The fragility of the European financial sector has been seen as an impediment to the Federal Reserve's monetary tightening policy, which has buoyed equity and bond market....
- Overall bond funds added \$9.2bn in the latest week while stock funds took in \$5.6bn, a five-week high

Answer: Delta, Gamma, Theta, Vega, Rho

30 September 2016

Question: What is a Straddle strategy when referring to options?

Hedge fund jitters deepen concern over Deutsche Bank – Pg. 1

- Hedge funds have started to pull some of their business from Deutsche Bank, setting up a potential showdown with German authorities over the future of the country's largest lender
- Deutsche has become the focal point of growing anxiety about the health of Europe's banking system after the US Department of Justice told the bank it was seeking \$14bn for mis-selling mortgage-backed securities

Bankers warn of Saudi pullout from US – Pg. 2

- US legislation that allows families of victims of the 9/11 attacks to sue Saudi Arabia threatens to deter Saudi investment in the US and risks triggering the sale of billions of dollars of assets, ...
- The US Congress on Wednesday voted overwhelmingly to override a presidential veto of legislation that waives claims of foreign immunity for terrorist attacks in the US
- Bankers estimate that most of the Saudi government's and the royal family's assets are held in the US, placing hundreds of billions of dollars at risk of liquidation. The central bank holds an estimated \$170bn in US Treasury bills alone...
- The 9/11 attacks were claimed by al Qaeda and carried out mainly by Saudi nationals. There are lingering suspicions in the US that Saudi government officials gave assistance to the hijackers while they were in the country
- Saudi investors repatriated billions of dollars from the US to the Middle East in the wake of the 9/11 attacks amid fears that their assets would be targeted

Chinese debt starts to whet overseas appetite – Pg. 22

- Foreign fund managers plan to double their investments in renminbi-denominated bonds in the next year, ...
- Investors....said they planned to double their allocation in the next year to about 13% of their local currency portfolios, following moves by China this year to open its bond markets – the world’s third largest behind the US and Japan
- Outstanding onshore bonds are worth about \$7.5tn, roughly the same as the rest of the entire emerging market debt universe,the US bond markets are worth \$35tn and Japan’s \$11tn
- China’s opening of its debt market in May allows international investors to buy onshore bonds under the auspices of a so-called agent bank appointed by the government rather than having to seek approval for an investment quota under a set of rules known as QFII
- Bankers have reported rising interest from fund managers in the relatively high yields in China. Ten-year Chinese government bonds, for example, yield about 2.7%, compared with 1.6% for equivalent US sovereign debt. Japanese and German government bonds offer negative yields

Answer: Combination of a put and call option with the same exercise and time to maturity.

29 September 2016

Question: Which two countries have the highest household debt in Europe (or close to the highest)?

End of an era as Blackberry hangs up phone – Pg. 1

- First it was the Nokia phone. Now it is the end of the Blackberry
- Once the device of choice for bankers, business types - ...as they punched out emails on the move, the “CrackBerry” will soon all but disappear
- Just as Nokia phones tumbled from market leader to oblivion in a few years, BlackBerry sales have slumped since it accounted for a fifth of all smartphones sold in 2008, overwhelmed by Apple, Samsung and other manufacturers

Yellen under pressure over donations to Clinton campaign by Fed governor – Pg. 1

- The Fed chair was challenged by Scott Garrett, a Republican congressman from New Jersey, over donations that Fed governor Lael Brainard has made to the Clinton campaign and over unconfirmed reports that Ms Brainard was a contender for a senior job in a potential Clinton administration
- Mr Yellen has denied the Fed is doing anything to suit the White House’s political objectives
- Pressed on \$2,700 in donations that Ms Brainard has made to Mrs Clinton’s campaign, the maximum permitted for individual contributions in an election cycle, Ms Yellen noted the Hatch Act governing political activity does not prohibit donations by Fed governors

Diamonds – Pg. 9

- Global sales of diamond jewellery fell in 2015 for the first time in six years, declining 2% to \$79bn. Sales of rough diamonds fell 30%. De Beers’ revenues fell by one-third and operating profits fell by more than half

- Diamonds are marketed on the idea that they will forever represent a pinnacle of luxury and materialist desire
- One concern is whether a younger generation of millennials will have the same allegiance to the products as their parents and grandparents – an allure honed by decades of marketing
- Another challenge is from synthetic or lab-grown diamonds – chemically identical to a mined diamond but created to order in weeks. Still with a minor market share, they pose multiple potential threats to the industry, as a cheaper alternative for ethically minded consumers or an imitation that erodes trust in “real” stones
- Last year the company [De Beers] that enjoyed a 90% share of the market in the 1980s supplied just 31% of global rough diamonds
- ...Botswana, ...the world’s largest diamond producer after Russia....
- The “midstream” of the diamond industry – dealers, cutters and polishers who sit between the miners and the jewellery retailers – is the most financially fragile part of the trade, especially since the global financial crisis of 2008. Margins have shrunk and banks have shunned the diamond trade, unwilling to shoulder what they perceive as its risk and lack of transparency
- Marketing – or the lack of it – has been another source of concern within the diamond sector
- “Millennials are more interested in [ethical sourcing] than their parents were...”

Swedish krona’s downward momentum gives central bank easing difficulties – Pg. 20

- Sweden’s krona has reached an unsustainably low level that will force the country’s central bank to confront a realization that is dawning on others about the limitations of monetary easing...
- It has decline 4.7% against the euro and by 1.6% versus the dollar
- Sweden’s central bank, the Riksbank, has long sought a competitive krona to support its export-driven economy and meet its inflation target of 2%
- That has sent interest rates into negative territory to help achieve those goals
- ...GDP hitting 3.4% in the second quarter
- Inflation began moving up in November, having been stuck at about the zero mark for three years, and has now nudged up to 1.1%
- The danger for Sweden, however – and one that Norway shares – is the impact of low interest rates on house-hold debt, which are among the highest in Europe

Answer: Sweden and Norway

28 September 2016

Question: What is the difference between the Sharpe and Treynor efficiency metrics?

Markets see Clinton as debate victor – Pg. 1

- Currency markets joined most pundits in indicating they believed the Democratic candidate had won, driving up the Mexican peso. The peso has moved with Mr Trump’s performance, falling when the Republican does well in the polls

- Mr Trump claimed the debate went better than we expected but he criticized the moderator and complained about a defective mic

Alerts sounded on global deflation and fall in trade – Pg. 5

- The world economy is at risk of slipping into a deflation trap and faces a historic drop in global trade that should serve as a wake-up call for governments around the world,
- The IMF warned yesterday that a “broad-based phenomenon” of low inflation, fed by a collapse in commodity prices and faltering demand, risked deteriorating into a full-blow deflation trap, particularly in advanced economies
- Governments needed to join central banks, which were increasingly seen to be running out of options, to do more to boost growth and raise incomes...
- The trend was particularly worrying in the context of an increase in protectionism and anti-globalization rhetoric seen in the US and around the world, ...
- The twin warnings highlight mounting concerns over the world economy’s slow recovery from the 2008 crisis and the tepid response by policymakers
- International institutions are increasingly worried about the potential impact on a fragile global economy of the rise of populist politicians...
- They are equally frustrated by what they see as the failure of many governments to take tough decisions and their continuing overreliance on central banks and monetary policy to respond to slow growth
- Alongside the warning on inflation, the IMF called for governments to target stagnant wages and adopt policies such as raising the minimum wage to boost incomes
- The IMF also commented on the slowdown in world trade, blaming it largely on a collapse in investment and general weakness in the global economy
- The IMF has forecast global growth of 3.1% this year, although that may be revised downwards when it releases new forecasts next week

Beijing moves to calm property market frenzy – Pg. 5

- China is trying to cool overheated property markets in the country’s largest cities, launching stringent measures at local level to damp sales – even punishing overzealous estate agents
- Local governments are also trying to put a lid on a boom in home purchases resulting from earlier attempts to ease inventory by lowering downpayment requirements and transaction taxes
- The government is also targeting estate agents who are considered to be “hyping” the market by creating a false sense of urgency, often telling buyers to snap up deals immediately or lose out
- Several Shanghai estate agents were arrested this month for prompting a spate of divorces in the city by telling residents unmarried couples would be exempt from higher downpayment requirements

Debt securitization engine starts to roar – Pg. 18

- ...banks prepare to structure and sell a spate of bonds backed by consumer loans before the Federal Reserve meets and Americans head to the polls – two events that investors worry may unsettle markets

- Issuers, seeking to take advantage of the global search for yield as volatility remains muted, are readying a series of collateralized loan obligations – the so-called structured products that are made up of bundles of riskier leveraged loans
- Sales of securitized products have been accelerating
- ...traders and investors now bet the US central bank will lift rates at its final meeting of 2016

Answer: Sharpe quantifies risk using standard deviation and Treynor quantifies risk as beta.

27 September 2016

Question: What is IRR?

Fed on the ropes as Yellen seeks to counter Trump's body blows – Pg. 3

- He [Trump] would not reappoint Ms Yellen if he became president, even though the past three Fed Chairs have had their tenures renewed by a president from the opposite party that appointed them
- Tirades from Mr Trump and Republican lawmakers could also make it more difficult for the central bank to obtain political support for the use of new tools to fight future downturns - ...
- The rise of populists such as Mr Trump has come at a time when trust in institutions and experts has been ebbing among some sections of the public. This will make like only more difficult for technocratic and somewhat mysterious institutions such as the Fed

Standard Life lifts ban on property fund withdrawals – Pg. 16

- ...reversing the Scottish investment group's controversial decision in July to suspend withdrawals in an attempt to prevent a run on the fund
- The Edinburgh-based fund house, which suspended withdrawals as concerns mounted about UK property valuations after Britain's vote to leave the EU, said the decision to reopen the fund reflected the fact that the "commercial real estate market has stabilized"
- Standard Life will permit investors to sell out of the UK's third-largest property fund from October 17, ...
- Rapid sales of buildings by some funds after the referendum vote triggered sales at discounts as high as 15% to asking prices. But across the market, property prices have not fallen as much as some investors had feared
- Average commercial property prices fell about 5% between UK's Leave vote on June 23 and the end of August, while levels of transactions remained low, ...

Answer: The discount rate when setting NPV equal to zero.

26 September 2016

Question: Assuming a normal distribution, what percentage of the area is between +/- 2 standard deviations from the central location?

City of London fears May government is shifting towards 'hard' exit from EU – Pg. 1

- Senior financiers are alarmed at growing political momentum in the UK behind a so-called "hard Brexit" that they fear will erode business confidence, trigger corporate departures and damage the City of London
- "The danger of hard talk now is that it increases uncertainty, reduces confidence and will result in businesses triggering their exit plans from the UK, "...

Europe's shorter courses dent US MBA applications – Pg. 13

- The two-year MBA remains the most popular masters level degree course in the US. But applications are under pressure in 2016, ...
- For the first time since 2012, fewer than half of all full-time two-year MBA courses globally experienced a growth in applications
- ...US, where only 40% of schools reported a rise in applications for their two-year MBA programmes, compared with 43% worldwide. More than half of US schools, 53%, reported a decline
- There is a sense of a flight to quality
- The prejudice against lower-ranked schools was highlighted by a Financial Times reader, who wrote in response to our coverage of the GMAC data, that "nobody wants to go to a no-name programme in the middle of nowhere"
- While some US business schools are struggling, many of their European counterparts, which offer 12-month courses for the same qualification, are seeing more applicants
- Shorter courses mean that European qualification tend to be cheaper than a typical American MBA....

Insurers set to sit on cash as low rates prevail – Pg. 16

- Insurers expect to sit on more cash over the next year as they struggle to find attractive opportunities for their money
- Low interest rates are posing big challenges for the insurance industry. They push down returns on their investment portfolios and, for the life insurers, make it hard to offer products with attractive guaranteed returns
- Their response has been to increase risk – and hence expected return – in their portfolios wherever possible, and that looks set to continue
- The question of where the insurers will find that additional risk is challenging, given the increase in asset prices everywhere

Answer: 95%

24 September 2016

Question: What does an inverted yield curve say about the economy?

Brexit poses tough questions for investors – Pg. 15

- What does a weaker pound mean for the UK Economy?

- So far, a 15% decline on a trade-weighted basis for the pound since the vote on June 23 has brought lots of tourists into the UK (Prof Note: Including ME!)
- What role will markets play when negotiators start to joust?
 - The lessons of Greece, via years of deadlines, deals and bailouts, may be that market alarm is needed to force agreement on contentious issues
- How would a fiscal response change assumptions about markets?
 - Fiscal stimulus, if it works, would send bond prices tumbling and yields higher. Any boost to inflation and growth should lead investors to demand more compensation for handing their money to the government when higher returns are available elsewhere
- When do banks have to start making decisions about London?
 - Banks, exchanges and providers of trading infrastructure are among the biggest beneficiaries of so-called passporting arrangements, which allow them to offer services to the whole of EU from one country

Answer: The future is bleak and there is not much opportunity. Not much long-term investment, i.e. demand for long-term money.

23 September 2016

Question: What are the three measures of linear association?

Doves ascendant in Yellen's Federal Reserve – Pg. 4

- The decision means that, having forecast four rate increases this year, when they met last December, and two when they met in June, US policymakers are now likely to deliver a single move, in the final month of the year
- The decision represents a victory for doves including Fed governor Lael Brainard who have consistently argued against pre-emptive moves to quell inflation when they see little evidence of its stirring
- The rate of unemployment is 4.9%, no lower than it was at the start of the year. Given the steady pace of hiring during that period, with an average 180,000 people being taken on by employers each month, it seems more people are being pulled off the sidelines and into the active labour market
- The Fed only has limited scope to loosen policy if there is a fresh downturn
- Not much tightening is going to be needed from here: the Fed's forecasts, the so-called dot plot, imply only one quarter-point rate increase this year, two in 2017, and three in both 2018 and 2019. In the latest of a series of cuts, the median estimate of the fed funds rate in the longer run has been trimmed to 2.9% from 3%
- It looks like 2016 will end on a hawkish note at the Fed with a second rate increase. But it is the doves who are winning the longer-term war

US investment banks take top 5 slots in league table – Pg. 16

- US banks have achieved a clean sweep of the top five places in global investment banking for the first time in at least six years after Deutsche Bank retreated to sixth place in the league tables
- Morgan Stanley's accession to fifth place markets the first time that US banks have monopolized the league tables since Coalition began the series in 2011, and highlights the American dominance of investment banking that emerged after the financial crisis

Answer: Correlation Coefficient, Covariance, Coefficient of Determination

22 September 2016

Question: What are the three measures of efficiency?

Deeply split Fed holds rates but signals rise likely before year's end – Pg. 1

- Three of the US central bank's 10 policymakers voted for an immediate rise. But the Fed said that for the time being it wanted to keep policy on hold as it waits for further evidence of progress towards its objectives. It left the target range for the federal funds rate at 0.25% to 0.5%
- Overseas hazards have tended to be the cause of delay, among them uncertainties over Chinese foreign exchange policies and the UK's vote to leave the EU
- The BoJ set a cap on 10-year bond yields and vowed to overshoot its 2% inflation target as it seeks to escape from its low-inflation rut
- The Fed's next meeting is just days before the November 8 election, making it a difficult moment to change policy
- Its final meeting of the year is on December 13-14
- Fed forecasts in December 2015 pointed to four increases this year. The median of Fed forecasts yesterday pointed to just one increase this year, with the year-end prediction for the target range centred on 0.625%
- The Fed's new interest rate projection for 2017 left rates centred at 1.125%. The median forecast was at 1.875% in 2018 and 2.625% for 2019

BoJ's new monetary tool signals determination to beat inflation – Pg. 3

- The BoJ has launched a new kind of monetary easing as it set a cap on 10-year bond yields and vowed to overshoot its 2% inflation target on purpose
- ...central bankers are still willing to experiment with monetary policy tools as they struggle to escape from low inflation around the world
- The BoJ kept interest rates on hold at minus 0.1% - describing further rate cuts as "possible option for additional easing" – but announced a framework with two main elements
- The first is a promise to cap 10-year government bond yields at zero per cent. ...that means the BoJ is promising to buy any bonds offered for sale at that price
- Second, the BoJ has pledged to continue buying assets until inflation "exceeds the price stability target of 2% and stays above the target in a stable manner"

- If the pledge is credible then it should raise public expectations of the price level in the future. That, in turn, should lower real interest rates and stimulate the economy because loans will be paid back in a devalued currency

Bank of China sets up New York branch – Pg. 20

- China's central bank has designated an official renminbi clearing and settlement bank for New York City, filling in the final significant gap in a network of offshore institutions designed to promote greater international use of the Chinese currency
- Bank of China's New York unit is the largest Chinese branch of a foreign bank in the US with more than \$50bn in assets and settlements of international payments equivalent to a quarter of all US-China trade, ...
- Designated renminbi clearing banks facilitate offshore renminbi trading and cross-border payments because they have special access to China's onshore foreign exchange market, enabling them to provide liquidity to offshore centres
- Renminbi deposits in Hong Kong, the leading offshore centre, hit a three-year low in July. The currency also dropped below the Canadian dollar to sixth place in a global ranking of currencies used for cross-border payments in the first half of 2016

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

21 September 2016

Question: What percentage of Americans live paycheck to paycheck?

Wells chief savaged in Congress over fake accounts – Pg. 1

- Democratic senator Elizabeth Warren told Mr Stumpf he should be "criminally investigated" and castigated him for not resigning or returning "one nickel" of his multimillion dollar annual pay
- "Your definition of accountable is to push the blame to your low-level employees who don't have the money for a fancy PR firm to defend themselves. It's gutless leadership" ... "the only way that Wall Street will change is if executives face jail time when they preside over massive frauds" (Prof Note: One thing I have learned in my years, justice is absolutely for sale. It is less about the truth and more about who can afford the best lawyer(s)! Hence why white collar crimes are so rarely successfully prosecuted.)

Growing black hole in US pensions sparks crisis fear – Pg. 2

- The modern US pension system was largely built when people tended to work in one job or company their entire lives. But a mish-mash of unemployment, part-time employment or self-employment is now the norm,
- Worse, many Americans have no retirement savings at all, setting the stage for social crisis as they retire in near penury
- ...nearly 40m working-age households – 45% of the total – had no retirement savings whatsoever in 2013, whether an employer-sponsored 401(k) plan or an individual retirement account (IRA)

- ...the real brewing US retirement crisis is the number of people who have no nest egg at all...
- Households with a retirement account have a median income of \$86,235, while those without one have a median income of \$35,509, ...
- Social Security is a federal system originally set up by President Franklin Delano Roosevelt in 1935, and financed through payroll taxes. Together with the Supplement Security Income programme it accounts for more than 90% of the income for the bottom quarter of pensioners,...
- When it was set up, retirees would have to be supported for less than 13 years on average...these days the average American can expect to draw Social Security for almost two decades, and unlike traditional public sector pension plans it operates on a pay-as-you-go basis

Federal Reserve – Pg. 2

- Markets place odds on rate rise at less than one in five

Fed funds v Libor: under pressure – Pg. 12

- Everyone who is even casually attuned to the market will be watching the US Fed decision today
- ...in October, new money market fund regulations go into effect. Under the regulations, money market funds serving institutional investors – excepting those that invest only in government securities – will be required to ‘float’ their net asset value, rather than have it fixed at \$1. They may have to follow rules preventing investors from pulling out money all at once, or impose redemption fees. The change is intended to prevent funds “breaking the buck” unexpectedly. This happened during the crisis and investors lost some of their principal
- In the US, roughly a fifth of household debt and 30% of business loans are linked to Libor – a total of \$28tn. By contrast, overnight bank lending linked to fed funds is roughly \$60bn every day

US move propels Puerto Rico to top of debt tables – Pg. 20

- It has been more than a year since Puerto Rico first defaulted on its obligations
- ...Puerto Rican debt has proved among the best performing within the \$3.7tn municipal bond market
- The island’s paper has been lifted by the appointment of an oversight board by US President...that will have sign-off over its restructuring plans and future budgets as a part of emergency legislation that set out a path for the commonwealth to reduced its obligations
- Investment grade bonds issued by Puerto Rico, worth roughly \$8bn, have returned more than 10% this year,....

Answer: 36%

20 September 2016

Question: What is the notional amount of global contracts pegged to Libor?

Bundesbank denies QE has widened inequality – Pg. 2

- ...dismissing as unsubstantiated the charge that negative interest rates and huge asset purchases have widened the gap between rich and poor
- The German central bank's latest findings are largely a response to academics and non-governmental organizations, which claimed that policies such as quantitative easing had contributed to inequality by raising asset prices, thereby disproportionately favouring the well-off
- ...also said regular interest rate cuts might have even led to a slight decrease in income inequality, while acknowledging that the impact of this over recent decades had been "rather insignificant"
- QE has been the driving force behind surging prices for government and corporate bonds and has also supported equity prices. The policy works by forcing investors to take on more risk as central bankers buy their safer assets from them
- Unemployment in the Eurozone remains in double figures, but has fallen since the ECB unveiled its QE programme towards the start of 2015

Fed's mixed signals keep rate watchers guessing – Pg. 18

- Thanks to recent market turmoil and lacklustre US retail and services data, interest rate futures only gauge the odds of tighter policy at below 20%
- Should the Fed defy market consensus, it risks arousing turmoil at a time when investors are already nervous about the direction of the bond-buying programmes of the ECB and the BoJ
- Some investors point to the continuing rise in the LIBOR, an important gauge of bank borrowing costs. Libor also sets a floor for trillions of dollars worth of loans and mortgages and has climbed steadily since before summary because of reforms unfolding in the US money market fund industry

Answer: \$350tn

19 September 2016

Question: What are the three measures of linear association?

Slump in US imports threatens to derail emerging market growth – Pg. 1

- Demand for emerging markets exports has hit a new post-crisis low, with US imports from China dropping sharply in July in the latest sign that the engine of growth for the world's developing economies is sputtering
- ...US merchandise imports from China, the vast majority of which are manufactured goods, have been contracting in value terms since March and in volume since April
- The downturn in US demand was particularly sharp in July, when imports from China fell 3.5% in value and 1.6% in volume on a rolling 12-month basis,...
- In value terms, US imports from emerging markets as a whole excluding China have been declining since January 2013,...

- It is a similar story in the EU, the emerging world's other main source of export demand, although European imports from EMs returned to growth in 2014 before contracting again last year

Central banks hold sway over markets, warns BIS economist – Pg. 3

- Markets are highly dependent on central bank behavior, ...pointing to concerns about volatile prices that have intensified in recent weeks
- The BIS is dubbed the central bankers' bank because monetary authorities hold accounts there
- The past few years have witnessed an unprecedented period of loose monetary policy across the developed world, with central banks maintaining low – and in some cases negative – interest rates. Central banks' assets buying programmes have also pushed up the price of bonds
- Bond prices fell and yields jumped this month after the ECB failed to give any clearer guidance on extending their asset purchase programme and amid fears the BoJ might scale back its stimulus policies

Wells Fargo scandal turns attention to pay – Pg. 18

- The head of a \$4bn bank says he is reviewing pay for rank-and-file workers in the wake of the sham accounts scandal at Wells Fargo, and called on the rest of the industry to do the same
- Wells, the world's most valuable bank until the scandal erupted, has lost \$23bn of its market capitalization after regulators said employees signed up as many as 2m customers for accounts and credit cards without their knowledge

Answer: (1) Covariance, (2) Correlation Coefficient, and (3) Coefficient of Determination

17 September 2016

Question: Why is cash listed first in the Assets Section of a Balance Sheet?

Still the economy, stupid? – Pg. 9

- Median household income adjusted for inflation – a proxy for middle-class incomes – leapt more than 5% in 2015
- ...since Barack Obama took office in 2009...businesses have added more than 15m jobs since 2010, house prices have bounced back and the stock market is near record highs. But incomes have remained moribund and headlines have been dominated by the decline of the American middle class
- Even after the jump in 2015, real median household income has yet to return to the levels of the year before the recession, and remains 2.4% below the 1999 peak...More men...real median earnings are lower than they were in the early 1970s...
- The robust income gains of 2015 are also likely to prove unsustainable, given feeble potential GDP growth

- With productivity sliding for three quarters in a row, the US lacks the economic vigour to sustain rapidly rising earnings over a long period
- ...bottom 95% of households still bringing in incomes below those in 2007,...
- Only 11 states and the District of Columbia have median household incomes higher in 2015 than in 2007

Deutsche bonds fall after \$14bn claim – Pg. 15

- Deutsche Bank's riskiest bonds fell yesterday after it emerged that Germany's biggest lender faces a \$14bn claim from US authorities to settle allegations of mis-selling mortgages
- The claim from the US Department of Justice sent the price on Deutsche's 1.75bn (euro) coco bond down 6.2% to trade at 78% on the euro
- Also known as additional tier one capital, coco bonds take losses when institutions run into trouble and are designed to transfer the risk of a bank failure from taxpayers to investors
- Investors are paying close attention to the impact of any eventual settlement with US authorities on Deutsche Bank's capital levels. Banks stop making interest payments on coco bonds when their capital level falls to a certain threshold, and the bonds are written down at a lower "trigger"

Muni borrowing costs jump as reforms loom – Pg. 15

- US local governments are facing a jump in short-term borrowing costs in the latest example of how the reform of Wall Street's \$2.7tn money market industry is rippling through the financial system
- A key interest rate used to set the coupon payments on some short-dated municipal debt has moved up from effectively zero in May to 70bps this week

Answer: Cash is most liquid

16 September 2016

Question: What is the source of Financial Statement field with SEC about annual information?

More than 90% of actively managed US funds fail to beat their benchmarks – Pg. 1

- Money has been draining from actively managed funds to index-trackers at an accelerating pace this year
- There was not a single category of domestic fund – whether investing in large-caps, small-caps or a combination, or favouring growth stocks or value stocks – in which more than a quarter of managers succeeded in beating their category benchmark

Kim's second World Bank term prompts fears over legitimacy – Pg. 7

- Jim Yong Kim is heading for another five-year term as president of the World Bank after no other candidates emerged during a hurried nomination process (Prof Note: Did they not see my application?!)

- ...argue that the lack of other candidates is a symptom of how many big emerging economies such as China are turning away from the Washington-based lender to focus on their own new institutions
- A medical doctor and anthropologist by training plucked from the prestigious Dartmouth College by Mr Obama in 2012, Mr Kim has drawn criticism for pushing through a vast restructuring of the bank that has caused years of turmoil and questions about whether it has delivered a promised \$400m in cost savings
- Mr Kim was the only nominee put forward for the World Bank's presidency by the end of a three-week nomination period that closed on Wednesday (Prof Note: This is outrageous! I was assured that my name was put forward by SEVERAL countries!)

Stimulus fears drag \$1tn of bonds back to positive yields – Pg. 13

- The value of debt trading with a yield below zero has fallen to \$12.6tn in the past week,
- German 10-year Bunds, have been dragged into positive territory for the first time since July, with the yields rising to 0.04%, alongside a climb in yields in the US and Japan. Yields rise as bond prices fall
- Debt sold by weaker Eurozone economies, the so-called periphery, have been among the hardest hit as investors reposition.
- Euro-denominated corporate bonds were also caught up in the recent market decline; roughly \$731m now trade in negative territory, down from \$916m on September 6, ...
- A string of lacklustre US economic reports this week have prompted investors to scale back expectations of a rate rise this month

Real estate finds a new home on US indices – Pg. 20

- Today the US stock market will add a new sector for the first time since 1999. It is arguably long overdue
- Real Estate, which has shared a room with the financial sector ever since the inception of Global Industry Classification Standard (Gics) – considered the de facto equity classification system by asset managers – is set to become the 11th major industry segment on the S&P Dow Jones Indices at the end of the week
- There have long been calls for a divorce between real estate and financial stocks. The former now represents 3% of the S&P500's market valuation, making it as important as the utilities, telecoms and materials sectors
- The newly minted sector will include real estate investment trusts (Reits) – which deliver any additional income to shareholders within a tax-efficient structure – and real estate management and development companies, as a standalone sector
- Reits are required to pay out 90% of their income as dividends and have only appeared on the S&P500 since 2001
- The real estate sector offers a dividend yield of 3.2%, compared with 2.16% for the broader S&P 500. In a year when the BoJ and the ECB are pursuing negative interest rate policies, that yield has driven money into exchange traded funds that track Reits
- The sector has also helped by robust demand for apartments and higher rental rates, as millennials have been slow to buy homes

Answer: 10K

15 September 2016

Question: What was the rise in median household income (MHI) last year?

Gilt complexities – Pg. 7

- The UK government revived a centuries-old tradition earlier this year when it convened a meeting of the Commissioners for the Reduction of the National Debt for the first time since 1860
- The job of selling British debt – one of the oldest securities in the world whose roots can be traced back to King William III's desire to fund a war in France – should be relatively straightforward
- And the BoE's decision to restart a bond-buying programme worth an additional 70bn (sterling) and cut interest rates to 0.25% - the lowest in its 322-year history – following the referendum led investors to reprice government bonds, known as gilts, at new highs this summer
- At the same time, with central banks in Europe and Japan engaged in monetary easing and the US hesitant over any further rate rise, there has been a rush to bonds that has given gilt investors double-digit total returns in the first eight months of the year,...
- As rising prices mean lower yields, the rally has provided record-low borrowing costs for the government. In September 2007, the UK's 10-year borrowing rate was 5%. Not it is less than 1%
- Overseas ownership of gilts jumped from a quarter of the total market to a third as the UK began issuing shorter-dated bonds preferred by foreign banks and treasuries. There is no breakdown of foreign ownership of UK debt but China is thought to be among the biggest buyers
- At the start of the year, the UK's gilt market and the DMO faced a rare problem. For the first time since the Eurozone crisis, officials announced that a government bond sale ran the risk of failing after a debt issue generated investors bids equivalent to 1.07 times the amount sold – barely enough to cover the auction
- A single failed gilt auction would not be catastrophic to government funding plans but it would mean there was "grit in the machine",...

Easing nerves over rate policy and Apple surge help US stocks rally – Pg. 19

- Calmer conditions prevailed in the world markets following the volatility of the past few days, as falling US Treasury yields appeared to suggest an easing of nerves about the outlook for Federal Reserve policy
- Equity indices on both sides of the Atlantic recovered a small part of their recent heavy losses, even as oil prices swung violently following the release of the latest US crude inventories data

Answer: 5.2%

14 September 2016

Question: What is the world's most valuable bank by market capitalization?

Surge in US incomes defies dark rhetoric of presidential contest – Pg. 1

- Household incomes surged last year in the US, suggesting middle class fortunes are improving in defiance of the dark rhetoric that has dominated the presidential campaign
- Real median household income rose 5.2% between 2014 and 2015, the first gain since 2007, pushing it to \$56,516, ...
- It was the first time that inflation-adjusted growth exceeded 5% since records began in 1967. The increase was fueled by a strengthening labour market and higher wages, coupled with persistently subdued inflation
- ...the longest streak of jobs growth on record, which has seen businesses add 15.1m jobs since 2010, has started to pay dividends for households
- But the increase in 2015 still brought incomes to just 1.6% below the levels in the year before the recession. They remain 2.4% below the peak in 1999
- ...the number of people in poverty fell 3.5m during the year, lowering the poverty rate to 13.5%

Yellen pressed for clarity as Fed meets on rates – Pg. 4

- The final two public messages from the Fed's powerful board of governors in recent days have come from doves – Lael Brainard and Daniel Tarullo – who both suggested that inflation remained too muted to merit a move
- Complicating that communications job is the possibility that the Fed's longer-term forecasts for interest rates are cut yet again on Wednesday next week – even as the central bank seeks to keep alive the possibility of a near-term rate rise
- ...Fed policymakers have been coming round to the view that the US economy may be stuck in a slow-growth, low inflation paradigm that will last longer than they thought

US economy – Pg. 9

- For a \$500,000 investment in a project that creates at least 10 jobs in a high-unemployment area, a foreign national can eventually receive a green card that allows him or her to live and work permanently in the US
- Miami...is using the EB-5 programme as a tool to attract cash from China
- Miami's embrace of the EB-5 is not without controversy. Critics say it is rife with fraud and used to launder money. Canada ditched a similar programme while Australia tightened its requirements after finding there was little economic benefit
- The EB-5 programme was created in 1990 as part of the Immigration Act to spur the US economy and promote job growth. Since then it has brought in \$15.5bn in investments and created 84,400 jobs, ...
- Applicants need to lend \$1m to a job-creating business or \$500,000 if the project is in an economically depressed area. After roughly five years the investor receives a green card and, if they are lucky, their money back with a profit

- The US programme sputtered along largely unused until the 2008 global financial crisis made it harder for real estate developers to obtain financing
- Canada's 2014 decision to close its programme, which had been extremely popular with wealthy Chinese, also gave the US version a boost
- The US scheme is capped at 10,000 visas annually, which it hit for the first time in 2014
- Chinese investors are by far the biggest users, accounting for 86% of the visas issued last year

Answer: JPMorgan....Wells has fallen...wonder why?!

13 September 2016

Question: What are the two basic types of probability distributions?

Rate-rise prospects fade further as Fed policymaker urges caution – Pg. 1

- Amid fevered speculation about the US central bank's policy meeting next week, which on Friday helped trigger the worst bout of market turmoil since the Brexit vote, ...
- ...doggedly below-target inflation, risks from overseas and a limited arsenal to counter future economic setbacks
- The Fed would run the risk of provoking a sharp market reaction if it surprised investors by moving next week
- ...inflation's persistently below-target level, and the possibility that the relationship between strong hiring and inflation has weakened
- In addition, indicators such as the depressed rate of labour-force participation among prime-age people and low wage growth meant the Fed should be "open to the possibility of material further progress in the labour market", suggesting its officials should not do anything to get in the way

Trump claims Fed chair is 'doing what Obama wants' over low rates – Pg. 2

- Janet Yellen, Fed chair, was "obviously political and she is doing what Obama wants her to do". He predicted stocks would slide when the rates finally rose
- Shares in Europe tumbled yesterday as investors debated how much more appetite central banks around the world had to stimulate their economies
- Savers were being hit by the policy, Mr. Trump went on. "The ones that did it right – they saved their money, they cut down on their mortgages....now they're practically getting zero interest on the money that they worked so hard for"
- Ms Yellen's four-year term expires in February 2018. She said in June that the central bank did not take politics into account when it set rates after she was asked if the presidential election affected monetary policy

Incomes study tears up 'elephant chart' – Pg. 6

- The idea that ordinary people have been unfairly hit by the rise of emerging markets and China over the past 30 years and the income gains of the global super-rich was propagated

by the “elephant chart”, which was devised by the economist Branko Milanovic, a former senior official at the World Bank

- His update also demonstrated the world’s wealthy took a big hit in the global financial crisis, which had actually served to narrow inequality
- The Resolution Foundation found that faster population growth in emerging markets made it difficult to compare incomes to lower middle classes over time because their position in global income rankings
- The Resolution Foundation’s analysis suggests that the fate of lower middle classes incomes differed really country by country and the rich world’s lower middle classes have not fared badly

Answer: Discrete and Continuous

12 September 2016

Question: A documentary about what great man just won a regional award?

Hong Kong loses its status as the great mall of China – Pg. 6

- Retail sales in the territory fell by 10% in the first seven months of the year, compared with the same period in 2015, with purchases of jewelry and watches declining by 22%
- Ahead of Hong Kong’s annual watch fair which ended last week, the Chinese territory was overtaken by the US as the world’s biggest market for Swiss watches after eight years in the top spot
- Part of the problem for Hong Kong, which relies on the retail sector as a key economic driver, is its increasingly testy relationship with mainland china. That has deterred many Chinese visitors, with numbers falling by 9% year-on-year to 24m in the year to July

Comfort zone – Pg. 15

- ...Wall Street economists that show more than 85% expect it to hold fire [Federal Reserve]
- Conviction that Fed policymakers, who in January were projecting four rate rises this year, will tighten policy has been drained by a run of mixed US economic data, including slower jobs growth in August and signs that the services sector has lost momentum
- Interest-rate futures suggest a 30% probability that the Fed will move this month, a gauge of trader expectations that historically has been more skeptical than economists of the Fed’s appetite to raise rates

Fake accounts put focus on Wells Fargo culture – Pg. 16

- In the space of about five years, the number of employees by Wells Fargo for opening phantom accounts and making unauthorized money transfers would have been enough to staff the 16th biggest US bank by assets
- As they strained to meet aggressive sales targets, Wells staff signed up as many as 2m customers across the US for new accounts and credit cards without them knowing anything about it,...
- The bank has been fined \$185m....

- The financial hit will barely be noticeable to shareholders in a bank that is forecast to produce \$20.6bn in net profits this year
- The episode casts an unfavourable light on how the bank has produced peer-beating returns gaining it a premium valuation on the stock market
- Cross-selling – convincing customers to take out several products....
- Wells said the total employees it had fired represented about 1% of its branch workforce over the period, given staff turnover
- Shares in Wells hardly budged when the regulators made their findings public on Thursday (Prof Note: ...again...no accountability!!!)

Passive seizes third of US market – Pg. FTfm1

- The pressure exerted on active fund managers by the fast-growing passive investment industry has intensified, with index-tracking funds increasing their share of assets in the US by \$2tn since 2013
- Active funds, by contrast, has seen their hold on the US investment industry decline steadily since 2013, despite total assets rising 14% to \$9.8tn over that period

Answer: Bill Hudnut! Link below...

<http://www.wfyi.org/programs/bill-hudnut-twilight-reflections-evening-meditations/television/bill-hudnut-reflections-and-meditations>

Wells Fargo Comments: Whoa...people were surprised I said little on this subject. Well, my largest issue is how many Senior Executives will be terminated??? Also, they fired 5,300 employees and are setting aside monies for clients. However, what about the honest employees with integrity that lost their positions? How are they being compensated? What have we learned, i.e. “Be better fraudsters and do not get caught”?! “Free”dom is not ‘Free’. Ethics do not come without a cost. More senior executives need to be held accountable. How were people suppose to act given how they were incentivized? I want a list of names of persons earning greater than \$200,000 who are being fired WITHOUT a separation package and cushy parachute!!!

10 September 2016

Question: What type of distribution describes Internal Rate of Return (IRR)?

VW engineer’s fraud plea in emissions scandal opens door to further charges – Pg. 1

- James Liang, a VW employee for 25 years, pleaded guilty to conspiring to defraud US customers and regulators and agreed to co-operate with federal prosecutors investigating the carmaker’s conduct
- Mr Liang personally participated in a VW conspiracy to outwit US emissions rules governing 500,000 VW diesel 2.0 litre passenger cars, ...
- When VW recalled half a million cars in early 2015 to “fix” the emissions problem, Mr Liang allegedly knew the recall would not work

Fed governors differ over interest rate rise – Pg. 4

- ...consumer spending had held up “pretty well”, but said there was room for unemployment to fall further and for inflation to rise closer to the Fed’s 2% target, while noting that service sector growth had slowed last month

Negative yields pose questions for investors – Pg. 13

- The ECB’s policies – including charging commercial banks to keep money overnight with the central bank – are turning cash into a hot potato in Europe: it costs to hold it, so in theory you have a strong incentive to spend it
- ...the Federal Reserve’s own quantitative easing programme, which the central bank began winding down in late 2014, prompted companies to borrow cheaply to fund share buybacks and acquisitions. US companies bought \$1.7tn of their own shares in the three years to 2015,...

Answer: Continuous

9 September 2016

Question: What is the definition of Internal Rate of Return, i.e. IRR?

Record fine for Wells after staff set up secret accounts to hit goals – Pg. 1

- Wells Fargo has been hit by the US consumer finance watchdog’s largest fine after regulators found staff at the country’s biggest bank secretly opened more than 2m accounts without customers’ knowledge in a race to meet sales targets
- Created after the 2008 financial crisis to boost protection for retail bank customers, the CFPB has up to now refrained from big fines
- ...Wells Fargo, the world’s most valuable bank by market capitalization. Wells has sold an average 6.27 products to each household that has a current account with the bank – a strategy that has helped its market capitalization swell to \$250bn
- Staff funded the unauthorized accounts by moving customers’ money without their consent
- As a result, the watchdog said, many customers were hit with annual fees, overdraft charges and other costs
- (Prof Note: I reconcile all my bank accounts monthly. It would be very difficult for this to happen with the reconciliation. Now, what could happen to me is to have credit cards set up as I do not review my credit as often as I now realize I should!)

ECB keeps powder dry on further use of easing – Pg. 2

- The ECB has signaled it will hold fire until the turn of this year before unleashing a fresh stimulus, even as it inched down estimates for growth over the next two years
- The ECB instead only reiterated it would continue quantitative easing until “at least” next March, as it sought to balance lackluster economic growth against the drawbacks of further monetary policy loosening
- Its governing council also left its benchmark main refinancing rate at zero and the deposit rate at minus 0.4%

- The bank still expects inflation to be a mere 0.2% this year, but has reduced its forecast for 2017 from 1.3% to 1.2%. It still projects 2018 inflation of 1.6%
- The biggest changes to QE would involve buying more expensive bonds – raising the threat of losses by the central bank – or switching to a system where the bonds or more highly indebted countries could be bought in more substantial quantities

Answer: The discount rate when setting NPV = 0.

8 September 2016

Question: What is the probability distribution for Equity/Fixed Income?

Wall St uses matchmaking-style tests to find graduates truly in love with banking – Pg. 1

- Wall Street is turning to behavioural profiling to select graduates, as banks hope to widen the range of colleges they hire from and reduce the number of recruits who quit to join hedge funds
- Deutsche now requires candidates applying for US corporate finance roles to complete a 20-minute behavioural test....
- (Prof Note: Now we will game the “tests”! I remember Corning interviewing me at Bucknell. The question, “You are on a deserted island with food and water plentiful. What five items do you want to have with you?” Having grown up on Nevis that was a no-brainer! The interviewer, after my answers, said, “Well, while I said there are no correct answers, yours were definitely wrong.” I said, “Why?” She said, “You have listed nothing that will help you getting off the island, e.g. mirror.” I said, “Why would I want to get off the island?!” What a joke!!!)

Greenspan biography on shortlist for 30,000 (sterling) prize – Pg. 6

- The finalists for the 30,000 (sterling) prize include *The Rise and Fall of American Growth* by the economist Robert Gordon, which takes issue with the idea that growth will continue unabated, and a forthcoming biography by Alan Greenspan, *The Man Who Knew* by Sebastian Mallaby
- Also on the shortlist are *What Works*, Iris Bohnet’s guide to how organizations can offset unconscious bias against women and manage diversity, *The 100-year-life* by Lynda Gratton and Andrew Scott, about longevity
- *Makers and Takers* by Rana Foroohar’s critique of the dominance of high finance, while Duncan Clark’s *Alibaba* is an inside account of the risk of the Chinese internet company and its founder, Jack Ma
- Last year’s winner was *The Rise of the Robots* by Martin Ford, and in 2014 the prize went to Thomas Piketty for *Capital in the Twenty-First Century*

UK and European equities edge up as EM index hits highest for year – Pg. 21

- Wall Street expectations for the US third quarter point to another year on year contraction in earnings per share with growth returning in the fourth quarter, ...

- ...sterling easing 0.8% to \$1.3327 in the wake of soft manufacturing data and as resources groups benefit from gains for industrial commodity pricing
- Brent Crude was up 1.6% to \$48 a barrel
- Fed funds futures markets were showing traders placing a 22% chance of a rate hike in September, down from 36% a week ago
- The yield on the benchmark 10-year US Treasury note, which at one state on Tuesday was trading at 1.62%, was on basis point higher in yesterday's session at 1.54%

Moody's warns next US president over debt – Pg. 22

- The CBO projects spending on public healthcare and retirement programmes will drive up the US debt over the next decade. A current debt-to-GDP ratio of 77% will jump to 84% in 2025 and could breach 100% by the end of the next decade without efforts to cut spending
- What's more, the US's ability to finance itself is "extremely high", thanks to the dollar's role as a global reserve currency. S&P stripped the US of its triple A rating in 2011 at the height of a stand-off between Republicans and the White House over increasing the country's self-imposed debt ceiling

Answer: Lognormal Distribution.

7 September 2016

Question: What is the only certainty of IRR?

Too dull to fail? – Pg. 1

- "Turn large banks into public utilities by forcing them to hold so much capital they virtually can't fail, with regulation akin to that of a nuclear power plant"
- Capital requirements and stress testing set de facto price and profit controls
-most disturbing for their profit outlook, the products and services that banks sell are increasingly commoditized as regulation has tightened and risk appetites have reduced
- There is no universal definition of a utility...but in large parts of the world, particularly in Europe and the US, the likes of sewage operators, electricity suppliers and gas companies share traits. They tend to operate under high levels of regulation, with price and profit controls, low returns on equity, high dividend yields, constrained growth prospects and modest stock market valuations
- ...most are stuck in the 5 to 10% range (Prof Note: This is multiples of inflation. My respected colleague, Peter D said, "Get rich slowly!" Precisely! Quit looking for quick returns and focus on your day job or private wealth creation!)
- The parallels are intensifying in two ways. First,much of the sector is taking on the characteristics of a utility – the regulation, the valuation, the profitability, the dividend payouts

Dollar falls as weak US services data drag on rate rise expectations – Pg. 19

- US and European equity gauges were mixed, while Treasury yields and the dollar dropped as the outlook for global monetary policy dominated trading yesterday

- ...growth in the US service sector fell in August to the lowest level since early 2010 weighed on sentiment in the US and Europe,...
- There is still more than a 50% chance of an increase in December, but those odds are also under pressure
- Gold, which is sensitive to interest rates and the greenback, rose \$18 to \$1,345 an ounce

Answer: That it is 100.0% statistically wrong.

6 September 2016

Question: What is the major criticism of NPV?

BoJ governor dismisses 'limit' on easing – Pg. 3

- ...vowed to keep easing monetary policy until inflation reaches 2%, ...
- Mr Kuroda, the central bank's governor since 2013, said its policies had "contributed significantly to the positive turnaround in Japan's economy" and there was no chance of reducing the level of monetary accommodation
- Mr Kuroda launched a huge monetary stimulus in 2013, buying Y50tn year of government bonds. In October 2014 he raised the pace to Y80tn, and in January this year he cut interest rates to minus 0.1%

One size does not fit all with negative rates – Pg. 3

- Bankers in Germany and elsewhere are up in arms about the ECB's ultraloose monetary policy – most of all the negative rates that have crushed institutions' profit margins
- Factors such as how banks finance themselves, the prevalence of private pensions, the strength of national currencies and the use of alternatives to cash are particularly important
- Such variables can decide whether negative interest rates feed through into the economy or fall short. They help explain the differences between the seven regions that have experimented with the policy since 2012: Denmark, the Eurozone, Switzerland, Sweden, Bulgaria, Japan and, recently, Hungary
- In Denmark some homeowners receive rather than pay interest on their mortgage each month, while in the Eurozone the boost for consumers has been far less.
- Another challenge is that negative, or very low, interest rates make it harder to accumulate assets needed to provide private retirement incomes. People and employers could perversely respond by saving rather than spending more
- This is a concern in the UK, where many people rely on private pensions for retirement income
- Negative interest rates can also bring about a currency depreciation, increasing imported inflation and export demand. Denmark and Sweden benefited in this way when rates were cut

Experts struggle to agree on how to keep increasing US living standards – Pg. 4

- The dramatic slide in US productivity will be one of the defining features of the next president's economic inheritance

- Labour productivity has dropped for three quarters in a row, the longest string of declines since the 1970s
- Invest in infrastructure
- The CBO has found that rises in investment increase productivity via three channels: spending on physical capital such as roads facilitates commerce; education expenditures boosts skills; and research and development promotes innovation
- Cut corporate taxes
- ...business taxes is the US has the highest statutory rate among advanced economies, which may be at the margin deterring companies from investing...
- Immigration reform
- Bringing more immigrants into the workforce and allowing them to take jobs better aligned to their skills carries a double benefit...it lifts potential growth by boosting the labour force and enhances productivity because immigrants are more likely to be entrepreneurs
- Boost competition
- Slash regulation

Investment banks suffer 15% decline in revenues as M&A drop hurts margins – Pg. 13

- The world's biggest investment banks saw combined revenues sink 15% in the first half of this year, the most since the aftermath of the financial crisis, underlining the urgency of taking radical measures to boost returns to shareholders

Answer: The application of an unchanging discount rate, i.e. application of risk.

5 September 2016

Question: Using the last 15 years of data, what are the average holding period returns for Equity, Fixed Income and Real Estate (Case-Shiller), respectively?

Merkel set for humiliating defeat in regional election – Pg. 4

- Angela Merkel looked set for a humiliating defeat in regional elections on her home turf yesterday as voters turned their backs on the German chancellor's liberal refugee policy and gave the anti-immigrant Alternative for Germany party a political triumph
- The result would – if confirmed – mark a new low in 62-year-old Ms Merkel's fraught struggle to retain public backing for her refugee policy after the arrival of more than 1m migrants since early 2015

Make or break for couples in China's divided housing market – Pg. 4

- A divorce registration office is not a typical place to seek clues about demand for real estate. Then again, China's is not a typical property market
- ...rumours had circulated that, starting in September, the government was about to impose a 70% downpayment requirement for mortgages, from which unmarried homebuyers would be exempt
- Shanghai home sales rose 93% in floor area terms for the week ending August 28, compared with the previous week

- China's housing market is now deeply bifurcated. Flats in Beijing, Shanghai and Shenzhen are now seen as comparable to those in London or New York – reliable stores of value in big cosmopolitan centres largely immune from macroeconomic trends and cyclical dynamics in the broader property market
- A flood of new credit early in 2016 was key to the housing price rally. Home mortgages accounted for more than half of all new loans by the country's big commercial banks in the first half of 2016, and overall mortgage lending hit a record in June
- ...authorities have signaled their intention to shift the policy focus towards deleveraging
- Real estate investment growth has decelerated for fourth straight months to 5.3% in July.

Biggest banks' fines so far this year near total for 2015 – Pg. 15

- The world's top 10 investment banks have already paid out almost as much in fines and penalties so far this year as they did in the 12 months of 2015, dashing hopes that the outlay for misdeeds had begun to taper off
- Goldman Sachs topped the penalty list for 2016 so far, paying out more than \$5bn over mis-selling mortgage-backed securities. Several European banks have yet to settle similar cases and those fines are expected over the coming months

Auction sales cool off after Brexit vote – Pg. 20

- Residential lots suffered more than commercial, with a 15.3% year-on-year drop in homes changing hands,
- ...the apparent downturn remains far short of that seen during the 2008 crisis
- Both residential and commercial property markets are showing early signs of a Brexit vote effect: capital values in commercial property dropped 2.8% in July, their biggest fall since March 2009, ...

Answer: 4.14% (Equity), 4.95% (Fixed Income), and 4.32% (Real Estate).

3 September 2016

Question: Using the last 15 years of data, what are the average holding period P(Loss) for Equity, Fixed Income and Real Estate (Case-Shiller), respectively?

Slower jobs growth curbs call for US rate rise – Pg. 2

- Hiring by US employers slowed and wage growth trailed behind expectations in August, taking some of the shine off the labour market's recent performance and easing pressure for a Federal Reserve rate rise later this month
- Employers added 151,000 workers last month, fewer than the 180,000 average forecast from a Bloomberg survey...
- Fed officials are heading into their September 20-21 meeting divided over the case for a near-term rate rise.
- More cautious officials will point to subdued wage and price growth as arguments for the central bank to stay on the sidelines on September 21. Average hourly earnings rose 2.4%

on the year, a shade below the 2.5% pace predicted, suggesting there remains little inflationary pressure in the economy

- Before the report was released, investors were putting odds of just under 30% on a September move....that sank to less than 20% after the report...

Answer: 40.04% (Equity), 6.39% (Fixed Income), and 33.71% (Real Estate).

2 September 2016

Question: For the first time in 21 years of lecturing, I have a student from what nation this semester?

Rise of the renmingi loosens London's grip on forex trading – Pg. 1

- London's lead in the global currencies-trading business is being eroded, with the rise of the renminbi as the world's most heavily-traded emerging market currency tilting volumes towards Asia
- The UK capital's share in the crucial but scandal-tinged business dropped for the first time in more than a decade, down to 37.1% from nearly 41% in 2013,...
- The three biggest Asian trading hubs – Tokyo, Hong Kong and Singapore – captured much of London's loss with their combined share swelling to 21% from 15%, underscoring the growing importance of Asia, and of China in particular, in global trade
- ...the renminbi doubled its share of the global market, knocking the Mexican peso off its perch as the most traded currency in the developing world

Jobs data set to take central role in any US rates move – Pg. 2

- Markets put odds of 30% on a September move, ...
- Part of the reason some policymakers question whether the Fed should tighten as soon as September 21 is that inflation figures have remained weak, suggesting the link between the jobs market and inflation has loosened

Whistleblower calls for Deloitte probe – Pg. 12

- Monsanto booked substantial revenues as a result of that promotion, but did not recognize related costs, which led to "material" misstatements of profits

Hopes of US return to profits dashed again – Pg. 20

- ...S&P 500 forges highs with a forward price to earnings ratio of about 17 times, above the five and 10-year averages, 14.7 and 14.3 times respectively

Answer: Nevis/St. Kitts! I almost fell over! I am in class last night and I asked about the lending rate of the Bank of Nevis. Of course I expected no one to know and I would impress with my global knowledge or rates. 😊 The student knew! There are 7billion on the planet and 40,000 on St. Kitts...what are the odds?! The student is actually from St. Kitts, i.e. the "other" island. 😊

1 September 2016

Question: P(Loss) is a measure of risk. What specifically does it measure?

Record-low interest rates drive soaring demand for Saudi debt – Pg. 1

- Saudi Arabia's first international debt sale has generated so much interest from Asian investors that Riyadh is weighing a full pipeline of bonds starting with a \$15bn initial auction as early as next month,...
- ...Saudi sovereign debt – which could be the largest emerging market issuance in history - ...
- Saudi officials surprised the financial markets this year by hiring bankers to raise debt, underlining the extent of the economic downturn after an extended oil boom had erased the memory of previous crashes
- Saudi Arabia is seen as a safer investment than other emerging economies because it remains nearly debt free and has vast oil reserves. But it is also benefiting from a hunger for yield among investors starved by record-low interest rates in Europe, Britain and Japan

US has won argument on stimulus, claims Lew – Pg. 3

- ...US arguments to put growth before austerity
- ...Mr Lew said a "consensus" had formed around the US position on the need for countries to "use all policy tools" including monetary, fiscal and structural reforms
- The US, he also said, remained confident that China was living up to its commitment to allow market forces to play a large role in determining the value of its currency, the renminbi

Nigeria falls into recession with inflation at 11-year high – Pg. 3

- ...growth in Africa's top oil producer shrank for the second consecutive quarter
- Its economy contracted 2.1% in the three months to the end of June, worse than analysts expected, while inflation hit an 11-year high of 17.1%, unliking the depth of the west African nation's crisis
- Nigeria, which depends on petrodollars for 70% of state revenues and 90% of export earnings, has been battered by the collapse in oil prices. Its economy shrank 0.4% in the first three months of the year and the IMF is forecasting growth in 2016 will contract 1.8%

Fear of rate rise drives US corporate debt sales – Pg. 20

- With Janet Yellen, the Fed Chief, last week arguing the case for higher interest rates has strengthened, companies concerned about any volatility around the next meeting of central bank officials on September 21 are in a sprint to get their borrowing done, ...
- Given \$13.2tn of bonds carry a negative yield, investors from Europe and Japan remain ravenous for assets with a positive return.
- Investors demand just 138bps more to own investment-grade US debt than equivalent government debt...that is down from 221bps in February...

Falling bond yields save taxpayers \$500bn – Pg. 20

- The collapse in sovereign bond yields has saved taxpayers more than \$500bn in annual interest expenses, allowing countries to rein in budget deficits and continue government-backed programmes that would have otherwise been shelved,...

- The median 10-year government bond now yields 1.17%, down from 3.87% five years ago
- Central banks have cut interest rates more than 670 times since Lehman Brothers filed for bankruptcy in 2008, or roughly one reduction every three trading days of the year,...

Answer: The probability that 100.0% of your invested capital will not be returned.

31 August 2016

Question: How many barrels of oil are consumed per day globally?

Pressure on the pump – Pg. 7

- Opec, the producer's cartel, predicted last year that by 2040 only 6% of the world's passenger cars will be running on non-oil fuels. Just 0.1% of the nearly 1bn passenger cars on the road last year has a plug...
- ExxonMobil, the world's largest listed oil company by market value, also thinks electric cars will only make small strides, accounting for fewer than 10% of new car sales globally by 2014
- Sales last year were less than 1% of the 80m passenger cars and light trucks sold worldwide,...
- There are two main types of electric car: battery-only ones like Tesla's models and the Nissan Leaf that have electric motor and no petrol engine, and plug-in hybrids such as the Mitsubishi Outlander that have a petrol engine and a battery that can be recharged, unlike older hybrid models
- Passenger cars use 18m barrels a day of oil products, 18.7% of the 96m barrels consumed daily, ...
- Considering demand alone, it would take 50m-100m electric cars to displace 1m barrels a day of oil,
- One factor holding back electric car sales is the price of the vehicles, which is strongly determined by the batteries that power them. These can account for about one-third of overall costs

BoJ stimulus gives birth to a new abnormal – Pg. 20

- ...buyers in Tokyo have been selling stocks by following a simple, unsettling rule: buy fund flows, not fundamentals (Prof Note: To some extent this has been my strategy!)
- It is a practice born of an equity market where the central bank is the biggest whale, and where the government in various forms has become the largest shareholder in a quarter of first section Tokyo stocks
- The fund flow trade plays on the warping effects that the central bank's ETF buying programme is having on equity, bond currency and real estate investment trust markets
- But it remains in the equity markets that the biggest issues are likely to arise. The central bank says it will buy ETFs in proportion to the market weights of the indices they track
- As a consequence, companies with high share prices and thus high Nikkei 225 weightings, are receiving more inflow than might be justified by their size
- Goldman Sachs estimates that BoJ buying means the central bank will own at least one-tenth of the equity in 32 companies by this time next year, up from five currently

Answer: 96m

30 August 2016

Question: How much longer is a flight back from London to DC than it was to go DC to London?

World Bank's fractious shake-up yields only half Kim's target of saving \$400m – Pg. 1

- The World Bank is set to make net savings half the size of a much-touted \$400m cost-cutting programme as administrative costs rise on a surge in lending despite a contentious reorganization pushed through by Jim Yong Kim, its president
- The World Bank's revenues are coming under pressure from low interest rates and a slowdown in emerging economies, with leading parts of the bank this month reporting their weakest results since the 2008 global financial crisis
- Mr Kim, who with the backing of big shareholders such as the US and China is widely expected to be reappointed within weeks, has staked his presidency on a reorganization of the bank, with the \$400m reduction in costs by the end of the current fiscal year one of its main goals
- The International Finance Corporation, the bank's private-sector arm, in the fiscal year to June reported its first loss since the depths of the 2008 crisis, largely as the result of a hit on equity investments in emerging economies

Yellen's confidence boost lifts financials – Pg. 18

- Wall Street started the week on a positive note, as Janet Yellen's confidence that the case for an interest rate rise has strengthened drove financial stocks higher
- Investor sentiment was also helped by data that showed US personal income rising by the most in three months
- The 10-year US yield fell from the two-month high of 1.63% toughed on Friday to 1.58%, burnishing demand elsewhere
- The drop in government borrowing costs came despite Fed officials putting markets on guard for a potential US interest rate increase

Answer: Over an hour longer....

29 August 2016

Question: What is the first subject I am introducing students to in my undergraduate finance class which starts today at GW?

US fund bets on Brexit job exodus with flurry of European property purchases – Pg. 1

- US hedge fund Marathon is building a big Brexit trade by investing in property across Ireland, France, Germany and the Netherlands in a bet that they will be among the main beneficiaries from companies leaving London in the next few years (Prof Note: This is close to what I was doing in London only I looking to purchase in London and benefit from

currency and, hopefully, a slight adjustment in flat pricing. Julian J...you cannot escape me...we are going to be neighbours everywhere!)

- Marathon believes that London will remain the centre for finance in Europe but predicts that many jobs will move elsewhere (Prof Note: hence why I predict the benefits to be currency rather than pricing in base currency)

Central bankers fear threat of low-growth rut – Pg. 2

- Official interest rates may remain stuck at low levels, but the US central bank would not find itself out of weaponry if a new recession unexpectedly stuck...
- Eight years after the crash, major economies including the US are stuck with sub-target inflation, ultra-low rates, and economic growth that remains pedestrian
- ...Ms Yellen mentioned the need for larger so-called automatic stabilizers in US budgetary policy, which would help weigh against future recessions, as well as greater support for state and local governments. Unemployment benefits and taxes can serve as such stabilizers, damping the impact of swings in the economy as a whole

Students' tips to conquer MBA application essays – Pg. 11

- ...Harvard Business School has cut the number of essays to just one: "What more would you like us to know as we consider your candidacy?"
- Many schools no longer even require a written piece of work
- Another trend is towards video essays – seen as a good way to assess whether applicants have authentically represented themselves on paper
- IMD asked me to write a laudation – a tribute – that someone close to me would use to describe my life achievements on my 75th birthday
- Of all the applications essays I wrote, Booth's was hardest and the easiest. "Who are you?"
- (Prof Note: I just went through a similar experience. I am developing several courses for a Canadian institution on entrepreneurship. As such was asked to submit a CV. As a suggestion I gave my resume to a respected colleague who had their marketer rewrite and format. The marketer interviewed me and rewrote the resume. I was/am humbled! Previous I had never even considered highlighting philanthropy but now it tops the resume. Next is authorship and speaking. Finally, ending with professional lists and skills, e.g. modeling, etc. Think about who you are and what you want to be. Personally, I still feel these essays for business school are BS, you are there to make \$\$\$ (my opinion). It is only after having the \$\$\$ that you can truly find yourself. (again, my opinion). An MBA is a great degree as it exposes one to many business disciplines and aspects allowing one to "find" their fit. The two courses that I felt were useless during my MBA, i.e. Marketing and Human Resources, are now two of the most important disciplines that require my foci.)

Answer: Discounted Cash Flow....start them early!

Paris News: I actually feel safe in the city and there is a large police presence, that is noticed. There are a lot less crowds than I remember from previous trips to the city. Restaurant prices have not been higher than DC though I refuse to drink anything other than tap water due to price of refreshments. The currency weakness is definitely driving affordability up in both London and Paris. Neither, as I have

noticed, have had significant reduction in the pricing of flats (but that could be timing, i.e. to soon), as measured in base currency.

27 August 2016

Question: What is the cost of a 12oz coke on the streets of Paris?

Yellen sees stronger case for rate rise – Pg. 1

- Janet Yellen said the case for a rise in short-term interest rates has strengthened recently amid firm US jobs growth, signaling a move is becoming likelier in the coming months and potentially as soon as September
- The Federal Reserve chair highlighted solid consumer spending and a string of payroll gains as she predicted moderate growth in the US economy as well as a return of inflation to the Fed's 2% target in the next few years
- Ms. Yellen said the US economy was "now nearing the Federal Reserve's statutory goals of maximum employment and price stability"

Activists accuse Fed of sacrificing poor on inflation altar – Pg. 2

- Fed Up leaders say the central bank is unrepresentative of the US population given 16 of its 17 top policy makers are white, that it needs more women in top positions, that it remains too heavily influenced by commercial banks, and that it is threatening to slow a recovery that needs to continue if black and Latino unemployment rates are to be pulled down further

US Housing – Pg. 5

- The US saw a 31% surge in the sale of newly built homes in July compared with a year ago – the highest level in nine years – and despite the rise in demand, the median price of a new property was actually down from June
- A reduction in the level of home ownership in the US was once hailed as a necessary cleansing following the excesses of the subprime bubble. But it has continued to slide and is now at a level not seen since the administration of Lyndon Johnson 50 years ago. Today it looks to many like evidence of the death of the American dream and fuel for the angry populism in US politics
- They have a more cautious approach to credit – almost two-thirds of adults under the age of 30 do not have a credit card,
- With student debt that has doubled in a decade to \$1.3tn nationally, and greater numbers in freelance or part-time work, gaining access to an affordable mortgage would be hard even without the broader credit clampdown
- ...underwriting standards are largely dictated by the US government, which guarantees most mortgages
- To stimulate the market, Fannie Mae and Freddie Mac, have started accepting mortgages with loan to value ratios of up to 97%, in order to cut the necessary downpayment to 3% from the standard 20% and encourage first-time buyers (Prof Note: Wait....isn't this what started the entire problem in the mid 2000s???)

Answer: 3 Euro

26 August 2016

Question: What is the cost of a 12oz coke in a Parisian restaurant?

Low rates and high dudgeon at Jackson Hole – Pg. 2

- ...Fed Up's demands that the US central bank refrain from lifting interest rates will strike a chord with at least some of the Fed policymakers
-interest rates are set to remain low for far longer than policymakers predicted
- The thrust of Ms Yellen's speech is about the Fed's toolkit, suggesting she wants to focus more on longer term questions of how the Fed will conduct monetary policy
- Central bankers are asking whether they have enough firepower to fight the next recession
- Another is whether the 2% inflation target the Fed pursues is the right one in the context of stubbornly low growth and a depressed neutral rate of interest
- One of the most controversial tools up for debate is the use of negative interest rates, which are being deployed in the euro area and Japan with mixed effect
- Ms Yellen has refused to rule out the use of negative rates in the US in a "very adverse" scenario, but she has suggested they would not be her first choice of instrument
- One of the implications is a low neutral rate – the rate of interest that is neither stimulative nor restrictive for the economy
- That in turn means that in the US the Fed's target rate is unlikely to be lifted very far

Mongolia cuts spending after revealing large budget shortfall – Pg. 2

- Mongolia's new government has revealed a budget deficit equivalent to nearly a fifth of economic output, underlining the dire financial conditions that have sent the currency tumbling
- Mongolia, with a population of 3m and GDP of \$12bn, is heavily dependent on mining and exports commodities, mostly to China
- In March a \$580m bond issued by the national development bank is due
- The budget includes cuts in civil service salaries, higher taxes and a later retirement age
- Nationwide family income is down about 10% year on year and unemployment is rising

An island's exodus – Pg. 7

- Puerto Rico's population has been declining for a decade but that has accelerated as its financial and economic crisis bubbled up from simmer to boil
- Its population has fallen 9% over the past decade, a loss that includes 200,000 working age adults -
- The fiscal collapse of Puerto Rico, which suffers under a debt and unfunded pension burden of more than \$110bn, has prompted one of the largest migratory movements within the US in decades (Prof Note: if anyone wants a home on PR, I have one to sell.....on the cheap!!!)
-output has been in near-constant decline since 2007 – they could be back in negotiations within the next decade

- The fiscal crisis has its roots in the end of a package of US tax incentives in 2006 that made Puerto Rico attractive for manufacturers. Introduced in 1976, the incentive brought US multinationals to the island,... (Prof Note: The loss of Rosey Roads, the Naval Base, tanked home values in Fajardo, i.e. killing me!)
- Before its passage, Puerto Rico and other US territories did not have access to bankruptcy protections afforded to US cities and public corporations.
- Despite the defaults, Puerto Rican bonds have been among the best performing in the municipal bond market this year (Prof Note: Despite advisors "advice" I have kept all my PR bonds!)

Answer: 6 euro

London News: Hot but less humid than Washington DC. Foundations of Real Estate Financial Modelling has been well received globally and is one of the top selling books for Routledge (thank you everyone!). A verbal agreement was achieved that the second version will be published mid-2018. The scope of the book will be expanded to include more asset classes and theory based learning.

25 August 2016

Question: How long does it take to take the Eurostar train from London to Paris?

Finding work proves harder for world's youth – Pg. 2

- ...young people in emerging economies such as Brazil particularly badly hit
- The number of unemployed 15- to 24-year-olds in the world is set to swell by half a million this year to 71m, ...
- As a result, the youth jobless rate will edge up from 12.9% in 2015 to 13.1%, close to its peak of 13.2% in 2013
- ...predicts youth unemployment in middle-income emerging countries as a whole would rise from 13.3% to 13.7% this year, with Latin America the worst-hit region
- Young people were also more likely to be stuck in jobs too badly paid or insecure to lift them out of poverty,...
- In total, almost 38% of working young people worldwide are in poverty, compared with about a quarter of all working adults

Insurers at home in mortgage market as M&A activity builds on recovery – Pg. 14

- Mortgage insurance covers lenders when borrowers default. It shifts a chunk of housing market risk from banks and the US government to the hedge funds, private equity groups and conventional investment houses that invest in insurance companies
- Fannie Mae and Freddie Mac, the US government's mortgage guarantors, require banks to purchase the cover when homebuyers put down less than 20% of the property's value
- The market has come roaring back since the crisis, although the public sector plays a bigger role than insurance companies in providing insurance cover. Agencies such as FHA ramped up their provisions during the crisis. By 2009, the private sector insurers' share of the market had shrunk to just 15%, but they have since clawed back their share to 37%. The

state tends to provide the insurance for borrowers with low credit scores who would otherwise be unable to buy a house

Debt insurance rates fail to match yields – Pg. 18

- The wider gap between the price of highly rated European corporate bonds and the cost to insure the same debt against default is the latest sign of how the ECB's attempts to encourage borrowing has distorted financial markets
- But prices in the market for credit default swap contracts – insurance against companies being unable to repay creditors – have not matched the decline in yields, leading to concern that high bond prices no longer reflect the health of the companies

Answer: It varies but around 2.5 hours.

24 August 2016

Question: What is the current Dollar/Sterling exchange rate?

Gold loses shine as Fed decision looms – Pg. 1

- Weakening demand in India and China, the two biggest consumers, is having an impact. Exports to India from Swiss refineries fell 76% in July
- But most of the turn in sentiment is due to increasing signals that the US Federal Reserve will start raising interest rates again this year – meaning other assets, such as US Treasuries, could become more attractive

Zero returns on investment leave US foundations with dilemma – Pg. 4

- New data show that while foundations increased their spending in 2015, their financial position was undercut by weak stock market, ultra-low interest rates and disappointing returns from hedge funds and other alternative investments
- Over the past 10 years, the average return has been 5.5%; over the past five years, which includes a stock market bull run and excludes the financial crisis, the average made it to only 6.9%. Foundations are required by US tax authorities to spend 5% of their endowment annually, so with costs and inflation on top of that, investment returns above 7% are required if they are to maintain the spending power of their endowment
- Community foundations, which have less strict spending rules but which tend to be smaller, are having an even tougher time, with minus 1.8% in investment returns last year and 5.2% over 10 years
- Community and private foundations play a key role in the US non-profit sector, which employs one in 10 non-government workers and complements public services in everything from education to health. Foundation grants are a big source of funding for other public charities, and they can commit themselves to longer-term philanthropic projects without having to rely on constant fundraising

Largest US pension fund joins investors in urging G20 to ratify Paris accord – Pg. 4

- ...calling on the 20 biggest economies to phase out fossil fuel subsidies and back a doubling of global investment in clean energy
- Bringing net greenhouse gas emissions down to zero between 2050 and 2100, as the agreement aims, would require a big shift in a global economy still heavily dependent on fossil fuels
- The investors also want countries to develop plans to phase out fossil fuel subsidies and use “economically meaningful” carbon pricing

LA lawyer aims to bring auditors to account – Pg. 12

- A big award could embolden others to go after auditors, which on the whole escaped the heavy penalties paid by banks, brokers and other intermediaries after the financial crisis

Answer: Approximately 1.30 dollar to 1 Sterling

23 August 2016

Nevis News: It’s Saturday night, what does one do? They go to Surprisers for a grilled 3lb lobster (\$20 USD). If anyone is on Nevis, please let me know as Surprisers is a road side stand identified only by the chickens and broken down cars between the airport and the medical university (I will need to better explain how to find the tarp.) On Saturday night Surpriser will grill your lobster. He will sell you fresh seafood daily but it will not be prepared.

(attached is a picture of the ‘scene of the crime’ at Four Seasons.)

Question: What is the difference between real and nominal rates?

Fears over ill-educated underclass spur China school reform – Pg. 2

- China is to tie education spending to children’s place of residence for the first time, in an attempt to end a system detrimental to migrants that threatens to leave the country with an ill-educated urban underclass
- Allocation of central government education grants to where children reside, rather than where they are registered, will help cities meet growing social costs – although critics say the reform is not enough to bridge the spending gap in the biggest and most attractive cities, where millions of migrant children struggle to achieve a basic education
- The reform also mandates that local budgets assume responsibility for registered migrants, potentially providing a further incentive for cities to limit migration
- China’s richest cities are already trying to keep migrants out
- China’s hukou, or household registration system, binds individuals to their place of residence, usually their birthplace (Prof Note: Precisely why I am a native Californian! Can you not tell from my easy going personality and surfer parlance?!)
- Policies are heavily restrictive for those trying to move their hukou from a poorer to wealthier place (Prof Note: This is one thing about economic mobility in the U.S., I believe it remains one of the best places on the globe to upgrade one’s socio-economic class.)

Pensions – Pg. 7

- A demographic crisis for pensions, driven by longer life expectancies and declining birth rates, has now become critical, thanks to historic low bond yields across the world
- Income from bonds, especially government and fixed-income bonds, is a bedrock of pension investing
- Bond yields have been falling globally since the early 1980s, initially in response to the US Federal Reserve's success in bringing inflation under control. Meanwhile the returns on stocks, where pension funds put most of their assets, have been hurt by two major market crashes since 2000. In the US, the assets held by pension funds have roughly doubled – up 105% - since 1999, but the cost of their liabilities to pensioners has almost quadrupled – up 278%, ...
- The result is enormous pension deficits. In the US, pensions run by companies in the S&P500 index were underfunded by \$562bn by the end of last month....
- For US public plans – which are allowed to assume far higher interest rates than are available in the bond market, making their liabilities look unrealistically cheap – the problem is far worse
- Low interest rates also lead to higher valuations on equities which make up the bulk of most pension funds' portfolios
- Any solution to the problem involves individuals saving more and companies investing less – a result that blunts the primary goal of easy monetary policy: stimulating spending
- The problem is greatest for defined benefit plans, which can only escape their guaranteed payouts through bankruptcy
- ...Direct Contribution plans are very attractive to employers and they now account for 48% of the \$35.4tn pensions pot in 19 developed countries....the risk instead falls on individual savers – and hence ultimately to governments
- A popular metric was that savers who put away 8% of their income every year for 40 years would be able to build up an income of 75% of their final earnings by the time they retired
- ...this approach would have worked with real returns, above inflation, of 5.5% per year. This is roughly what a US-based portfolio of 60% stocks and 40% bonds has achieved since 1951. But if future returns drop by only two percentage points, to 3.5%, savers will need to put aside almost 15% of their income. With bonds and stocks now historically expensive, 3.5% is, if anything, optimistic
- Of someone today invested \$100,000 in a balanced portfolio of stocks and bonds, they could expect a return of \$21,800 over the next two decades after costs. Ten years ago, that same investor might have expected to make \$60,000 and three decades ago \$150,000
- At the end of 2013, the median 401(k) plan held by US households near retirement had a balance of \$104,000...following the typical actuarial recommendation of withdrawing no more than 4% a year, this would provide an annual income of about \$4,000
- (Prof Note: Am I the only one panicked by all of this, i.e. retirement? Gen Y (or whatever letter we are on now) needs to save 20 – 25% of their income, minimum, by my calculations. This is tough with them spending 40 – 50% on housing. I continue to hear how this generation wants “quality of life”. I remember spending double all-nighters at work and selling my soul. Tighten your belts tighter...and when in doubt, tighten them again. Never

lose focus on the end goal, i.e. your retirement. When you are 65 your company will NOT be there feeding you, only what you have built will be there!)

Answer: Real are inflation adjusted, i.e. purchasing power adjusted. This is what is important when calculating returns for retirement spending/lifestyle.

Nevis News: Apparently Four Seasons Nevis does not appreciate non-guests taking swims in the villa pools! A middle-aged male was performing recon with a map of all the villas that were unoccupied. As the story goes, the unidentified male was performing reconnaissance on the villa pools to see what size/shape, etc, he wanted built. It had been suggested to him to check out the villa pools at Four Seasons. Well, after finding the perfect pool and measuring it, the unidentified male felt the water and it was a heavenly temperature. The water temperature was nothing short of perfection! The unidentified male thought, "Why not?!" and entered with shorts on. An hour later the unidentified male emerged to find his jeep surrounded by Nevis Four Seasons 5-0! Knowing that a 95' Suzuki Samurai could not outrun the squad cars of NFS 5-0, i.e. golf carts, the male was trapped or so NFS 5-0 thought! How do you explain being in an owner's only area, soaking wet, with a map marked with all the unoccupied villas? Fortunately the male was able to avoid incarceration and depart without further incident through quick talking and childhood stories of growing up on Nevis. The male's identity remains unknown!

(picture of Four Seasons Nevis, i.e. Pinney's Beach. As a child I could snorkel the beach here and literally collect handfuls of sand dollars.)

22 August 2016

Question: What is the Federal Reserve's inflation target?

Alphabet and Berkshire boards targeted over veteran directors – Pg. 1

- Google's parent Alphabet and Warren Buffett's Berkshire Hathaway head a list of more than 800 US companies that could come under pressure to refresh their boards, under new guidelines being floated among shareholders
- ISS, the influential corporate governance adviser, is looking at companies where boards are stuffed with long-serving directors or where there have been no new members for years
- In its latest annual survey ISS is asking clients for their opinions of boards that have failed to appoint a new director in five years, where the average tenure exceeds 10 or 15 years, or where more than 75% of directors have served 10 years or longer.
- Questioning the effectiveness of "male, stale, frail" boards reflects growing investor interest in improving director diversity, with shareholders increasingly demanding a portion of new directors
- The absence of a formal governance code has been cited by investors as the reason US directors tend to be older, longer-serving and less likely to be women than in other countries

Questions of influence loom for policymakers in Jackson Hole – Pg. 2

- Policymakers will meet at the mountain resort of Jackson Hole amid concerns that central banks' recession-fighting firepower is thin, and that an overhaul may be needed for how authorities steer their way through the economic cycle
- ...suggestions was the idea of aiming for a higher inflation target to boost central banks' room for manoeuvre in a downturn
- Policymakers are uneasy because of evidence that the so-called neutral rate of interest – the rate that is consistent with an economy operating on an even keel – is stuck at deeply depressed levels
- With neutral rates on the floor, central banks are left with a shrinking degree of influence over the economy. They can slow activity by lifting policy rates, but there is little scope for stimulus via cuts
- A recent paper from the Federal Reserve Board argued that deploying rate cuts, asset purchases and forward guidance together could be even more effective than a hypothetical scenario where the central bank could cut rates as deeply into negative territory as it wanted rather than being constrained by the zero lower bound
- ...Fed is close to meeting its targets of maximum employment and 2% inflation

Answer: 2.00%

Nevis News: The island lost power three times in the last 24 hours. While power losses are not uncommon and not experienced, generally, more than once a week, this was surprising. Power outages, in my experience, last less than an hour.

Attached is a picture of St. Kitts and Booby island taken from what I would like to be my new master bedroom. Unfortunately there is much difficulty in discovering land owners on the island due to the Stamp Tax. Land does not automatically transfer on death and is often held in the original generation's name unless there is an event, e.g. sibling rivalry, forcing a sale. The Stamp Tax is generally 10.0% of assessed value. I have been searching for the owner of this land for two years.

20 August 2016

Question: How can one avoid paying the Stamp Tax on Nevis/St. Kitts for future generations?

Emerging markets back in vogue as yield-hungry investors feel the squeeze – Pg. 1

- Money is being poured into emerging markets at record pace, as negative interest rates across the developed world lure investors towards riskier assets in what one trader has dubbed “a buying craze”
- Economists say unprecedented levels of central bank easing in the UK, Japan and Europe are encouraging investors to ignore the risks of committing money to some of the world's least stable economies

All roads lead to Jackson Hole for rate rise hints – Pg. 13

- Federal funds futures are pricing in only an 18% probability of a September rise, while the index that measures the dollar against its peers is hovering near its lowest level for two months.
- If the Fed wants to make a move, they say, it should wait until December. They also point to sub-target inflation as a reason to sit tight
- The market's pricing of the likelihood of a move matters. The Fed will be deeply reluctant to pull the trigger if markets look likely to be caught unawares. It does not want to provoke financial convulsions akin to those seen during the "taper tantrum" of 2013

Answer: Current legal thinking is transfer property to an International LLC and transfer shares of the LLC rather than the property.

Nevis News: The worry on the island continues to be the Four Seasons shutting down. The current 411 is that, due to occupancy, i.e. low, they will shut down the resort in two phases. Also, the layoffs earlier this year was due to the hiring of a new chef who made some "changes", i.e. it was not economic.

The temperature has been hot, Hot, HOT! No golfers at Cat Ghaut though I learned we have a five-star rating!

19 August 2016

Question: What is the current savings rate for demand deposits offered by Goldman Sachs' retail bank?

ECB minutes hint at further action – Pg. 2

- ...keep its ultra-loose monetary policy for longer when it next meets on September 8
- Some central bank watchers think the ECB will also ease the rules governing which bonds can be bought under the QE programmes

Justice department to end use of private jails – Pg. 3

- DoJ officials concluded that private prisons do not measure up to government-run facilities...
- Shares in some private prison companies fell by roughly half yesterday as news of the DoJ's decision spread. The changes affect only federal inmates. About 6% of state prisoners were held in for-profit jails
- Between 1980 and 2013, the number of those incarcerated increased eightfold, outstripping the capacity of the public prison system...
- In 2013, roughly 15% of the nation's 220,000 inmates were housed in private facilities

Mongolia lifts rates to defend tugrik – Pg. 18

- Mongolia raised interest rates to 15% from 10.5% and froze some public spending yesterday after the tugrik hit a record low against the US dollar following 23 days of weakening
- The mining-dependent economy has been one of the worst hit by the global commodities downturn after a debt and construction bubble in the boom years

- The Asian nation sold its first international government bond in 2012, at the height of the global commodities boom, with a coupon of 5.125% - then a lower rate than Spain paid to borrow

Dollar struggles and US equities push higher after Fed meeting – Pg. 19

- The dollar continued to struggle and US stocks inched towards recent record highs as participants dissected the minutes of the Federal Reserve's July policy meeting and watched Brent oil regain the \$50 a barrel mark
- The yield on the policy-sensitive two-year US Treasury note, which moves inversely to its price, was down 2bps at 0.72% as Fed fund futures priced in a 10% chance of the Fed acting next month, down from about 14% at Wednesday's close...
- The 10-year US note yield was 2bp lower at 1.54%

Answer: Over 100bps

18 August 2016

Question: How many years of housing supply does Nevis have on the market?

Minutes reveal hard-fought debate as Fed splits over rates – Pg. 1

- Federal Reserve policymakers left open the prospect of a further interest rate rise this year even as they insisted they needed more evidence on the durability of the rebound before feeling confident enough to pull the trigger
- Fed officials generally agreed that a strengthening of the jobs market and the relatively benign market reaction to the UK's vote to leave the EU in June meant some of the uncertainties that had hung over the US economy had diminished
- Wage growth is now at its quickest since the end of the financial crisis
- ...inflation remains comfortably below the Fed's 2% target, prompting some officials to call for caution before pulling the trigger on a second rate increase. Global events have this year also had a tendency to foil arguments within the Fed for a second rise, with risks abroad continuing to weight on officials minds
- Central bankers have also hinted that even if the Fed does lift rates again, it may not need to tighten by a lot. Fed policymakers' estimate of long-term fed funds rate centre around 3%, compared with a range of 0.25 to 0.5% now

Goldman Sachs – Pg. 7

- Now it was trying to appeal to the hoi polloi, offering online savings accounts that can be opened with a deposit of just \$1, with interest rates about 100 times better than those at big US retail banks like Wells Fargo or Bank of America
- Goldman is moving into Main Street for a simple reason: life on Wall Street has become much tougher since the global financial crisis.
- Goldman's return on equity – the best and simplest measure of how well it is using shareholder's money – slipped below 10% last year and is expected to come in at about 8%

in 2016. That would make two years of annual RoE in single digits – easily the worst run since Goldman went public in 1999

- Pay – often a flashpoint – has come down a lot too, reflecting smaller bonuses as well as the different business mix
- In the second quarter this year, Goldman’s accrual for compensation and benefits came to \$95,718 per employee, less than half the figure of \$211,968 of 10 years ago
- More retail banking products could follow – such as car loans, mortgages or a “robo” wealth management platform
- Before the financial crisis, Goldman did not even have a federally insured bank but it was forced to open one in 2008 as a condition of receiving bailout funds
- Deposits now account for 23% of the bank’s funding mix, up from 3% at the end of 2007
- Goldman is paying its GS Bank depositors a near market-leading interest rate of 1.05% a year on online savings accounts,that is still much less than the cost to Goldman of issuing long-term bonds

Hedge fund investors push for set rate of return before fees – Pg. 14

- Hedge funds are agreeing to so-called hurdle rates to assuage the sting of underperformance
- Some have “hard hurdles” meaning they must generate typically between 4 and 10% before they are paid, while others must generate a certain percentage above Libor or cash
- The increasing popularity of hurdle rates reflects a shift in power away from managers, who can command high fees in times of strong performance, to investors, as they pull money out during periods of underperformance

Answer: Seven (7)

17 August 2016

Question: What is Roger’s definition of risk?

Inflation retreat clouds rates outlook – Pg. 2

- The US inflation rate retreated in July, in a further sign of the benign price pressures that have allowed the Federal Reserve to leave its interest rates policy unchanged all year
- The core measure of consumer price inflation, which excludes food and energy, slipped to 2.2%, down from 2.3% year-on-year rate the prior month
- Prices rose just 0.1% compared with June (Prof Note: Cat Ghaut green fees are increasing 100.0% Friday! Roger needs a new pair of shoes!!!)
- Prices including energy and food were up just 0.8% on the same month last year
- A September rate increase would contrast with Wall Street expectations: Fed funds futures place just a one-in-five chance that the central bank will lift rates next month, ...

Yen strength adds to pressure on BoJ – Pg. 18

- The yen strengthened to beyond the Y100 mark against the dollar for the first time since Brexit, turning pressure back on the BoJ to come up with a policy package to weaken the currency
- BoJ measures to combat the rising yen, including negative rates, have failed to keep a lid on the currency's strength, which is hurting Japan's exporters and weighing on growth
- The currency had advanced almost 20% against the dollar this year, its strongest point coming in the aftermath of the UK vote to leave the EU which triggered widespread risk aversion in the foreign exchange market and drove the yen to Y99.08
- Dollar weakness looks like the main driver for the yen's appreciation in recent weeks, and again fueled price action on Tuesday
- The yen's haven credentials had also contributed to its rise,

Answer: Deviation from an expected return

16 August 2016

Question: What is the current size of the U.S. Student Debt crisis?

Shake-up calls mount as lack of diversity on US boards is laid bare – Pg. 1

- US boardrooms are older, more male and filled with longer-serving directors than European counterparts, ...
- Calls for US groups to improve boardroom diversity and curtail the tenure of directors have increased since the 2008 financial crisis, ...
- Directors of large and midsize US companies are four years older, on average, than European directors and almost twice as likely to be over 65, ...
- Women hold just 15% of US board seats, compared to 25% in Europe (Prof Note: Women do not have a chance when they are terminated for unethical affairs and the men receive a light slap on the wrist.)

Retirement age for young Germans will have to rise to 69, central bank warns – Pg. 3

- Young Germans will have to work for even longer than feared to pay for their parents' pensions, ...
- Older workers in the eurozone's largest economy can now retire after 45 years in employment or at 65. The government has planned to gradually increase the retirement age to 67 by 2029
- ...25-year old entering the German labour force today would have to work four more years than the current crop of retirees – until they are 69

Corporate Governance – Pg. 7

- ...US boards are "male, staler and frailer" than their European counterparts, having directors who are older on average, stay in post longer and are less likely to be women
- In the US, where there is no single code, investors have shied away from saying they will automatically vote against longstanding directors, but Calpers and others demand an explanation when a term lasts beyond 12 years

- Shareholders are urging boards to deepen the pool from which they pick directors, moving away from the idea that a board member need be someone who used to be a chief executive

Fidelity calls for action to ease student debt – Pg. 12

- Bills introduced in Congress last year that aimed to create an income tax break have so far not gained traction, ...
- Tax breaks for student loan repayments could be included in such a package
- The student debt mountain in the US has almost tripled in a decade to \$1.3tn
- Only a small fraction of employers offer student loan repayment as a benefit,....
- (Prof Note: Student debt is the greatest crime society commits against the young. I worry the price of higher education has outstripped the value. Undergrad/grad is about \$300,000. This can be leveraged in simple real estate transactions to \$1.5m in asset size. That is the equity for six Baltimore row homes @ \$250,000 (just closed on one in June). Using 30-year money this will produce \$1,200/unit/mo in inflation protected annuity or \$7,200/mo. If the child takes this money and invests as suggested above, enters the military which pays for education and/or government position, etc, that pays for education and provides social security payments this takes the monthly annuity, at retirement to over \$10,000/mo in today's dollars. Why pay for an education? If God blessed me with a child(ren) I personally struggle if I would pay for their College/grad school. I can leave them perpetual annuities.)
- (Prof Note: I am beginning to form an opinion of parental goal(s): (1) Be financially self-sufficient in retirement and as an elderly person, (2) Leave child(ren) a business/annuity(ies) which are perpetual, and (3) Pay for the child's education. My thought(s) are still maturing on these goals but these are my current thinking. Please note I do not have children so if I am off-base...I can accept this...as I stated...my opinion is maturing on this subject)

Answer: \$1.3tn

15 August 2016

Question: What is retirement? (hint: It is an equation not an age!)

Renewables jump 70% in shift away from fossil fuels – Pg. 3

- The share of electricity that the world's 20 major economies are generating from the sun and wind has jumped by more than 70% in the space of five years....
- ...G20 countries collectively produced 8% of their electricity from solar farms, wind parks and other green power stations in 2015, up from 4.6% in 2010
- Seven G20 members now generate more than 10% of their electricity from these sources...
- China is the world's largest clean energy market, accounting for nearly 1/3

Customers vent fury over steep rises in US care policy premiums for elderly – Pg. 13

- US insurance executives have been accused of making "obscene" demands to suddenly double care policy premiums for the elderly in clashes that highlight growing tension over who pays for ageing societies

- Insurers argue the increases are necessary as people live longer, causing claims costs to soar
- Ultra-low interest rates have also eroded investment returns
- Much of the industry has stopped selling new policies, and insurers are allowed to increase premiums for existing customers if they secure approval from regulators in each state

Big banks unprepared for accounting shake-up – Pg. 14

- Nearly half of big banks around the world are unprepared for an international accounting standard due to take force in less than two years, even as they expect provisions for bad loans to soar as a result of the new rules
- The rules force banks to have provision on their balance sheets for expected losses in the future rather than actual losses already suffered
- Those banks that have made the calculations reckon the rules will result in a rise of at least 25% in total impairment provisions across all asset classes
- Banks are also forecasting that the rules, called IFRS 9, will cause their capital ratios to deteriorate: they are expecting core tier one capital – one of the most keenly watched metrics of the health of a bank's balance sheet – to decrease on average by half a percent, ...
- IFRS 9 is part of a suite of measures by the IASB to overhaul accounting since the financial crisis

Answer: Passive Income >= Active Expense

13 August 2016

Question: What is an “annuity”?

IMF warns of credit boom risks in China – Pg. 2

- Almost half of the shadow banking products that have fueled China's credit boom carry an “elevated” risk of default...
- The total value of risky wealthy management products, and other credit products generated by China's shadow banking sector was put at about 30% of GDP
- Shadow banking emerged as a force five years ago, ranging from interbank transactions through to wealth management products. By recording the products off-balance sheet, or by classifying them as “investments” rather than loans, banks are able to report higher capital adequacy ratios and set aside smaller provisions against bad loans
- China's overall debt level has soared to about 240% of GDP, driven by a surge in lending to non-financial state-owned enterprises that absorb about half of all bank lending but account for only about 20% of industrial output
- The fund forecast that China's economy will grow by 6.6% this year –at the lower end of the government's target range of 6.5 – 7.0% and then to slow further to 5.9% by 2020

Grosvenor Group – Pg. 7

- The sudden death this week at age 64 of Gerald Cavendish Grosvenor, the sixth duke, not only hands the title and the estate to his 25-year-old son, Hugh. It also brings the latest test of durability for an empire founded on 300 acres of land and property in west London that

the late duke helped to modernize, and which underpins the white-stucco facades of Mayfair, Belgravia and beyond

- ...pained awareness of the burdens and responsibilities of great inherited wealth...
- Seeded by an arranged marriage in 1677 between Sir Thomas Grosvenor and Mary Davies, 12-year-old heiress to 500 acres of swampy farmland west of the capital, the estate was laid out and developed by the family in the 1700s. It includes some of London's most exclusive addresses, such as Eaton Square, Grosvenor Square, site of the US Embassy, the freehold of which family trustees refused to sell to the US, and such well-known London locations as the Beaumont Hotel and the Gagosian Gallery
- When his father died in 1979, London was reeling from the property crisis of the early 1970s
- With its expansion into 60 cities, Grosvenor Group – the holding company for the Duke of Westminster's property – has become one of the most successful
- Today the estate is divided into Grosvenor Group, which managed 13.1bn (sterling) of mainly urban real estate – including assets run for third parties – and employs 567 people; Wehatsheaf, which invests in agricultural and renewable energy businesses; and the family office, which employs another 470 people and manages rural estates in the UK and Spain, plus other interests such as fine art
- The property division directly owns 1,550 properties, with a specialty in urban regeneration. Overseas, they include shopping centres in Vancouver, Stockholm and Shanghai, and luxury developments in Hong Kong and Tokyo

Answer: A fixed sum of money paid to someone each year, typically for the rest of their life

12 August 2016

Question: Is adultery a crime in OH, VA, MD, and/or DC?

Australia blocks electricity sale to China – Pg. 2

- Australia has moved to block a \$7.7bn sale of a controlling stake in the country's biggest electricity distribution network to two Chinese companies on national security grounds
- Chinese investment in the US, Europe and Australia has hit record levels, underlining Beijing's growing importance as a driver of global growth and source of inward investment

Investors steer clear of equity ETFs – Pg. 11

- The amount of new money raised by exchange traded funds exposed to global stock markets has dropped 85% in the first half of 2016, in a rare sign of pressure on the passive investment industry
- Billions of dollars were wiped off value of global stocks at the start of the year as concerns mounted about slowing growth in China. Markets were also turbulent after the Brexit vote

US bank sacks lawyer for romance with Fannie Mae chief – Pg. 13

- The largest bank in Ohio fired its top lawyer last month after she said she was in a romantic relationship with the chief executive of Fannie Mae, the government-backed mortgage company – who has been allowed to keep his job

- When Timothy Mayopoulos, the 57-year-old Fannie Mae chief, told an internal office of compliance and ethics in March he was in a relationship with Heather Russell, who was chief legal officer at Fifth Third, his employer had no problem, and merely advised him to recuse himself from matters connected to the bank (Prof Note: Can we say “double standard”?! If ever I wanted a group to rally it is NOW! This is outrageous!)
- ...Fifth Third considered that the relationship represented “a conflict of interest”...
- Both Mr Mayopoulos and Ms Russell are married and separated (Prof Note: In Maryland adultery, which is what each committed, is illegal! Hello! Where are the groups rallying for Mayopoulos’s termination?!)

Sterling slips further below \$1.30 mark – Pg. 18

- The pound hit its lowest level in a month, sliding further below the \$1.30 level, as the fresh monetary stimulus from the BoE sapped investors’ appetite amid broader resilience from the dollar
- Yesterday it fell as much as 0.6% to \$1.2934, its weakest level since July 11

Answer: My non-legal background and research, i.e. confirm this answer, shows that adultery is illegal in VA and MD but not in OH or DC. So, Mr Mayopoulos and Ms Russell may not have committed any crimes, just ethical violations to the level that Mr Mayopoulos had to disclose and Ms Russell was terminated. For the record, I am not saying and/or arguing adultery should be legal/not legal and/or either/both should be charged. I am saying that Mr Mayopoulos should be terminated as well as Ms Russell.

11 August 2016

Question: Warren Buffett created what percentage of his current wealth after age 50?

Britain’s bond-buying accelerates collapse in global borrowing costs – Pg. 1

- Britain’s revived programme of mass bond-buying accelerated a fall in global bond yields yesterday in the latest sign of how central bank policy has intensified a worldwide collapse in borrowing costs this year
- The speed and extent of market reaction to the BoE’s monetary easing programme indicated a change among investors who previously doubted the ability of central banks to further suppress bond yields...
- Demand for UK bonds meant yields on two short-dated gilts due in March 2019 and March 2020 briefly traded in negative territory yesterday while interest rates across all other maturities fell to fresh lows

US workforce openings rise despite weak growth pace – Pg. 3

- The number of job openings rose to 5.62m in June from 5.51m the previous month....
- The rise was driven by increases in business services, education and health
- The report also showed that 2.91m people quit their jobs in June, compared with about 2.94m in May, leaving the quits rate, or the rate at which people voluntarily leave their job,

steady at 2%. This measure is a favourite of Janet Yellen as a higher number indicates workers have confidence they can find a new job

- ...quits rate suggests that average hourly wage growth could rise to about 3% by the end of the year

Four hurdles emerge for US earnings growth – Pg. 18

- After five consecutive quarters of earnings declines, investors have patiently awaited a recovery in profitability by the largest US companies
- Brexit: The UK vote to leave the EU in June triggered a sharp depreciation in sterling with the currency having fallen some 12%
- US consumer: Second-quarter growth for the US economy was shored up by the consumer, as a dismal 1.2% overall growth rate was overshadowed by the fastest rise in personal expenditures in a year
- Oil prices: The oil price is key to a return to growth for S&P500 earnings
- Wage pressures: Higher wages represent a boon in the form of greater consumer spending for S&P500 companies. However, a rising wage bill for workers is expected to clip margins as payrolls increase

US and Eurozone junk yields decline sharply – Pg. 20

- Yields on US and Eurozone speculative grade rated bonds fell sharply yesterday, thanks to a global hunt for income spurred on by central bank purchases of corporate debt
- Also yesterday, the risk premium or spread above the rate paid by government bonds fell below 400bps for the first time since July last year
- The shift is the latest sign that the inclusion of investment grade bonds in the ECB's asset purchase programme – as well as an announcement that the BoE would start buying the assets in September – has compelled investors to buy riskier assets
- US corporate debt has also been buoyed by stimulus measures from global central banks, as foreign buyers are attracted by the country's higher market interest rates

Answer: 80%

Article Attached: A respected peer, with whom I am lecturing entrepreneurial classes in Canada, sent me this article, 20 signs You're Destined to Become a Millionaire, and I thought so much of it I am attaching it. While I had not put together a list, some of the signs were what I have been professing for years. #13, You aren't divorced, I have mentioned to just about every class. One of the most important decisions one can make in their life is their spouse. A bad decision and look what it does to your personal wealth. A good decision...just the opposite. #14, You can defer gratification, is the same as my statement that consumption is the root of destructive wealth. The only things I would add is that wealthy individuals tend to be in good physical shape and take care of themselves. Also, the wealthy look to commoditize expenses, i.e. how can I derive revenue from an investment when not in personal use? #3 succinctly explains my personal successes!!!

10 August 2016

Question: Divorce reduces a person's wealth by what percentage compared to that of a single person?

Bank of England runs into trouble on second day of post-Brexit QE drive – Pg. 1

- The BoE's new bond-buying programme ran into trouble on its second day yesterday, as pension funds and insurance companies struggling with a deepening funding crisis refused to sell gilts to the central bank
- The auction shortfall triggered a sharp drop in gilt yields as investors questioned whether the BoE will find enough sellers to complete the revived 70bn (sterling) easing scheme

US debt levels point to strong turnaround but student loans buck trend – Pg. 3

- America's turnaround from the worst debt crisis in modern times is gathering strengths as new foreclosures tumble to their lowest levels since record began at the end of 1990s and fewer borrowers fall behind on their mortgage payments
- ...student debt, where late payments have remained doggedly high
- ...the share of loan balances that were 90 or more days overdue declined to the lowest level since 2007 for mortgages and to a record low for credit card loans
- The strengthening record of US borrowers shows the effects of gradually rising wages, falling unemployment and ultra-low interest rates. It also reflects much tougher lending standards by banks and other financial institutions, with just under \$15bn of mortgages extended to people with lower credit scores, a fraction of quarterly levels that reached \$100bn during the subprime lending boom in the past decade
- Rebounding US property prices have meant that home equity for owners with a mortgage has nearly doubled to \$6.9tn in the past four years...
- Some 92% of mortgaged houses had equity in the first quarter, if found. That still left key weak spots in some parts of the country, with Nevada, Florida and Illinois still nursing the largest shares of homes in negative equity
- The share of student loan balances 90 or more days overdue held at above 11% in the second quarter for the eighth quarter in a row
- Americans were sitting on \$1.26tn of student debt in the quarter, compared with \$439bn a decade earlier. The total due was higher than amounts on car loans and credit cards

Pound falls below \$1.30 on dovish hint – Pg. 18

- The currency's fall has left sterling on course for its fifth successive session of declines. The dollar was also stronger on the wider currencies market - ...
- There were indications that the BoE was looking at a potential deeper rate cut and further stimulus spending after August's meeting....
- (Prof Note: I am seriously thinking of a long weekend in London. Julian J....can you hook me up with your flat?)

Libor rise bumps up company borrowing costs – Pg. 18

- Companies face their first increase in borrowing costs since the financial crisis as incoming rules for prime money market funds spur higher short-term interest rates
- Payments on floating-rate loans issued by dozens of companies are set to rise as US dollar Libor has for a period of three months climbed above 0.75%

Answer: 77%

9 August 2016

Question: Being and staying married increases a person's wealth by what percentage compared to a single person?

London unveils gold futures platform – Pg. 18

- Investors will soon be able to trade gold through a London-based futures contract, in a move its backers claim will make the world's largest hub for the bullion more transparent as they go up against the top precious metal banks
- About three-quarters of global gold bullion dealing is done directly between buyers and sellers as it has been for decades
- London's two largest bullion banks, HSBC and JPMorgan, have not signed up to the project, raising questions about its prospects as it potentially splits the market into two rival camps
- London's 250-year-old gold market is being forced to reassess the way it does business by new rules, many of them introduced since the benchmark-rigging scandals that rocked foreign exchange and interest rate markets
- As recently as 18 months ago the price of gold was still set, or "fixed", twice a day by a small group of banks conferring over the telephone with clients
- Bilateral trading has become more expensive because of stringent capital requirements imposed on banks after the financial crisis
- Gold liquidity – the amount traded on any one venue – has fractured and helped rivals such as Comex in New York and the Shanghai Futures Exchange to chip away at London's dominance
- Gold, one of the most actively traded commodities, is rising in popularity among investors because of falling interest rates and shocks such as Brexit

Caution returns as consolidation sets in after US jobs report gains – Pg. 19

- US and European stocks began the week on a cautious note as the markets consolidated the sharp gains triggered by Friday's reassuring non-farm payrolls report
- The chances of the US central bank acting in September has more than doubled in the past month, ...while the yield on the 10-year US Treasury, although flat yesterday at 1.58%, has risen 26bps from a record low hit in early July

Answer: 93%

8 August 2016

Question: Why is the "=NPV()" equation in Excel incorrect?

Fed's Powell warns of stagnation trap – Pg. 2

- There is an increasing risk the US economy has become trapped in a prolonged period of subdued growth that requires lower official rates than previously expected...
- Economists led by Larry Summers, former Treasury Secretary, have been propounding the sobering theory the US may be mired in so-called secular stagnation – a trap of lethargic economic growth and depressed interest rates
- Having lifted rates in December by a quarter point to a range of 0.25% to 0.5% and leaving them there since, the Fed is weighing conflicting signals at home and overseas as it looks towards its September meeting
- To support a rate increase, Mr Powell said he would want to see strong growth in employment and demand; inflation heading back to 2%; and an absence of obvious “global risk events”

The great escape – Pg. 9

- It [IMF] expects the pace of GDP growth in emerging markets to increase every year for the next five years while developed markets stagnate
- Big questions still hang over the asset class, in the shape of the US Federal Reserve’s monetary policy, China’s inexorably rising mountain of debt, and still fruitless search of emerging market economies for a growth model to replace the commodity and credit-driven booms of the first dozen years of this century
- Developed markets have also become much less dependable as a source of growth and investment returns, especially for US public sector pension fund managers who must somehow try to secure returns of 7 to 8% a year
- ...more than 30% of global government bonds are trading at negative nominal yields, and a once-reliable source of returns for would-be retirees, and many others, has run dry
- The problem is that the effort required to make China’s economy “pop” each time is getting bigger and bigger. Before the global crisis, China needed one dollar of credit to deliver one dollar of growth. Now the ratio is six to one

Non-compete clauses spark American backlash – Pg. 13

- ...California, where non-competes are not recognized under state law
- ...broader debate on employment law under way in state legislatures across the US, where established corporate interests and lobbyists for the entrepreneurial sector are battling each other
- ...nearly a fifth of US workers are bound by non-compete agreements – meaning the clauses are either within their existing employment contracts or they continue to be bound by them after leaving jobs
- Employment lawyers are divided on the problem of non-compete clauses. On one hand, the agreements can protect a company’s trade secrets. But opponents say they stifle the flow of talent, crippling innovation and shifting bargaining power to the employer
-14% of people earning less than \$40,000 are subject to non-compete agreements

Answer: It discounts to a period one period prior.

6 August 2016

Question: Which accounting statement has the most estimates?

US jobs figures buoy prospect of Fed rate rise – Pg. 1

- US employers hired far more workers than expected for the second straight month, providing firm evidence that a jobs recovery is back on track and keeping alive the prospect of a Fed Rsv interest-rate increase this year
- Payrolls expanded by 255,000 in July...
- The unemployment rate held steady at 4.9%, but another carefully watched indicator of hiring health – rose for a second month. The increase to 62.8% from 62.7% in June sowed more people are being drawn off the sidelines and into work
- The Fed has to reconcile strong hiring trends with subdued economic growth, as US GDP increased at an annualized pace of just 1.2% in the second quarter

Stagnation saps enthusiasm for Europe's banks – Pg. 13

- As a whole, the value of the 48 banks has fallen 28% in 2016
- Their own funding cost can hardly be lower, thanks to a scheme that allows lenders to swap assets for cash
- If investors think banks can make only a 5% return, but they want 10% annual return in order to invest, they will buy when the bank trades at half its book value per share
- Yet the second problem is one of capital. To work out a value per share, some certainty is required about the number of shares in issue, which is hard to know if regulators force a bank to raise money by selling new shares to shareholders

Answer: Balance Sheet

5 August 2016

Nevis News: Wait for the next installment. General comment is that skilled labour on Nevis, e.g. Architect, is about \$25 USD/hour. Attorneys quote pricing in U.S. dollars and my published price is \$250/hour. Even better, everything is really negotiated fixed fee so attorney does not bill to the closest six minute interval.

After repeated requests, attached is a picture of Nevis 5-0! The colour disallows late-night stakeouts or stealth! Top speed is 50mph between Lovers Beach and Mt. Nevis entrance. No air conditioning and radio broke in the late nineties. The good news, if you want to assess road conditions you can look between your knees and see the surface! **Fun fact:** Nevis does not issue license plates only numbers. Nevis 5-0 actually has the license number painted on the body.

Question: What is the nicest vehicle(s) on Nevis?

World Bank draws ire with rule changes – Pg. 2

- The World Bank's place in the global economy is in question as it faces growing competition from new institutions such as the China-backed Asian Infrastructure Investment Bank

- The new standards for the first time include requirements on Labour and working conditions on World Bank projects
- Also incorporated are bans on discrimination against people on any basis, requirements for borrowers to estimate the impact for projects on climate change and a nod to human rights in an introductory “vision statement”
- The biggest change, however, is that rules are becoming more flexible, giving more power to borrower countries
- They also would allow governments to put off drafting things such as plans for relocating people affected by dams and other big infrastructure projects until after loans have been approved

Decline of the start-up nation – Pg. 7

- Readiness to fail is essential to entrepreneurship and more aspiring businesspeople need to recognize it,...
- ...a host of indicators suggest large tracts of American have lost some of the entrepreneurial verve that made the country the biggest economic success story of the past century
- Half the growth in business establishments from 2010-14 occurred in just 20 countries...
- ...broader signs that the US is not the start-up nation it once was
- ...the portion of the US workforce employed in young companies has been shrinking, as the as has the pace at which new employer-owned businesses are created
- ...Americans change jobs and move between geographies less frequently
- ...market power is consolidating in the hands of a few large companies in many industries
- Some analysts have suggested there is a particular problem with millennials, who perhaps as a result of record-high levels of student debt or a paucity of home equity with which to leverage loans, are starting businesses at a lower rate
- A quarter of workers require a licence to do their jobs, with the share of workers licensed at a state level up fivefold since the 1950s

US credit push stokes fears of a house of cards – Pg. 13

- In the past year, US banks have piled on about \$54bn worth of loans to consumers through credit cards and overdrafts,...
- They are also lending more in other sectors, from industry to commercial property, as they try to combat a historic squeeze on profit margins caused by rock bottom interest rates
- While credit card lending is unsecured, banks are attracted by the prospect of hefty returns
- For now at least, borrower default rates are near historic lows
- Banks are lending more as one of the most important drivers of their profits – net interest margins, the difference between returns on assets and the cost of funds – remains near the lowest level in decades
- Subprime loans have been the fastest-growing part of the market, and delinquency levels are rising
- ...the average credit limit per card for a subprime borrower was little changed at \$2,300. This compared with about \$11,500 for the safest customers

Answer: Porsche Cayenne

4 August 2016

Nevis News: In some ways Nevis reminds me of Mongolia. In Ulaan Baatar I was surprised by the number of females working in the cities. I was told it was due to the males being needed out of the city. As a result, the women were better educated and, thus, enjoyed the better city positions. Nevis is similar but for different reasons. Education typically ends at high school with, possibly, college if a scholarship is offered (Anne Bass offers at least two full 4-year scholarships). Due to the difference in Male/Female maturity growth, the women do better in school and therefore are better situated for the office positions. What is now happening is male Gen Y on Nevis do not want to work outside (who can blame them with the heat) which leads to individuals from other islands doing the manual work on Nevis. This is becoming divisive between “locals” and causing more youth unemployment.

Attached is a picture from the gardens.

Question: How long does it take to return to DC from Nevis?

Federal Reserve adds \$36m to Goldman fines over abuse of confidential data – Pg. 11

- Shortly after arriving, Mr Bansal began to receive dozens of documents from a former colleague about a Goldman client – an unnamed midsized bank – which he had been charged with surprising at the Fed. Mr. Bansal then passed that intelligence to his new colleagues at Goldman, breaking rules banking leaks of confidential information (Prof Note: Sounds like Bluestar airlines?!)
- (Prof Note: What is wrong with all these people? If it is not yours, return it!)

Pension funds caution over effect of more QE – Pg. 20

- Pension funds in the UK have urged the Bank of England to think carefully about the detrimental effect a fresh round of quantitative easing would have for savers before officials meet today
- Yields on benchmark 10-year gilts dipped to a new low of 0.68% at the end of last week as investors anticipated a renewed stimulus programme by the central bank to mitigate the negative effects of the UK's vote to leave the EU
- Over the past few years, falls in bond yields used to calculate liabilities have forced many defined benefit “final salary” pension schemes into deeper deficit ...
- The UK pensions industry warns additional purchases of gilts by the BoE would probably add billions of pounds to pension fund deficits already at a record high
- The BoE has said QE has a neutral influence on fully-funded pension schemes because the value of assets has increased at the same time that liabilities rose
- While mortgage holders and corporate borrowers have benefited from falling interest rates, savers approaching retirement and looking for a secure income have been hit by falling gilt yields, with annuity rates hitting new lows following the EU referendum

Answer: Door-to-door, 14 hours. It is very difficult to shave time off this trip. The largest issue for Nevis to overcome, in my opinion, is transportation time, i.e. it simply takes too long to get there compared to other islands.

3 August 2016

Nevis News: Nevis 5-0 has the skinny on crime. There have been 22 murders this year (mostly on St. Kitts) but the number may be 23, i.e. someone has gone missing. All crime is local-on-local and seem to be “gang” related. There were 30 murders last year. Note that a Nevis Gang is NOT what you think of in the U.S. It is a loose grouping of males that were born in the same area and when they are seen together they are labeled “gang”. While I do talk of crime, I feel the need to say that I feel safer on Nevis than DC (though I feel very safe there as well). I also am mid-forties and do not go to the bars at night so am not in a high-trouble area.

The Chinese project has completely stopped after Anne Bass chimed in against it. We knew this would happen and it was predicted. Yet another failed project. Real estate is not moving on the island, i.e. there are no sales.

I have seen very few tourists and the island is quiet. Lobster is plentiful and cheap at the moment. Attached is a picture of “The Ghaut”. The stairs lead down to the walking trails and additional gardens below. The bridge was built too narrow to accommodate cars to disallow for any generation using it as a road. The bridge accommodates golf carts and tractors only.

Question: What is the going rate on Nevis for house cleaning?

Japan returns to loose fiscal policy – Pg. 2

- Japan has launched a fiscal stimulus that it bills at \$276bn. The package marks a shift back to loose fiscal policy, but the economic impact is likely to be less than the headline would make it seem
- Since 2014, Japan’s economy has been going nowhere fast, with sluggish consumption, weakness in exports to China and now the shock of Brexit. Inflation has dipped back below zero

Australia cuts rates to record low on back of inflation fall – Pg. 2

- The Reserve Bank of Australia has cut interest rates to a record low of 1.5% to try to stimulate an economy suffering its slowest rate of price growth in 17 years
- ...slower growth in mortgage lending and house prices as well as an increasing supply of apartments provided it with scope to combat “quite low” inflation
- The cut follows a surprising fall in headline inflation, which at 1% is below the RBA’s target band of between 2 and 3%. Australia has enjoyed 25 years of recession-free growth but now faces the challenge posed by the end of a mining investment boom and falls in commodity prices

Sales bonanza that drove US recovery slows as carmakers hit by flat July – Pg. 11

- US car sales, which helped drive the country's recovery after the financial crisis, appear to have peaked as most carmakers reported flat or slowing US sales for July

Microsoft joins the low-yield stampede – Pg. 18

- Microsoft has joined a lengthy list of US blue-chip companies taking advantage of record-low borrowing costs and also satisfying robust demand from investors seeking long-term fixed returns
- It lifted US high-grade corporate bond sales for the year above \$500bn...
- Foreign investors have shifted into the US rapidly as the ECB and BoJ have cut interest rates into negative territory and stepped up bond-buying programmes
- While yields for US Treasuries and investment-grade paper remain just above all-time lows, they still trade well above debt in Europe and Japan

Answer: \$25 EC/hour or just under \$10 USD/hour

2 August 2016

Nevis News: Ok...reconned Four Seasons. The cheapest room with tax is \$600/night. They are 50% occupied and 20% of the villas are occupied. Lunch today was \$68. I learned the guests receive a 20% discount from the published price for meals (did not ask about alcohol). Guests also receive 50% discounts on published golf prices, e.g. the \$200 for 18-holes costs a guest \$100. Of course, Cat Ghaut is \$20 (new price increase going in at end of month) for 12-holes. There is also a 'Liming in Luxury' package whereby residents, i.e. me, pay \$50 which can be applied to anything purchased and we receive basically a day pass for the Four Seasons.

As I have been requested to include pictures, attached is one of my greatest creations. I call it a "Gulliver Bench." I had them built and placed around the course. I cannot stand public benches. They are built too short to lie upon and some places place a bar in the middle preventing it entirely. Further they are stationary and not wide enough to comfortably cradle an adult body. So, I realized my dream of creating the perfect napping bench. 7' long, 2' wide, swings AND has a two-person cup holder that comes down from the middle, if sitting. As if that is not enough, it is tilted in such a way that one can roll out of it without falling. Now you know where I am most days on Nevis between 4 and 5:00pm....asleep on my Gulliver bench!

Question: What is the island word for "hanging out"?

New York Fed chief cautions on rate rise – Pg. 2

- ...also argued that it would be premature to rule out further increases in interest rates this year, as some investors have done, adding that if the economy performed well, rate rises could come sooner than traders expect
- Other factors may also prompt caution from the central bank, ...these included the view that longer-term drags on the economy meant US monetary policy was only "moderately accommodative" at current levels; the potential impact of overseas setbacks on US financial conditions; and that it was a bigger risk to lift rates too soon than to wait

- The Fed also needed to take into account depressed growth elsewhere, which is prompting other central banks to keep policy easy or loosen it further. This has a knock-on effect on the dollar, which could weigh on US exports if it is driven higher

Insurers – Pg. 9

- Insurers globally are having to come to terms with the idea of “lower for longer” interest rates, making deep changes to business models that had been unaltered for decades. Whereas previously they might have clung to the hope that higher rates were around the corner, there is a realization that the industry has to do things differently – from investing in assets that might once have been seen as too risky, to experimenting with new products
- Interest rates play a big part in the way insurers make money: they dictate the guarantees life insurers offer clients; they influence the value of long-term liabilities and also the pricing of property and casualty insurance. Above all, they determine the returns that insurers make on investments
- At the end of last year, bonds made up about 68% of US property and casualty insurers’ total investments and 76% of life insurers’, ...
- By last year the net yield on US life insurers’ overall invested assets had fallen to 4.7% - about a quarter lower than 2002 levels
- ..capital rules have made it tough for insurers to own lots of shares
- Infrastructure investments are particularly popular as they offer the long-term cash flows life insurers need to back their promises
- Insurers are also starting to replace banks as lenders to companies and individuals. Some have even moved into aircraft and ship leasing
- Life assurance customers may see the biggest changes. For decades, the industry has offered savings and retirement products that offer guaranteed minimum returns. In the future, these may no longer be on offer
- This would be a major shift. In the US, products with guarantees account for 60 to 80% of US life insurers’ balance sheets,...
- So what replaces annuities and other guaranteed products? The answer is what insurers call unit-linked products. These make no promises: customers’ investments simply rise and fall with the markets. They are similar to traditional asset management products
- For the insurers, there is a lot to like. With no guarantees to meet, capital requirements are low. The income is also more predictable as it is based on regular fees
- In the US, insurers specializing in long-term care are under particular pressure. Low interest rates have exacerbated the problems caused by rising treatment costs and improvements in longevity. Many providers have stopped selling new policies

Answer: “Liming”. My buddies and I were liming at the store.

1 August 2016

Nevis News: It rained both days this weekend. However, it was cooler on Nevis than Baltimore. We had two sets of golfers come on Sunday, despite the rain (see attached picture). Still operating at a loss but will raise fee from \$10/person to \$25/person. More intel on the murdered fisherman from last week.

Apparently, he had just sold a boat of fish over at St. Kitts and was killed on Nevis during the day in the open. No one saw a thing, i.e. island culture. Tourists are NOT being targeted...tourists are the life blood of this island.

Monday (today)/Tuesday are holidays on the island. More Carnival activities. Raw land is for sale for about \$100,000 USD for a 1/3 acre. It varies, obviously, by location. Paradise Estates, location for ex pats, sells at a premium, e.g. \$120,000. Nice view(s) of St. Kitts from some lots. However these houses are targeted for robbery. Interesting trivia: during home robberies flatware is most always taken.

Asked Olive about Hillary Clinton and she noted the problems she was having but said, "...is more experienced." I tried to ask her views about the social issues in the Carolinas with bathrooms and the conversation became uncomfortable quickly so I stopped. I think the conversation ended with her concerned I wanted to use the woman's room in public but I am unsure. These issues do not exist on Nevis.

Question: How long does it take to circumnavigate Nevis by car?

US \$28bn credit card debt spree sparks risk fear as economy slows – Pg. 1

- US banks have ramped up lending to consumers through credit cards and overdrafts at the fastest pace since 2007, triggering concerns they are taking on too much risk in a slowing economy
- The industry has piled on about \$18bn of card loans and other types of revolving credit in three months, as consumers borrow more and banks battle for customers with air miles, cash back deals and other offers
- Across US banking, credit card and other revolving loans rose at a seasonally adjusted annual rate of 7.6% in the second quarter...
- The credit card business remains among the most profitable in banking. Lenders can charge much higher interest rates – typically between 12 and 14% - than for other types of credit and borrower delinquencies are still low by historical standards

Election expected to chill US economy – Pg. 2

- More than two-thirds of economists surveyed by the Financial Times said the contest between Donald Trump and Hillary Clinton would act as a headwind to growth in the US, blunting large scale investments until after businesses have a better view of the regulatory, tax and government spending climate
- The IMF has predicted US growth will slow this year to roughly 2.2%, a slight deterioration from 2015 as productivity slips and the dollar's strength inhibits the competitiveness of US exports

Bank stress tests single out the usual suspects – Pg. 15

- Italy, the problem country in the 2014 tests, again topped the dishonours list,
- Ireland's banks found themselves in the line of fire again, much of the chagrin of Irish bankers

- German banks, which have been forced to defend their capital adequacy time and again, accounted for four of the 10 deemed the worst affected in the event of another crisis
- And two of the UK's biggest banks – Barclays and RBS – languished near the bottom of the rankings for capital strength

Answer: 45 minutes! Remember to drive on the left!

30 July 2016

Nevis News: Much concern about Four Seasons Management and whether the resort will close for renovations as they are opening another on Anguilla. It is Carnival and today they are having crafts displayed in town. (note: On Nevis there is no distinction...there is simply "Town" as there is only one, i.e. Charlestown.) It has rained all morning and I am hopeful this makes the day a little more tolerable.

Today I will do a little recon for the Four Seasons. I will go in and see how the Villas are selling and price points. Last I checked they were selling for \$1,000/sf (USD).

Question: At the Bank of Nevis what is the annualized rate for EC Savings accounting and USD Savings Account?

BoJ's modest stimulus disappoints markets – Pg. 2

- The Bank of Japan said it would double its annual purchases of equity funds to ¥6tn as it launched a modest additional stimulus that disappointed markets and sent the yen soaring to 103.5 against the dollar
- The central bank kept overall asset purchases unchanged at \$762bn a year and held interest rates at minus 0.1%. but in a signal that further action is possible...ordered a "comprehensive assessment" of the economy and the effectiveness of BoJ policy
- The bank also said it would double the size of a dollar lending facility to \$24bn to help Japanese businesses overseas
- The BoJ cut its forecast for inflation in the year to March 2017 from 0.5% to 0.1% but kept its forecast for the following year unchanged at 1.7%
- The decision to keep policy on hold came after new data showing Japan is still mired in deflation, with prices down 0.4% on a year ago in June
- Inflation is weak because of declining commodity prices, the recent strength of the yen and sluggish consumer spending

US expansion slackens amid fears over global weakness – Pg. 2

- The US economy expanded at a significantly slower pace than expected in the first half of 2016, ...adding to fears that global weakness and trouble in the oil industry may have had a greater impact than previously forecast
- The biggest developed economy expanded at an annualized pace of 1.2% in the three months ended June, from 0.8% in the first quarter...
- The market-implied odds of a 2016 rate rise fell in the wake of the report to 37.3%, from 44.9% on Thursday, and almost 50% on Tuesday...

Red battles blue in the disunited states of America – Pg. 9

- The parties and their rival candidates – Donald Trump and Hillary Clinton – do not just disagree profoundly. They deny each other's legitimacy and fitness to govern
- The danger, however, is that the collective impression given by the Democratic convention is that the party is increasingly a collation of marginalized and the disadvantaged, with little to say to Middle America except, "get over your vulgar prejudices"
- Rather than competing for a diminishing number of undecided voters, both are attempting to rally their core supports
- (Prof Note: On Nevis there are three distinct groups: (1) Tourists, (2) Expats and (3) Locals. There is actually an unclassified fourth group which I will label "Islanders from different islands." There is definitely a hierarchical structure for "islanders from different islands". It matters on Nevis, especially for employment. This microcosm of 12,000 people is interesting to watch...nothing really changes and the groups, largely, remain very distinct. I will ask the "Knower of all", Olive, my nanny, about the social issues we are experiencing in the U.S. Olive is in church daily and carries a bible (and reads it) daily.)

Answer: 200bps and 75bps, respectively. I now hold 95% of monies, on Nevis, in EC savings! Location and Colour (currency) matter!!!

29 July 2016

Nevis News: Much talk of the Four Seasons closing for renovations. The last time the Four Seasons Nevis closed they told employees one day: "All is fine." The next day employees received a letter providing them 30 minutes to leave the grounds. The weather is hot and no rain at all today!

So, I took the 1995 Suzuki Samurai to a mechanic two years ago for body work and a paint job. After 23 months it still was not done (had been prepaid). Mechanic wanted more money. Nevis has debtor prison and I threatened to sue him into incarceration and took legal action. The jeep was done in two weeks. It was done to specification, complete body work and painted blue. Never, NEVER did I think there was an ugly shade of blue. Well, if you see an ugly blue Samurai while on Nevis, that is me, i.e. in the ugliest car on the island. Clearly my U.S. culture got the best of me!

Question: What is 2015 Nevis/St. Kitts GDP?

IMF accused of bowing to Brussels pressure in Eurozone debt crisis – Pg. 1

- The IMF repeatedly succumbed to political pressure from European governments during the Eurozone debt crisis...
- The independent Evaluation Office highlighted a litany of flaws in the IMF's "uneven" response, prompting calls for greater clarity over its rescue strategy
- ...the report is likely to fuel suspicions of some emerging market IMF shareholders and some of its staff that it repeatedly bent its own rules to help out the Eurozone

- The inspectors said the troika arrangement – in which the IMF worked alongside the European Commission and ECB – potentially subjected the technical judgment of IMF staff “to political pressure” from an early stage

The US student debt bubble is a study in financial dysfunction – Pg. 9

- Mr Sanders brought America’s \$1.2tn student debt bubble into the spotlight, arguing for free college tuition so that young people entering a lackluster US labour market would not be hamstrung by debts they could never repay
- The majority of college graduates in the US now move back home with their parents, often for several years. The class of 2016, the most indebted in history, cannot afford homes, cars, or other trappings of a middle-class life, which is an obvious problem for an economy 70% of which is accounted for by consumer spending
- ...the price of college has increased by over 1100% in the past three decades; vulnerable borrowers paying above-market rates (student loan prices, fixed by the government, have not fallen despite near zero interest rates); corruption (scandals involving Pell Grants, subsidies for low-income students, have been rife); conflicts of interest between educators and regulators (which are predictably understaffed and underfunded); and a victim-blaming mentality when it all goes wrong...
- While too many students sign up for useless degrees in things like sports marketing, it is also true that they are aggressively pushed into it by both non-profit and for-profit institutions that spend an increasing amount of their revenue on marketing to students.
- Apollo, parent company of the for-profit University of Phoenix, which went public in 1994, at one point had a marketing budget larger than Apple’s
- Colleges, too, often invest in luxury facilities to attract richer (full-fee paying) students, or in the case of the for-profit sector, take big profits (margins typically run above 30%)
- While a degree does ensure a job paying more than \$15 an hour for most graduates, it is no longer a ticket to social mobility for the poorest Americans, in part because so many end up in second- or third-tier colleges, and a large chunk of those who try for a degree end up dropping out, many because of financial issues
- Among those who do graduate, debt loads can equal downward mobility
- ...the average student debt burden for a married-couple with two four-year degrees (\$53,000) actually led to a lifetime wealth loss of nearly \$208,000
- (Prof Note: Let us rethink the value of a Ph.D.!!! You spend three years of indentured servitude doing coursework, then 2 years writing a dissertation and you come out “brilliant”. Take those 5 years and learn how to build and run a business and you come out “wealthy”. How can a finance professor that earns \$90,000 - \$120,000/year possibly understand anything about true finance, i.e. building and managing personal wealth?! If they were/are so brilliant, why do they not have “wealth”? I challenge everyone to ask their finance professors net worth and active income! I have never failed to answer those questions when asked! (What I will not address is passive income...also...before I receive a flurry of emails...I will answer in a classroom...judge a finance professor by the size of their wallets more than their Ph.D.s!)

Dollar dips following Fed’s dovish appraisal – Pg. 20

- ...Federal Reserve was judged to have extinguished the chance of a rate rise in September

Answer: \$920,000,000 (no typo...that is accurate)

28 July 2016

Nevis News: Crime is on the rise mostly on St. Kitts but Monday a businessman on Nevis was murdered for 20,000 EC, i.e. \$7,000 USD. Jumby, the “cat” in Cat Ghaut, apparently lost a battle and is down to one eye (the other looks like it is healing). The first question posed by Nevisians when they see me, “What do you think about Trump?”. Olive (my nanny) said, “he is a ‘joker’ and to be president you must be serious.” The island is hot, Hot, HOT! Heading into town to visit Bank of Nevis...will see what I can learn about monetary flow...

Question: While file backup service do I use for my computer? Note: It worked wonderfully when I just needed it for the first time in six years. Highly recommended!

Fed keeps door open to prospect of second rate rise by end of year – Pg. 1

- The FOMC kept the target range for the federal funds rate at 0.25% to 0.5% at the end of its latest two-day meeting, leaving the rate where it has been since the Fed lifted it by a quarter point from near-zero levels in December
- It has three scheduled meetings left this year in which it could move rates – in September, November and December and its words left open the chance that it could act as soon as September
- The US central bank signaled that some of the worries that hung over its meeting in June has since abated, notably the prospect of a severe blow to global markets stemming from the UK’s referendum vote to leave the EU
- ...the Fed also maintained that it remained on guard for renewed turbulence in markets or world economies, suggesting it would continue to trade carefully before considering a second rate rise
- The IMF this month trimmed its world growth forecast because the Brexit vote has caused a “substantial” increase in economic, political and institutional uncertainty. But the fund left its forecast for US growth next year unchanged at 2.5% while paring its 2016 outlook

Emerging market debt yields hit record low – Pg. 18

- Emerging market sovereign bond yields have plunged to record lows this week as the post-Brexit rally gathers pace
- The average emerging market government bond yield has dropped to an all-time low of 4.47%, ...
- As developed market sovereign bond yields have fallen after the vote and yields on a growing pool of debt – roughly \$13tn – have turned negative, investors have piled into emerging market bonds, which offer substantially higher yields
- Emerging market corporate junk bonds have returned 14.2% so far this year, compared with 12.5% for US junk, 5.7% for euro-denominated junk and 5.6% for sterling junk, ...

Answer: Carbonite

27 July 2016

Question: What is the population of Nevis?

Saudi-led consortium in \$1.3bn bid for Grosvenor House and Plaza hotels – Pg. 11

- The offer may spark a bidding war after Sahara revealed it was in talks with Qatari investors over a potential deal
- Sahara owns all of the Grosvenor House plus 70% of the Plaza hotel on Fifth Avenue in New York – in which Saudi Prince al-Waleed bin Talal owns a stake – and 85% of the Dream Downtown in New York City

Yen rallies on fears over stimulus size – Pg. 18

- The yen clocked its sharpest one-day gain against the dollar since the day after the Brexit vote, as doubts grow over the scale of stimulus from the Bank of Japan and the government
- The BoJ, which has already pushed interest rates deep into negative territory, gives its latest policy announcement on Friday and is expected to further loosen policy as it struggles to hit its 2% inflation target
- The robust bounce in the yen comes on the back of a weaker showing from the currency this month – a period in which investors ratcheted up their expectations for an even more radical turn from policymakers. Speculation had extended the possibility of so-called “helicopter money”, in which funds are distributed directly to businesses or households to stimulate spending

US stocks retreat as caution reigns ahead of central bank meetings – Pg. 19

- US equities retreated further from recent record highs as the mood remained extremely cautious ahead of policy announcements from the Federal Reserve and Bank of Japan later this week
- There were also some concerns about US corporate earnings as Caterpillar and McDonald’s unveiled quarterly results and participants braced for Apple’s figures, which were due after the close of trading
- The 10-year US Treasury yield held steady at 1.57% yesterday, also some way clear of its own record low of 1.32% hit almost a month ago
- The dollar’s weakness helped gold stage a modest rally with the metal up \$4 at \$1,319 an ounce. It hit a two-year high of \$1,375 a fortnight ago

Fed policy losing power for the dollar – Pg. 20

- Yet in one respect 2016 is shaping up in much the way as 2015 – shifting communications from the Federal Reserve, bouts of weakness and strength in the US economy and record stock prices on Wall Street, culminating...in a likely rate rise in December
- Taking its cue from the Fed’s own hawkishness, the market built up expectations of a rate rise at various points in 2015, until it was wrongfooted by the turmoil that followed China’s exchange rate policy shift in August

- A December 2016 rate rise now looks the settled view of the market, one that will be tested when the Fed reveals its latest assessment of the economy today
- The reason a December rate rise is more problematic than it was last year lies in the Fed's decision to realign its sights to take into account global factors. The difference in approach...is that whereas price stability used to be the primary mandate of central banks, it has been usurped by financial stability. But it has meant the Fed has lost its ability to act pre-emptively,

Answer: 12,000

26 July 2016

Question: What is the GDP of the United Kingdom (2013)?

Dutch men and Latvian women enjoy the best view of global growth spurt – Pg. 1

- Americans and Scandinavians were the tallest people in the world in 1914. A century later they have been left behind, with Dutch men and Latvian women the global height champions in 2014
- Overall, the world has grown taller as economic prosperity and better nutrition have spread
- In the tallest countries in 2014 – the US, Canada and Nordic countries – there has been relatively little change
- In fact, growth stopped in the US in the early 1970s and there has been a slight decline in height since 2000, partly due to falling nutritional standards

Cyber experts accuse Kremlin over leaks – Pg. 2

- ...allegations that the Kremlin is now using its capabilities to try to manipulate the US presidential election mark a new phase in the stand-off between Moscow and the west (Prof Note: Really??? How about holding those that authored the emails accountable? Give Moscow a prize! Dear Putin: Thank you for bringing transparency to the U.S. public! Something our own leaders fail to do! Sincerely,)

Italy's banks groan under weight of hardship – Pg. 3

- The lingering presence of such troubled loans on the balance sheets of Italian banks has alarmed investors, leading to a 55% plunge in their share prices over the past year
- The enactment of a personal bankruptcy law in 2012 gave her hope since it would allow her to erase her debt

Answer: \$2.678 tn

25 July 2016

Question: I purchased a rental in Baltimore last month. What unexpected costs have I incurred prior to lease signing, i.e. renting is not as easy as collecting checks?

British MPs blame Goldman for lending credibility to doomed deal – Pg. 1

- Lawmakers said the bank was currying favour with its billionaire client by helping Sir Philip pull off the “otherwise questionable” sale, which it branded the “unacceptable face of capitalism”
- ...finds that Goldman’s involvement helped Mr Chappell, a former racing driver with no experience of retail, persuade others of the credibility of this bid
- The criticism from MPs compounds pressure on the Wall Street bank’s London-based senior management, after a rough few weeks in which it was alleged that one of the bank’s executives procured prostitutes for a Libyan investment fund

US groups hoard cash as uncertainty grows and earnings expectations dim – Pg. 13

- US companies are increasing their holdings of cash in response to a rise in economic and geopolitical uncertainty,...
-taking their most cautious approach to cash management since mid-2011, when markets were roiled by the Eurozone debt crisis and a showdown over the US debt ceiling

Answer: (1) Lead Testing, (2) Moving furniture (originally was going to rent furnished), (3) Cleaning (with the moving of the furniture needed new cleaning), (4) Painting touch ups, (5) Registering with Baltimore City. My point, fortunately I planned for \$2,500 of contingency/working capital.

23 July 2016

Question: What are the three basic risk equations?

Lagarde to face trial in Tapie case – Pg. 1

- Christine Lagarde is to stand trial for negligence over a fraudulent 405m (euro) payout the French state made to a Paris businessman when she was finance minister
- She is accused of negligence in public office in relation to the misuse of public funds, an offence that carries a maximum sentence of one year in prison and a fine of up to 15,000 (euro)
- A Paris court had ruled the arbitration ruling fraudulent and ordered Mr Tapie to repay the state. He is facing possible criminal charges for fraud

Demand for Brazil debt proves robust – Pg. 13

- Brazil attracted strong demand for its return to global bond markets after a four-month hiatus in a signal that sentiment towards the country’s \$18.tn economy has improved
- The sovereign sold \$1.5bn worth of US dollar bonds with a yield of 5.875%, its first hard currency offering since the suspension of Dilma Rousseff as president....
- The debt, which matures in 2017, was initially marketed with a yield just above 6% before underwriters tightened terms
- Brazil suffered its worst contraction in a quarter of a century last year as a combination of falling commodity prices, a corruption scandal at state-backed oil major Petrobras and a deepening political crisis brought the once high-flying economy crashing and prompted the three major rating agencies to relegate the country to junk

Answer: Range, Standard Deviation, and Variance

22 July 2016

Question: What is Haiti's 2013 GDP?

Nato chief urges allied solidarity after Trump threat to withhold US support – Pg. 1

- Mr Trump's suggestion that the US should defend European Nato members only if Washington is "reasonably reimbursed" for the "tremendous cost" of protecting them....
- The North Atlantic Treaty that established Nato commits the US to treat an attack on any of the other 27 members as an attack on itself

Blackstone assets under management hit \$356bn – Pg. 14

- Blackstone, the world's biggest alternative investment manager, expanded its empire to record size in the second quarter as assets under its management surpassed \$350bn for the first time
- Blackstone funds have received more than \$130bn of net inflows since the beginning of 2015
- Big investors such as pension and sovereign wealth funds have increasingly looked to private markets, such as buyouts and property, for less volatile returns this year after a marked wobble on public markets at the start of 2016
- Funds in Blackstone's real estate division – the engine of the group's asset growth in recent years, with over \$100bn in assets – increased 2.2% in value

Renminbi drops to sixth in payment rankings – Pg. 18

- The Canadian dollar surpassed the renminbi to take fifth place among all currencies for use in international payments with a 1.96% share, compared with 1.72% for the renminbi
- The US dollar, euro, sterling and yen hold the top four spots
- The renminbi hit a record high cross-border payments share of 2.79% in August 2015,...

Answer: \$13.42bn (2013)

21 July 2016

Question: What is the GDP of Dominican Republic (2013?)

Cuts help Morgan Stanley beat forecasts – Pg. 12

- Morgan Stanley fanned hopes that a shake-up of its trading division could lead to significantly improved profits yesterday, as it unveiled results boosted by cost cuts and a resilient performance across stocks and bonds
- The bank's fixed income and commodities unit – the focus of big headcount reductions – delivered net revenues of \$1.3bn, slightly up from a year ago, when stripping out swings in the value of the bank's own debt

- The equities division held up too, with revenues of \$2.1bn off about 6% from a strong second quarter in 2015

American consumer buoys big lenders' profits – Pg. 12

- Business done with and for ordinary people buoyed the US banking industry's profits in an otherwise lackluster results season, with loan default rates running near historic lows
- Since 2010, revenues at its rival Goldman Sachs have dropped 10%. In contrast, US retail banking powerhouse Wells Fargo has seen its revenues increase 5%
- Lenders' overall profitability remained underwhelming as persistently low interest rates squeezed the gap between what they can charge borrowers and the rates they pay for funds (Prof Note: That is...the yield curve has flattened!)
- Consumer service fees were up 6% from a year ago while service charges on deposits rose 4%

Dollar at four-month high amid talk of rate rise – Pg. 18

- Renewed talk of a US rate rise pushed the dollar to its highest level against its peers in four months, with momentum set to continue in the run-up to next week's Federal Reserve meeting
- Futures markets are pricing in probability of a December rate rise at 43%, compared with just 8% at the beginning of the month

Answer: 61.16 billion USD (2013)

20 July 2016

Question: What is the GDP of Trinidad and Tobago (2013?)

NY suit alleges VW chief's role in talks that led to cheating – Pg. 1

- VW has set aside 16.2bn (euro) to meet the costs of the scandal, which was uncovered by US regulators and involved the company fitting up to 11m vehicles worldwide with the cheating devices
- The company faces a criminal probe by the US Department of Justice as well as a number of civil cases like the one filed by Mr Schneiderman
- VW said before its annual meeting last month that, based on current information, "no serious and manifest breaches of duty on the part of any serving or former members of the board of management have been established" in relation to the emissions affair (Prof Note: Who is going to jail? Criminal complaint against the company....who is personally going to jail???)

Trump team rushes to defend candidates wife – Pg. 2

- While the plagiarism allegations threatened to overshadow the initial days of the convention, few of Mr Trump's supporters seemed bothered – (Prof Note: Note to students...plagiarism is OK. It is a simple mistake. The "leaders" in the U.S. have said so! Cheat away!!! (just try not to get caught, oh, and if you do, it was a simple mistake...))

Asia overtakes US in value of outbound deals – Pg. 18

- Asia has nearly doubled the volume of mergers and acquisitions by companies based in the Americas into other regions,...
- Asian groups have led the international dealmaking stakes once, in 2012,
- At the half-year US M&A value was 27% lower than at the same time last year. European deals were down 18%
- UK deal volumes fell more than 70% ahead of the June 23 vote on EU membership,...

Answer: 24.64 billion USD (2013)

19 July 2016

Question: In New York City how much less do Millennials earn today than their parents?

BofA sets new target for cost cuts as low rates bite – Pg. 17

- Bank of America has set a new target to cut billions of dollars in costs as it tries to improve returns in the face of rock-bottom interest rates
- The second-biggest US bank by assets has reduced annual expenses by about \$14bn since it launched its “new BAC” initiative five years ago. Costs have fallen to 2008 levels under a scheme called “simplify and improve”
- BofA acknowledged that more jobs would go as a result but would not say how many, highlighting other ways to improve efficiency including technology savings and reduced office space
- Total revenues at the bank – which has 4,700 branches and 47m consumer and small business customers -
- Although consumer loans were up \$15bn, net interest income came 12%...
- Given persistently low rates, the bank was considering changing how it accounted for mortgage-backed securities in its investment portfolio...the present accounting made results more vulnerable to low interest rates than peers

Answer: 20.0% and they have more debt! Aye Caramba

18 July 2016

Question: What is the largest living generation in America?

Asset Management – Pg. 7

- A majority fail to beat the index over any significant period, and most of those that do ultimately find their outperformance to be fleeting.
- New competitors are claiming any insight they actually possess can be replicated by a computer
- Clients are shifting en masse to index-based funds...

- Sporadic lay-offs at some money managers this year may be a harbinger of more to come, ...especially if a newfound willingness to discuss mergers triggers a wave of cost-cutting deals
- ...83% of US mutual funds and 86% of European funds have underperformed the market over the past decade,
- The result: index-trackers already account for 40% of the \$9tn in US equity mutual funds and exchange traded funds, and the shift is accelerating
- Asset management remains an uncommonly profitable business, with operating margins of 37% in 2015 and profits that topped \$100bn globally,...
- Managers have been keeping a lid on costs by limiting the growth and pay of sales forces and cutting operating expenses
- A year ago...the average US equity fund manager could expect to earn about \$690,000 a year in pay and performance bonuses
- Standing out from the human crowd is one thing to worry about. Another is the race against the machine. Even alpha – or at least a good deal of it – can be replicated by computers....
- The “quants” – who build investing algorithms rather than form opinions on company prospects – are as bullish as the traditional active managers are nervous for their futures

Rising yen encourages Japanese overseas deals – Pg. 16

- The post-Brexit rise in the yen has left cash-rich Japanese companies “enthusiastically” looking at foreign acquisitions, ...
- With more than \$95bn in deals, 2015 was a record year of overseas acquisitions for Japanese companies
- Last week, the yen fell back to Y106 per dollar – a zone that analysts say removes any immediate chance of intervention by the Japanese authorities to curb an overly strong currency

Answer: Millenials

16 July 2016

Question: What are the steps for carrying out a coup d’etat?

US equities hit records despite rising political and financial risk in Europe – Pg. 1

- Investors have poured money back into US equities, setting records on Wall Street this week against a backdrop of rising political and financial risk in Europe
- Fueled by historically low bond yields, supportive central banks and rising concern about Britain’s vote to leave the EU, the benchmark S&P 500 set a series of record highs, breaking out of the range in which it has spent 14 months
- The index’s gains over the week’s first four trading days put its market valuation more than \$1.4tn above its post-Brexit low, fueled by better than expected results at the start of US companies’ second-quarter earnings season

- Improving economic data in the US – including stronger than anticipated retail sales and industrial production yesterday – boosted investor sentiment as risks flared in Europe

European funds suffer record outflows – Pg. 11

- European equity funds suffered their largest withdrawals on record in the past week as a crisis consuming the Italian banking sector drove investors to the safety of the US
- The unease has been heightened by European financial stress tests, due for release on July 29,...
- The country's banking system has been beset by a surge of non-performing loans worth 360bn (euro)
- Investors sought out US stocks in relief, pouring \$12.6bn into the asset class in the past week
- It marked the largest single weekly takings by US equity funds since last September and coincided with the inflows to US high-yield and municipal corporate bond funds and funds invested in US bank loans

Sterling loses steam over easing expectations – Pg. 11

- The pound slipped yesterday but remained firmer on the week against the US dollar after BoE chief economists...warned of "significant" policy action to come
- The BoE has said it wants to wait until more data are available before it decides on the scale of action needed to cushion the economic fallout of Brexit

Answer: (1) Ensure large support of population, (2) Establish network of high-placed co-conspirators, (3) Obtain covert control over elite military units and police, (4) Get foreign support, (5) Neutralize main political opponents, (6) Obtain control over some mass media, (7) Identify weak points and neutralize, (8) Manage perceptions, i.e. blame everyone else, (9) Have a plan! Now I see why we were unsuccessful having Dean Kelly Otter fired at Georgetown. Her lies provided #1 but #2 - #9 were lacking! We also failed miserably with #5, i.e. neutralizing Cindy Chance, Asst. Provost.

15 July 2016

Question: Who are the three dominant rating agencies?

BoE works on plan to restore confidence – Pg. 2

- With interest rates already close to zero, any powerful boost to economic growth amid a Brexit-related uncertainty is likely to need co-ordinated action from monetary policy alongside lower taxes and some mitigation of planned cuts to public spending
- Although it voted eight to one to keep interest rates on hold at 0.5%, it signaled it would provide monetary stimulus in early August because the economy was on a "significantly lower path for growth"
- The BoE's inaction surprised financial markets, which expected an immediately rate cut. Sterling raced higher in reaction, gaining 2.7% on the session to reach a peak of \$1.3470. It eased back, closing 1.5% higher at \$1.3336

Brexit will start UK recession, says Fink – Pg. 12

- The head of the world's largest asset manager predicted Brexit would slash 2% off UK GDP, cutting growth to "plus or minus half of one percent" and putting the country into recession
- Mr Fink's comments came as BlackRock posted a decline in revenues and profits and said that clients around the world were "pausing" investments because of political and economic uncertainty everywhere
- About 30% of BlackRock's London employees are from continental Europe...
- As the world's largest asset manager with \$4.9tn in holdings, BlackRock is a significant global investor

Investors thrown by BoE rates decision – Pg. 18

- When the news filtered through that the BoE was holding fire on fresh monetary stimulus, sterling, gilts and UK-listed share prices reacted instantly as investors scrambled to rebalance portfolios

Sovereign bonds shrug off downgrades – Pg. 20

- In the week Britain lost its final, cherished AAA credit rating, something curious happened in the financial markets. Instead of an instant increase in borrowing costs, benchmark gilt yields fell to a new record low
- A record number of countries has been downgraded by Fitch, Moody's and S&P's this year – shrinking the pool of government bonds with top-tier AAA ratings from 16 a decade ago to 10
- Ratings are a measure of a borrower's economic strength and their deterioration should be casting a shadow over markets, yet borrowing rates around the world have never been lower
- ...credit ratings are intended to provide a service to investors, letting them know how likely a borrower is to repay their debts
- It is dominated by three companies: Fitch, Moody's and S&P's, which use a sliding scale of grades to rank borrowers from AAA to single C, with slightly different configurations
- But the size of the agencies, and the fact that borrowers pay for ratings, has been heavily criticized since the financial crisis, when the companies came under fire for assigning top grades to mortgage-backed securities and other investments that rapidly lost value

Answer: Standard and Poors, Fitch, Moodys

14 July 2016

Question: What should it mean when a country's debt is downgraded?

Fight inequality to save globalization, says Lagarde – Pg. 6

- The US should increase its minimum wage and do more to counter a growing income polarization; France needs to deploy public benefits better to reduce inequality; Italy ought to bring more women into its labour force

- A recent fund of income polarization in the US, for example, found that the hollowing out of the middle class had since 1998 lopped 3.5% off consumption, the equivalent of a year's growth
- Looking over the initiative is the IMF's unhappy experience in Greece, where it has for years been accused of imposing excessive austerity on an economy now in its third European-led rescue

Malaysian ringgit slips after rate cut surprise – Pg. 20

- Malaysia's currency fell in response to the country's central bank announcing a surprise rate cut, its first in seven years, raising the prospect of currency wars breaking out among Asian countries to boost growth
- ...paring it back 25bps to 3%
- Asian currencies are among those in emerging markets that have felt the Brexit effect and the risk-averse mood in market sentiment on several occasions since the UK voted to leave the EU
- Despite running a robust economy, the central bank is worried about slowing growth in important countries, the knock-on effects of Brexit and increasing market volatility
- Malaysia's economy is easing back after achieving 6% growth in 2014 and 5% last year
- GDP was 4.2% higher in the first quarter year-on-year, and the 2016 forecast is 4%

Answer: Yields go up but that has not been happening.

13 July 2016

Question: What does a negative interest rate really mean? Do we have negative rates in the U.S.?

Bank chiefs enjoy hefty pay increases with Dimon leading pack on \$27.6m – Pg. 1

- Pay for chief executives of big banks jumped 7.6% in 2015 – more than 10 times faster than a year earlier – to an average of \$13.1m
- Heads of the top six US banks did particularly well. Their packages rose by an average of just over 10% and are almost twice as large as those of European rivals, ...
- In the US, the chiefs of JPMorganChase, Goldman Sachs, Citigroup, Wells Fargo, BoA and Morgan Stanley were paid an average of \$20.7m last year including salaries, bonuses for 2015 performance and pension contributions
- By contrast, the heads of 11 European banks averaged \$10.4m

Pension deficit jumps 89bn (sterling) in a month – Pg. 14

- The plunge in equities, sterling and bond yields put more strain on schemes that are already under pressure from a prolonged period of low interest rates
- About 84% of pension funds are in deficit, ...

BoE forecast to delve into corporate debt – Pg. 22

- Growing numbers of investors and economists predict the BoE will buy corporate debt as it tries to cushion a Brexit slowdown, after European intervention that has helped push borrowing costs for companies close to record lows
- In June, the ECB added corporate bonds to the list of securities it purchases each month, ...
- Describing the outlook for UK financial stability as challenging, the BoE has already cut capital requirements for banks, reducing the counter-cyclical buffer rate from 0.5% to 0% of banks' UK exposures to try to inspire lending and reduce pressure on institutions
- Alternative policies include funding for lending schemes to encourage banks to extend more loans to businesses and individuals, further changes to the way lenders are required to operate and lowering the 0.5% base rate in place since 2009
- Derivatives markets imply a four in five chance of a 25bp cut in UK interest rates this week (Prof Note: Julian J....are you ready to have me has your London neighbor?!))

Answer: YES...in the U.S. we have negative “real” rates. A “real” rate is an interest rate adjusted for inflation. For example, the bank pays 25bps/year and inflation is running 175bps/year, therefore you are earning a negative 150bps “real” rate, i.e. you have less money than you started. The FedRsv does this to spur consumption, i.e. keep us all financially beholden to the “establishment” through keeping the U.S. public in a constant state of over-leverage. Now, in European and Japan the negative rates are “nominal”. This is basically a double screwing, i.e. you have less to begin with and then you add inflation and it only gets worse! The solution and this is NOT advice, load up on cheap debt, purchase low yielding, low risk investments (work force housing), and earn a positive spread.

12 July 2016

Question: What are the four dimensions of capital?

US lenders raise fears over real estate loans – Pg. 16

- US banks have increased lending to shopping centres, apartment blocks and other commercial property developments even after regulators warned they were scrutinizing the sector for signs of risky practices
- Commercial real estate loans originated by banks in the first quarter leapt by 44% from the same period in 2015...
- Regulators at the Federal Reserve, Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency have said they will “pay special attention” this year to commercial property lending. They have threatened to require banks to raise additional capital if necessary to mitigate the risks
- While two-fifths of banks with more than \$20bn in assets said lending standards for apartment blocks had “tightened somewhat”, for instance, only one-fifth of smaller banks said they had

Job figures send S&P 500 to record high – Pg. 20

- US stocks climbed to a record for the first time in more than a year yesterday, buoyed by expectations that the economy sits in a sweet spot, generating sufficient growth to drive earnings while keeping tighter Federal Reserve policy at bay

- Financials are the only S&P 500 sector in the red on the year, with shares under pressure from the prolonged period of low rates

Answer: Magnitude, Timing, Location and Colour, i.e. currency

11 July 2016

Question: What is the number 1 pitfall, in my opinion, for using IRR?

Say 'I quit' with the perfect letter of resignation – Pg. 12

- The first is always to use travel metaphors. "It's been a fantastic journey"...
- The second is never admit to having cocked anything up and never to say sorry. Instead, you must always pat yourself on the back
- Next, you thank whoever you can think of an, having done that, pledge undying allegiance to whatever it is you've worked for
- Finally, you never say the word "resign", let alone "quit". Instead you refer to what you are doing as "stepping aside" – no matter how precipitous the decline in front of you appears
- A resignation should offer a rare chance to say something true
- A resignation statement is not a time for truth, it is a time for politeness and for causing minimum upset – which may mean some version of the standard cliché's may be the best after all
- Being professional means comporting oneself with dignity
- A resignation statement can't be too short, which means Twitter is the perfect place to do it
- (Prof Note: I remember my exit interview at Columbia Gas. When asked why I was leaving I simply said it was great company. The HR director said, "Come on Roger, we know you were not happy. Please tell us why." I said, "I think so little of this company's management that I want you to continue behaving as you are and running the company into the ground. There, keep doing what you are doing!" The interview concluded quickly. Fyi...the company was sold to NiSource and senior management all replaced! Hah!)

US buyer eyes cut-price UK real estate – Pg. 16

- A US private equity firm is preparing to spend more than 1bn (sterling) on discounted UK real estate in the next six to 18 months, including buildings from a series of property funds that suspended trading this week
- Seven property funds holding more than 15bn (sterling) prevented redemptions last week as investors, anticipating a drop in commercial property prices, rushed to withdraw their money
- There is a risk of market contagion as a wide pool of other products invests in these property funds, and so could be forced to block investors from pulling their money

Answer: equation is a polynomial and can have multiple solutions

9 July 2016

Question: Why is now a good time to holiday in London with Julian J?

US jobs revival eases recession fears – Pg. 1

- Payrolls in the US grew by 287,000 last month, over 100,000 more than forecast...
- May's dire jobs figures triggered concerns within the Federal Reserve that the US labour market rebound was losing steam, helping convince them to leave policy unchanged as they gauged the underlying strength of the recovery
- The jobless rate rose from 4.7% to 4.9%,
- With the federal funds futures pointing to a 23.7% chance that the central bank will raise interest rates this year, compared with 11.8% on Thursday, investors are bidding up dollar assets

IMF lowers growth forecast for Eurozone – Pg. 2

- The IMF said yesterday it expected the eurozone's economy to grow by 1.6% this year and 1.4% in 2017, down from earlier estimates of an 1.7% expansion for both this year and next
- The IMF's estimates are based on the UK and the EU reaching a favourable deal on Brexit close to the so-called Norway model, in which Britain continues to have access to the EU single market

Brexit and Sterling – Pg. 7

- Companies say they are having to rip up their plans as consumer demand seems to have stalled. Some worry this spells recession for the UK
- ...market fears returned this week and the pound resumed its decline, keeping it at a 30-year lows close to \$1.30
- On top of the deficit problem are worries about the UK's access to export markets...
- The pound fell by 29% in 1992-93 and by a third in 2007-08, so similar plunges would take the currency to between \$1.13 and \$1.22

Answer: US tourist dollars go father!

8 July 2016

Question: The CAPM quantifies market risk using what variable?

Trump-style protectionism would threaten global growth, says IMF – Pg. 1

- Britain's vote to leave the EU is already casting a shadow over international growth,
- Any uncertainty surrounding a Trump presidency would probably yield more instability in financial markets, similar to the upheaval in the wake of last month's UK referendum, ...
- She made clear her dim view of the policies of Mr Trump, who has proposed punitive tariffs on goods from China and Mexico and ripping up US trade pacts such as NAFTA

FBI chief defends decision on Clinton email scandal – Pg. 2

- "I see evidence of great carelessness, ..."

- On Tuesday, Mr Comey said the FBI had found more than 100 emails where Mrs Clinton had sent or received classified information – contradicting her statements that she had never communicated secret information that was classified at the time it was transmitted (Prof Note: Is there any accountability in society? Clinton can lie to the American public; Dean Otter at Georgetown can lie to the students; ... is there no accountability?! What do we learn from this?! Lie and if you get caught, lie some more. Steal, and if you get caught, be certain you stole enough to make it worth it!)

US consumers spend oil-price savings on driving and meals – Pg. 2

- Households spent 58% of potential savings from lower oil prices in 2015, ...
- The biggest business beneficiaries were restaurants and retailers, with \$200 more spent on non-gas goods and services by each household
- The personal savings rate increased from 4.8% in 2014 to 5.1% during 2015....
- Households earning less than \$30,000 benefited the most, with the equivalent of a 1.4% boost to discretionary income

S&P changes Australia’s outlook to ‘negative’ after election – Pg. 6

- Australia is in danger of losing its coveted triple A rating after a decision by S&P’s to place the country on “negative watch” following its inconclusive election result

US earnings poised to leave bulls disappointed – Pg. 20

- If expectations for the second quarter prove true, US companies will post their fifth straight year-over-year profit decline for the period – the worst stretch since the aftermath of the financial crisis
- US multinationals, which make a significant portion of their money outside the US, have struggled with dollar strength for more than a year

Sovereign downgrades surge to record levels – Pg. 22

- Fitch ratings has downgraded 14 sovereign borrowers this year, including the UK – citing falling oil prices, a stronger US dollar and Britain’s pending exit from the EU

Answer: Beta

7 July 2016

Question: What is the lowest point sterling has hit due to Brexit?

Paris dangles tax carrots to entice bankers fleeing post-Brexit London – Pg. 1

- Yesterday it unveiled a list of carrots for executives considering Paris for their new base, including an income tax break of up to 50% and the right to exclude foreign assets from the calculation of wealth tax for eight years – up from five years currently
- The measure means France will offer Europe’s “most favourable” fiscal regime for returning expatriates and foreign executives, ...

Trading – Pg. 9

- In New York City the number of jobs in securities and commodity contracts fell to 98,700 in May, the lowest for that month since at least 1990, ...
- Trading on automated systems now accounts for more than half of US crude oil futures volumes, ...
- Markets have become increasingly placeless, regulated by national laws but open in any timezone. A quarter of CME's total volumes now originate outside the US.
- A Nymex seat last month sold for \$180,000, down from a recent high of \$350,000 in 2012
- The commodities floor was once a route to Wall Street for New Yorkers without a pedigree, connections or schooling to be a bond trader or banker
- ...Nymex reinvented itself as an energy futures and options exchange, listing heating oil in 1978, crude oil in 1983 and natural gas in 1990
- Electronic futures trading arrived in 1992, when the CME launched its Globex technology
- Futures are simpler, obligating holders to buy or sell a commodity at an agreed price by a certain month. Options tack on complexity, as they convey the right to buy or sell these futures

Sterling remains below \$1.30 as havens sought – Pg. 24

- The pound remained below \$1.30 yesterday, a level not seen since 1985, with the currency market forecasting further weakness
- ...foreign investors may sell their UK assets as they try to get ahead of a deeper decline for the currency (Prof Note: I am currently rethinking my Parisian flat...I may be 'forced' to purchase in London. Julian J. we may be neighbours soon! Bloody good chap!)
- At its weakest, sterling dropped 1.7% to \$1.2796

Answer: \$1.2796

6 July 2016

Question: With the UK leaving the EU, what are the largest 'economies' in order?

UK property funds trigger lock-ins as post-Brexit asset sell-off gathers pace – Pg. 1

- Investors have been barred from cashing in assets in two more commercial property funds amid widespread disposals of UK assets on fears that the economic fallout from last month's vote to leave the EU is gathering pace
- ...sterling fell below \$1.30 for the first time since 1985 and the trade-weighted value of the pound fell to its lowest level since 2011
- UK commercial property funds holding more than 9bn (sterling) of investor assets have now halted redemptions...
- The moves sparked concern that forced selling of buildings by investment funds could act as the catalyst for a steep drop in commercial property prices, as happened during the 2008 financial crisis

Mexico's central bank chief braced for Brexit fallout and US elections risks – Pg. 6

- Mexico's central bank governor Agustin Carstens expects his country to maintain its 2.4-2.5% growth rate in 2016, in spite of economic headwinds and Brexit-related fallout
- The Bank of Mexico has regularly slashed economic forecasts over the past couple of years amid collapsing oil prices, slow-to-deliver structural reforms and what the bank calls an "unfriendly world economy"
- The central banker, who also chairs the governing body that advises the IMF on how to respond to unfolding crises, appears as baffled by Brexit as many in Britain
- The Mexican peso has been in the line of fire. As the most liquid emerging market currency, it represents a convenient hedge and briefly touched an all-time low of just under 19.52 to the dollar on the UK referendum result
- While the US dollar as a safe haven sparked dollar appreciation and reduced inflationary expectations in the US on Brexit, Mexico's peso depreciation stoked them

Open-ended property funds are accidents waiting to happen – Pg. 9

- The banking industry had long warned that regulation introduced to reduce risk following the 2008 financial crisis could actually prove counterproductive. The reactionaries argued that curtailing the ability to banks to hold large inventories of currencies and securities, and to make markets for customers, would increase volatility and expose investors to damaging losses
- Share prices in listed commercial property companies and housebuilders tumbled as investors fretted that the bubble that has long been evident across the UK, particularly in south-east England, may be about to burst
- ...open-ended ones that allow instant withdrawals – at least until withdrawals are barred
- Today, such funds control 5% of the commercial property market, up from 2% in 2007, when the last crash occurred and commercial property prices fell as much as 45%
- Over recent months, many open-ended funds have built up cash reserves – to a typical 20 or 25%, double the normal level – in an attempt to prepare for an exodus of money
- The fundamental mismatch between a highly illiquid asset class and a promise of instant access to your money means open-ended property funds have always been accidents waiting to happen (Prof Note: When I worked for a dev/const fund in 2008/09 the issue was how to value the fund for redemptions. Real Estate funds do not lend themselves well to daily valuations...)

US homeowners stand to gain from British vote to leave EU – Pg. 17

- ...bankers predict the referendum outcome will put American mortgage holders in line to gain from lower financing costs
- At 3.48%, the 30-year fixed-rate mortgage is only 17bps shy of an all-time low
- Refinancings, which allow consumers to lock in the benefits of cheaper rates in exchange for a fee, are a big source of revenues for retail banks such as Wells Fargo
- Advisers typically tell consumers they can only benefit from refinancings if rates are at least 50 to 75bps lower than they were when they took out their mortgage (Prof Note: Also depends on the seasoning of the loan)
- (Prof Note: Money is so cheap that I have found, personally, that my equity costs is less than my debt cost on new deals! Five years ago I would have said in a class that this was

impossible! The issue is yield compression, where there is excessive liquidity in the market, placing the liquidity is proving difficult. Transaction costs on smaller deals bite into yield and larger deals with reasonable margins are difficult to find. Even improvement of existing properties is troublesome as one does not want to over improve. Be careful loading up on low-cost debt, be certain you know how to deploy and have investments targeted. Trust me, the lure to load up on low-cost debt is great...the location of where to place it is difficult!)

Answer: The U.S. is #1 again, followed by the EU, China, and then Japan...

30 June – 5 July 2016 Questions/Answers credited to *The New York Times*.

5 July 2016

Question: What is Brexit?

Migrants and tech start-ups feel pain of Sweden's housing crisis – Pg. 6

- It is a rare crisis that combines negative interest rates, the huge numbers of migrants entering Europe and the travails of technology companies. But such can be said of the drama roiling Sweden's housing market
- Swedish house prices have risen faster than in much of the western world, more than tripling in two decades. That has put ownership out of the reach of many first-time buyers and swollen the debt burden for those who do buy
- Its main rate is minus 0.5%, among the lowest in the world. The move to ensure that Sweden did not slip into deflation has had an unintended consequence of stoking house price inflation
- ...rise in household debt to disposable income to a record of about 180%; in both the US and UK the ration has fallen since the 2008 financial crisis
- Most apartments available to let are subject to rent controls, and official waiting times are often enormous. The average in Stockholm is a decade, while the smart city district of Norrmalm it is 16 years

Standard Life halts property fund exits – Pg. 14

- Standard Life has been forced to stop retail investors selling out of one of the UK's largest property funds after rapid cash outflows were sparked by fears over falling real estate values in the week after the Brexit vote
- The 2.9bn (sterling) commercial property fund will need to sell real estate to raise cash before any money can be redeemed. The last property crash in the UK in 2007 was preceded by a wave of similar forced gatings by funds struggling to meet investor demands for cash, which led to firesales of property that added to the pressure on an already falling market
- In another sign of stress in the sector, some closed-ended property trusts are trading at discounts of more than 10% to their net asset value, which reflects fears over the future of commercial property

- Open-ended property funds have been criticized for the mismatch for promising investors daily liquidity despite property being an illiquid asset class

Answer: A portmanteau of the words “Britain” and “exit,” it is the nickname for a British exit of the European Union after the June 23 referendum asking voters: “Should the United Kingdom remain a member of the European Union or leave the European Union?”

4 July 2016

Question: What is the case for the UK leaving the EU?

South Africa will avoid junk rating, says minister – Pg. 4

- Africa’s most industrialized economy has been losing the confidence of many investors....
- The economy shrank 1.2% in the first three months of this year as output dropped in the struggling mining sector, drought hit farming and unemployment stayed chronically high
- South Africa has also been blighted by political unrest ahead of local elections in August that could see significant losses for the scandal-hit ANC
- S&P’s decided last month to keep its rating for South Africa’s foreign debt one notch above junk, although with a negative outlook
- A downgrade would make it more expensive for South Africa to borrow and would further undermine investor confidence....

China’s private sector misses out on credit boom – Pg. 6

- China’s private sector has missed out on the country’s credit boom over the past eight years, despite efforts to rebalance the economy away from state-dominated heavy industry
- Private sector debt has fallen from 48% of total assets in 2008 to 35% in 2015, ...
- Over the same period, state sector debt rose slightly to 53%, even though China’s state-owned enterprises are only two-thirds as profitable as their private sector counterparts
- Private-sector small and medium enterprises also pay annual interest rates as high as 20% for shadow loans
- China is attempting to rebalance its economy by culling non-performing SOEs and nurturing smaller, more productive companies in the private sector.
- China’s state banks have traditionally preferred lending to SOEs as the loans are seen as state-guaranteed. Banks and SOEs also have had long relationships with each other, and bankers earn more commission on big SOE loans than on smaller ones needed by private groups

Fears for asset managers’ jobs as shares tumble – Pg. 18

- Fears are growing over redundancies across the asset management industry as shares of some of the world’s largest listed investment groups tumbled in the wake of Britain’s vote to leave the EU
- US-listed groups T Rowe Price and Franklin Templeton and UK-listed Ashmore and Aberdeen have coped better

Answer: A lot is implied in one of the campaign's slogans, "Take control." Britain's loss of full authority over its economic policies and regulations has so rankled many of the country's citizens that it has spawned an entire genre of urban legends over the years, called "Euromyths."

2 July 2016

Question: What is the case for the UK staying in the EU?

Tesla tragedy raises safety issues that can't be ignored – Pg. 11

- On Thursday, Tesla revealed that one of its self-driving cars had been involved in a fatal accident while operating on autopilot
- ...the car drove straight into the side of a turning truck without ever applying the brakes
- ...first death to occur in 130m miles of driving on its autopilot system, versus an average of one death per 60m miles of ordinary driving

Push for higher wages squeezes US profits – Pg. 12

- One measure of non-financial companies' collective profit margins – the net operating surplus as a share of net value added – has fallen to 19.8%, the lowest since the end of 2009, and well down on the peak of 23% in the second quarter of 2013,...
- Driving the trend is rising wages, which are coming at a time of poor productivity growth in the private sector. Unit labour costs, which measure how much companies need to pay their staff to deliver a unit of output, rose 3% in the 12 months ended in the first quarter of 2016. Business output prices rose only 1.2% in the same period, suggesting companies struggled to hold on to their margins
- Average hourly earnings rose 2.5% in May on the same month a year earlier – still well below the growth rates of more than 3% before unemployment hit 10% during the recession.
- Companies are experiencing further pressure because of rising minimum wages. While the Federal minimum wage has remained stuck at \$7.25/hour since 2009, 15 states mandated increases in their minimums at the start of 2016
- The trend towards higher wages comes as Walmart's founding family, worth a net worth \$130bn, has been a target in the debate over inequality,

Answer: What is most striking about the "Remain" campaign is what it has not done: countered the arguments for leaving. Rather than defending the European Union or immigration as good for Britain, the campaign warns that leaving would be disastrous for the British economy.

1 July 2016

Question: Why are Britons so wary of Europe?

Australia enjoys record 25 years of growth – Pg. 6

- Australia will notch up a quarter of a century without a recession today, a record that has pushed living standards to among the highest in the world

- The country last suffered a recession in 1991 - ...
- Australia is on course to surpass the Netherlands' modern-era record of 26 years of growth during 1982-2008, achieved on the back of North Sea oil
- Australia is blessed by its rich resource base and its proximity to Asia, the world's fastest-growing region. Surging demand for iron ore, coal and other minerals from China over the past two decades has boosted Australia's terms of trade and national income
- High immigration and rapid population growth has helped Australia outperform other western economies and escape recession. This has helped fuel a housing boom over the past three years, which has supported the economy during a prolonged commodities downturn

Fed clears way for \$96bn Wall Street bonanza – Pg. 14

- Shareholders in US banks are in line for their biggest payouts since the global financial crisis after regulators have executives the green light to dish out an estimated \$96bn worth of funds
- The industry is set to distribute about 16% more capital than a year ago after 30 of 33 banks passed the Federal Reserve's latest stress tests without conditions, ...
- ...Morgan Stanley was given notice that it needed to improve its internal systems or officials could block its payouts
- For the first time, officials also told banks to show how their balance sheets would cope with negative interest rates
- The biggest setbacks were for Santander and Deutsche
- The Fed says that since the first stress tests were conducted in 2009 the common equity capital of the 33 banks has risen by \$700bn to \$1.2tn, expanding their buffer to absorb losses

Sub-zero yields soar as more easing is forecast – Pg. 20

- The universe of negative-yielding government debt has increased by more than \$1tn in the past month to reach a new high of almost \$12tn in one of the most tangible results of Britain's decision to leave the EU
- The rally in sovereign debt, seen as a haven in periods of market tumult, has shown little sign of letting up in spite of three days of sharp gains for many risky assets and oil returning to \$50 a barrel
- The yield on 10-year Treasuries was below 1.50%, while 10-year gilt yields fell below 0.90% to an all-time low...

Bond houses urge BoE to lower interest rates – Pg. 22

- Investors at some of the world's largest and most powerful bond management companies say the BoE must rapidly cut interest rates in order to avert recession triggered by the UK's vote to leave the EU

Answer: Spend enough time in the United Kingdom, and you will hear people refer to “the Continent.” Travel agency windows advertise flights and package tours “to Europe,” as if it were someplace else.

30 June 2016

Question: What will happen to Britain if it leaves?

Brussels hardens UK exit stance – Pg. 1

- European leaders issued a stark rebuff to British hopes of a favourable new trade deal with the EU yesterday, hardening their conditions for allowing access to the single market after the UK leaves the bloc
- ...damp expectations of a curb on the free movement of workers ...
-"access to the single market requires acceptance of all four freedoms", a reference to EU principles on the free movement of capital, labour, services and goods

Puerto Rico on course to restructure debt – Pg. 4

- The island of 3.5m people has wrestled with nearly a decade of economic decline and a 45% poverty rate. Recent economic malaise has accelerated an exodus of Puerto Ricans to the US mainland, adding to the island's problems
- Puerto Rico has already defaulted on a number of its debts, although it remains current on its GO bonds. Unlike US cities and municipalities, Puerto Rico and other territories do not have access to protections under the US bankruptcy code
- The legislation before the Senate would give the island and its debt issuing entities that right, so long as they have made "good-faith" efforts to negotiate with creditors and have received sign off from the control board

IMF urges German bank reforms in low-rate era – Pg. 6

- The IMF has warned that ultra-low interest rates pose a threat to the profitability of Germany's 13tn (euro) financial sector...
- The report concludes such rates have eroded banks' profitability from their retail operations and, if protracted, will weaken life insurers' ability to meet their commitments, which often involve paying policyholders fixed amounts
- The ECB has imposed a rate of minus 0.4% on banks' deposits held at Eurozone central banks, a move that in effect imposes a tax on reserves and which has been described by Germany's financial watchdog as a "sleeping poison" for the country's financial sector

What a Leave victory means for central banks – Pg. 20

- Brexit poses another problem for central banks struggling to combat low productivity and high debt levels on the path to growth and armed with narrow policy options.
-BoE...promises to provide liquidity by injecting 3.1bn (sterling) into banks, as the market adjusted to the unexpected outcome
- ...a move to negative interest rates is unlikely – as the Japanese experiment has not delivered growth and has hurt its banks
- Brexit triggered a global flight to safety to sovereign bonds, driving US Treasury yields sharply lower. A stronger dollar has rattled commodity prices and also tightened financial conditions; not good news for US companies that depend on foreign revenues

- ...ECB...is buying sovereign and corporate bonds, it recently cut rates and is providing cheap funding to banks
- Brexit has seen capital flowing into Japan – a haven for worried global investors. Inflows are pushing Japanese government bond yields to record lows and strengthening the yen – which briefly broke 100Y per dollar on Friday
- The PBoC reacted to Brexit by adjusting the renminbi fix rate on Monday by the most since 2010...

Answer: Projections differ significantly over the precise economic effect, but there is a consensus that leaving would hurt Britain financially, at least in the short term.

Bonus Question: What are the wider ramifications?

Bonus Answer: Britain makes up about a sixth of the European Union’s economy. A Brexit, Mr. Klaas said, “would be akin to California and Florida being lopped off the U.S. economy.”

That destabilization could affect the United States’ economy: Last week, the Federal Reserve in Washington cited the possibility of a Brexit as a reason to not raise interest rates.

There could be political consequences, as well. If Britain leaves the union, that could give momentum to the nationalistic, anti-migrant message and policies of populist, far-right parties that are already rising across Europe.

29 June 2016

Question: When was the Bank of England (BoE) established?

Cameron blames Brexit defeat on EU failure to tackle immigration – Pg. 1

- Angela Merkel, the German chancellor, and other leaders blocked British demands ahead of the referendum for an “emergency brake” on migrant numbers and the idea remains anathema
- Mr Cameron, who announced his resignation last week, said that he wanted Britain and the EU to retain “as close an economic relationship as possible”
- There is growing frustration in European capitals over the lack of urgency in Britain towards activating formal Article 50 divorce proceedings
- Mr Cameron has said a decision to trigger Article 50 will be for his successor, to be elected by Conservative party members on September 9

Turmoil risks further downgrades, says S&P – Pg. 6

- Britain is now less credit worthy than Belgium, a country that has government debt of more than 100% of national income and which has repeatedly struggled to boost its competitiveness

- S&P's announcement was accompanied by a similar cut from Fitch, one of the other two big agencies, and follows Moody's assessment of the UK outlook on Friday as negative, down from stable
- A weaker economic outlook is not the agencies' sole concern. They are also worried about the lack of clear post-Brexit plans from the UK government and the crisis within the opposition Labour party
- The UK has for a long time had a high current account deficit and relatively high levels of government debt. These are factors that tend to raise concerns among investors
- The agency had previously viewed the UK as triple A, alongside Germany, the Netherlands, Canada and Australia, but with a negative rather than stable outlook. It now ranks alongside France, a country where persistent slow growth and a stubborn budget deficit have triggered investor concerns, with a double A rating and a negative outlook. Further, it now ranks below Belgium, which also has a double A rating but a stable outlook

Lending Club slashes jobs as scandal hits loan demand – Pg. 15

- The company alleged Mr Laplanche and three family members “inappropriately” borrowed from Lending Club at the end of 2009 to “help increase reported platform loan volume”

Sterling storm clouds have thin silver lining – Pg.

- The pound's fall of more than 12% since Brexit to its lowest level in 30 years is bad for many and beneficial for some
- Winners
 - o UK exporters
 - o Domestic tourism
 - o Hedge funds and high-frequency traders
 - o The FTSE 100
- Losers
 - o The economy
 - o Banks
 - o Small businesses
 - o Motorists
 - o Homebuilders
 - o Yen and euro

Answer: 1694

28 June 2016

Question: What is a Gilt?

Sell-off targets sterling and financial stocks as London tries to calm markets – Pg. 1

- The financial fallout from Brexit intensified yesterday, battering global shares and sterling, with investor sentiment soured by the prospect of weaker global growth and an extended period of political uncertainty

- UK markets were the focus of selling pressure that targeted banks, airlines and homebuilders, ...
- ...S&P's removed Britain's last triple A sovereign rating from a major agency last night, downgrading the UK two notches to AA, citing the economic, fiscal and constitutional risks of last week's Brexit vote
- London's FTSE 250, a gauge of the UK economy, fell 7%,
- For UK banks, the risk Brexit presents to their business model, which includes losing regulatory protections to service EU clients, sent shares in RBS and Barclays tumbling, closing 15% and 17% lower, respectively
- Eurozone banks fell a further 6%, after a loss of 18% at the end of last week

US insurers among hardest hit in market rout – Pg. 17

- US insurers and brokers with limited exposure to the UK have been among the hardest hit in the Brexit markets rout, as investors fret there is now no end in sight to the very low interest rates that have hurt their businesses
- The referendum result has led many investors to believe that central bankers will respond to economic uncertainty by extending the extraordinary period of loose monetary policy – including quantitative easing and ultra-low or even negative interest rates
- The wave of cheap money makes it harder for insurers to produce adequate returns on their multibillion-dollar investment portfolios, which are dominated by bonds. It also drives up the value of their liabilities
- More investors now believe that the US Federal Reserve will hold off on raising interest rates this year; before last Thursday's referendum, financial markets showed a greater than 50% chance of a rate increase in 2016, but in early trading this week, the probability has fallen below 10%

Rush to gilts pushes yields below 1% - Pg. 22

- British government borrowing costs fell below 1% for the first time yesterday as the aftershock of last week's decision to exit the EU spurred investors towards gilts
- In spite of warnings that the UK faces a credit rating downgrade as the result of the referendum, gilts have retained their status as a haven from market turmoil, helping the bonds to trade at record-low interest rates
- Pimco, one of the world's largest investors in fixed income, expects UK interest rates to hit zero by the end of the year
-the 10-year US Treasury note yield fell to a low of 1.46%, near its 2012 record low of 1.38%
- ...UK currency to another 30-year low, below \$1.32, ...

Answer: Bond issued by the UK government

27 June 2016

Question: What is the US Dollar to British Pound current exchange rate?

City of London to be hit by loss of British voice – Pg. 3

- While it is hard to predict the form or speed of any turn against the City, Lord Hill said longstanding efforts to bring financial operations back to the euro area may be resurrected, including the ECB's plan – annulled by the EU's top court – to locate clearing services in the single currency zone
- The move is a sign that the EU is shifting its policy goals towards aligning Europe's 28-country strong single market for finance with the interests of the smaller Eurozone and its banking union, rather than allowing them to permanently coexist. It is an outcome Britain had spent 25 years fighting to avoid
- Other senior EU officials believe the UK's passporting rights are effectively "dead" post-Brexit because other countries led by France will ensure any future form of passport will offer far less privileged access to a Eurozone market with more protectionist rules. Banks have already begun to take action to shift operations out of the UK, approaching Euro area regulators to secure licenses
- With Britain outside the bloc, a number of EU and ECB reform ideas it had thwarted could regain momentum, including a single capital markets authority, a more interventionist policy on markets in general and new bank capital rules better tailored to the interests of French, German and Italian lenders

Anxious businesses freeze jobs and cut plans for investment – Pg. 6

- Many economists are already revising down their forecasts for growth in 2016 and 2017, with some expecting a recession.
- In three key ways, Britain is more resilient than it was in 2008 when the global financial crisis hit. The shock of a Leave vote is very different from the subprime mortgage debt crisis, which struck banks' balance sheets and raises serious questions about their solvency
- The sharp depreciation of sterling will provide respite for some companies, particularly those that have significant earnings in foreign currencies and those that sell much of their output abroad
- Brexit's impact is more narrowly centred on the UK than the 2008 crisis was, meaning that demand for exports from our major trading partners is likely to hold up better
- The depreciation of sterling, though beneficial for some export businesses, will push up the price of imported goods and reduce consumers' spending power. Household incomes will also be hit if unemployment rises

Dollar surge presents Fed with conundrum – Pg. 6

- The dollar has been a main driver of Fed policy for the past two years because of the drag that a strong currency has imposed on US exports, inflation and corporate earnings. Nearly half of sales by S&P 500 companies in 2014 were generated overseas,...
- Futures trading now suggests the US central bank will hold short-term rates for at least the rest of the year, ...

Ranking shows US schools excel at start-up spirit – Pg. 15

- Among the criteria assessed were the percentage of a school's MBA graduates who started a company, as well as how many of those businesses were still trading at the end of 2015

- The ranking examined how integral the school and its alumni were in getting the company off the ground, from instilling the motivation in the mind of the entrepreneur to helping find staff and funding. A size threshold was applied too
- Overall, 19% of MBA graduates from the class of 2012 started their own company

Saudi Arabia gears up for debut bond issue – Pg. 22

- Saudi Arabia has mandated three international banks to arrange its debut international bond as the kingdom presses ahead with fundraising efforts amid the oil slump
- ...bankers said that the kingdom was seeking to raise as much as \$15bn,
- Saudi Arabia has been borrowing domestically and dipping into more than \$100bn of its financial reserves to meet a yawning budget deficit caused by the sustained decline in oil prices.

Answer: 1.32 US Dollar to 1.00 British Pound

(Prof Note: As many of you have been reading my list-serve for years you will know I gleefully acknowledge when I accurately forecast market movements. Well, I completely got Brexit wrong! The financial world is changing and I am struggling to predict what it means. Earlier this year the Federal Reserve went from having two goals: inflation and growth to a three goal system to include global volatility and stability. Further while I also said at the beginning of the year that all I wanted in the White House was anyone not named Clinton or Bush (I strongly believe we have a presidency and not a crown to pass) I never saw Trump coming. While this is not trading advice as I am not licensed I will admit to feasting on low-cost debt targeting work-force housing, i.e. focusing new investments on physical products rather than financial. The world is changing significantly and I strongly recommend all graduate students to take it upon themselves to read every periodical and research Brexit. This is on par with Lehman's implosion, if not greater. For those of you starting your graduate careers, save every article as it will save you time researching later. Take the time to understand what is happening and, if you have strong beliefs that are not priced into the market, trade on them. This is the time to build wealth...Good luck!!!)

25 June 2016

Question: What is the size of the UK economy and its global ranking by GDP and PPP?

Britain breaks with Europe – Pg. 1

- Britain has swept away 50 years of foreign policy, turning its back on the EU in an extraordinary political upheaval that deposed its prime minister, sank its currency and reopened the possibility of Scottish independence
- Britons voted 51.9% to sever the country's 43-year membership of the EU, sending tremors across Europe and triggering global financial market turmoil
- In a frantic day of trading, the pound dived to a 30-year low, setting a record intraday swing of more than 10% between its high and low points...
- ...Lloyds down 21%, RBS down 18% and DB falling 15%
- US equities tumbled by more than 2%...

- The US Federal Reserve and the ECB said they were standing by to inject extra liquidity

Divorce talks open up with 'a million mad questions' – Pg. 2

- Britain's vote to leave the EU sets in train the world's most complex divorce. These are guidelines on how to proceed, but the negotiation will be largely improvised
- The goal is to unwind Britain's 43-year membership of the bloc, disentangle and sever the legacy of shared sovereignty and reshape the single market
- Three fundamental issues arise. On substance, what political and commercial arrangements will Britain demand and will the EU accept them? In execution, will the exit deal – a divorce and breaking of obligations – be struck at the same time as an agreement covering post-Brexit trade? If no, is a transition possible to ensure a soft landing?
- Lawyers in Whitehall and Brussels see two tracks. The first is under Article 50 of the EU treaties – the so-called "exit clause" – which lays down a two-year renewable deadline for a country to leave. A second track makes arrangements for relations, from trade to co-operation on security or law enforcement. This is a more complex negotiation and harder to ratify. It requires approval by more than 30 European, national and regional parliaments.
- By law, nothing fundamental will change for British companies in coming weeks and possibly years.
- One of the biggest risks is a wait between Britain's exit and new trade arrangements
- A hard landing would leave Britain relying on basic WTO trading terms, with no privileged access to European markets

Younger generation vents fury at older voters – Pg. 7

- The generational difference was only one of the divides apparent in the results. The young, the better educated and people living in London, Scotland and Northern Ireland voted to Remain; older people, the less highly educated and those outside the largest cities in England voted Out, and in the end they had the numbers to prevail
- 60% of voters in London opted to Remain; across the rest of England it was just 45%
- Across the UK, many people who voted Leave knew virtually no one who was voting Remain and vice versa

The making of a global crisis – Pg. 11

- Brexit was a British decision, but a global shock
- In the space of a single day, the UK had renounced its most important international relationship, lost a prime minister, seen the value of sterling collapse and revived the prospect of the imminent break-up of the country.
- Brexit also represents a profound shock for an EU that is already in deep trouble
- The full-scale disintegration of the EU is now a real possibility
- The world has barely recovered from the financial crisis of 2008 and there will not be fears of a renewed recession in the EU, which is, taken collectively, the world's largest market
- A Brexit settlement is likely to curtail free movement of labour between the EU and the UK and lead to the possible reimposition of tariffs as Britain exits the single market

- A stark divide has also emerged between younger and older voters, with the strongly pro-Remain under-25s being outvoted by anti-European retirees. That will only heighten the sense of generational injustice for a cohort of young people, who are struggling with insecure jobs, low wages, high house prices and rising student debt
- Brexit also sends an image of weakness and division inside the western alliances, something that will be welcome in Moscow and deeply unwelcome in Washington

US lenders face higher stress test hurdle – Pg.

- The message from the US Federal Reserve was clear: the biggest banks in American have enough capital to withstand the most terrible of scenarios
- Only one of the six biggest banks – Wells Fargo – is expected to generate a return on equity in the double-digits this year,...

Answer: \$2.849 tn; fifth as measured by GDP and ninth as measured by PPP

24 June 2016

Question: What is the difference between Monte Carlo and Latin Hypercube?

Merrill fined \$415m over client cash – Pg.

- US regulators launched a crackdown on finance companies that mix client money with their own as the watchdog issued its second biggest Wall Street penalty, to Merrill Lynch for misusing customer cash
- ...admitted wrongdoing to settle SEC charges that it failed to safeguard about \$60bn of customer assets – and profited from the practice (Prof Note: I want a list of fired employees, persons with lifetime banks on working in financial services industry, and those that are going to jail! I am SO tired of shareholders being held responsible and senior managers laughing all the way to a foreign bank with U.S. dollar bonuses!!!)
- The regulators' threat of further action and move to improve standards comes after UK counterparts pushed to get financial companies to protect client assets better than the 2008 collapse of Lehman Brothers
- SEC officials acted in the case after they received tip-offs from former Bank of American executives (Prof Note: Oh please....BofA learned NOTHING from Arthur Anderson and Enron! You do NOT fire the guilty because they squeal)

Goldman Sachs to drop on-campus interviews – Pg.

- Goldman Sachs is abandoning the time-honoured practice of on-campus interviews for undergraduates at elite schools and will now ask students to use pre-recorded interviews to pitch for a job at the bank
- (Prof Note: Oh, this is going to work well. Strayer contacted me to lecture about two years ago. When I was told that I would have to fill out a job application I declined. Quality people, which is what this effort is based to attract, are not going to do this! Top candidates will not do this...Goldman is living on a historical reputation!)

- Goldman is also piloting a personality questionnaire that would “evaluate several different personality characteristics and experiences” that the bank believes are “predictive of long-term success” (Prof Note: So now students will study how to “beat” the personality test. Oy Vei!)

UK banks buckle up for more gyrations – Pg. 20

- The UK’s banking sector is regarded as a proxy for the country’s economic growth, and share prices have been particularly volatile over concern that an exit from the EU could spark a recession, with a housing market slump hitting lenders’ balance sheets
- The dramatic collapse in bank prices earlier this year, triggered by the gnawing threat of low and negative interest rates, along with complicated new regulations, remains a more powerful market indication of the threats facing the sector
- Investment banks have publicly and privately warned they will move jobs to the continent in the event of a vote to leave
- The volume of negative-yielding government debt rose above \$10tn for the first time this month

Answer: Monte Carlo Sampling: Uses simple random sampling; **Latin Hypercube Sampling:** Uses stratified sampling

23 June 2016

Question: What does skewness measure?

Hong Kong regains crown as costliest city for foreign workers – Pg. 2

- The financial centre has the least affordable housing in the world and high rental costs have helped push it back to the top of the cost of living ranking by Mercer....
- It replaced Luanda, capital of oil-rich Angola, where living costs have fallen as the commodities price slump has caused the currency to collapse
- Singapore – a hub for investors looking at the fast-growing Southeast Asian region – was the fourth most expensive city, ahead of Tokyo in fifth place, Shanghai in seventh and Beijing in 10th
- The problem is particularly acute in Hong Kong, which has some of the most cramped and expensive housing. Purchase prices have started to fall in the past year as Hong Kong feels the impact of the Chinese slowdown and a drop in mainland visitors
- But the median housing price was still 19 times the median annual pre-tax household income in the third quarter last year,....
- Renting a two-bedroom unfurnished apartment in a well-located part of Hong Kong cost more than \$6,800 a month...far ahead of New York at \$5,100, London at \$4,583 and Singapore at \$3,129
- A typical McDonald’s hamburger meal costs \$4.83 in Hong Kong, against \$6.43 in London and \$8.74 in New York

IMF warns of four forces that threaten low growth in US – Pg. 4

- The US faces economic “headwinds” and “pernicious” trends including a shrinking middle class that could slow growth in the long ter, ...
- It predicted US GDP would grow 2.2% this year, down from 2.4% in 2015
- ...warning recent weak employment and other data may reflect the economy’s lower potential growth rate and daunting longer-term trends. It also warned the US dollar was now 10-20% overvalued and that a decision tomorrow by voters in the UK to leave the EU could lead to further appreciation as investors poured into the currency as a haven (Prof Note: Here comes my European Flat!)

Answer: Third moment about the mean. It measures the degree of tail risk, i.e. the degree to which Mean does not equal Median does not equal Mode.

22 June 2016

Question: What does Value-at-Risk tell the analyst, i.e. user?

Workforce dropout rate explains ascent of Republican tycoon – Pg. 2

- If one economic fact could explain Donald Trump’s success it would be the US’s declining male labour force participation rate. Fewer than one in six US men without a college degree have jobs, or are even looking for work...
- Almost one in eight US men have dropped out of the workforce altogether
- Had the labour force stayed at the same level it was before the 2008 recession, the US jobless rate would now be almost double today’s rate of 4.7%
- Unless there is a drastic shift in US policy, the participation rate will keep falling
- Each year a higher share of baby boomers is set to retire
- And the chance for an overhaul to the US penal system, which shuts out millions of former felons who would otherwise be capable of working, look modest
- Since the recession ended in 2009, the US labour force participation rate has fallen from 65.7% to 62.4%
- US community colleges should be much more effective at giving workers relevant skills. At the moment they suffer from horrific dropout rates. Nearly half of all enrolled students fail to complete their two-year degrees
- ...the US is now a generation behind most rich countries in terms of family and childcare benefits
- In almost half of US states, the monthly cost of full-time childcare exceeds average housing rental costs
- The US seems to be stuck in a bad feedback loop. The worse the middle class feels, the more embittered politics becomes – and the less likely it will deliver the obvious fixes

Yellen sounds caution over rate rise expectations – Pg. 3

- ...saw “considerable uncertainty” about the US economic outlook, singling out weaker hiring numbers and soft investment as evidence of some of the risks that remain on the horizon
- ...further damp expectations of a rate rise next month after the Fed’s December increase as policymakers weigh a mixed set of economic indicators

- Slower jobs growth in May and overseas hazards such as a possible UK exit from the EU prompted the Fed last week to hold policy unchanged as it trimmed back its longer-term interest-rate forecasts

WTO warns against global rise in protectionism – Pg. 6

- The trend coincided with a slowdown in global trade now in its fifth year. Moreover, it was contributing to the persistent slow growth in the global economy, ...
- G20 leaders pledged in the wake of the financial crisis not to repeat this mistakes of the 1930s and the erect the sort of trade barriers that are now widely believed to have contributed to making the Depression worse

Too many houses in the wrong place – Pg. 7

- A decade ago, Ireland was building many more homes than its demographic trends warranted: 90,000 a year at the peak of tis building boom in 2006
- The UK is also not building enough homes and there are shortages in cities such as Berlin
- A visible consequence of the crisis is a rise in homelessness as some families find themselves unable to pay their mortgages or rent

Answer: Value-at-Risk: What is the chance I will lose X capital over a y period with a z confidence?

21 June 2016

Question: What is Modified Internal Rate of Return?

IMF urges Japan to ‘reload’ Abenomics – Pg. 2

- Japan must redouble economic stimulus or admit that it will take years to reach inflation of 2%,
- The comments show that even with negative interest rates and the postponement of a rise in consumption tax, the fund considers that Japan is not on course to escape its decades of on-and-off deflation
- Japan should adopt an incomes policy, where employers – including the government – would raise wages 3% a year, with tax incentives and a “comply or explain” mechanism to back it up,...
- Higher pay rises would fuel cost growth in line with the inflation target

US suffers steep fall in workforce participation by low-skilled employees – Pg. 6

- Labour force participation among men of prime working age has dropped by more than in the US than in any other OECD country apart from Italy in the past quarter century
- The decline has been driven in part by weaker employer demand for people with lower skills, ...
- ...while unemployment has been falling, a large number of people have also been dropping out of the jobs market
- Much of the decline in recent decades in participation among the broader population is down to the retirement of baby-boomers, but does not explain the whole phenomenon

- In 1964, some 98% of prime-age, college-educated men participated in the workforce, compared with 97% of those with a high-school degree or less. By 2015, the rate for college-educated men had slipped to 94%, while that for those with a high school degree or less had plunged to 83%
- Part of the reason behind the fall in demand for lower-skilled labour is the drop in manufacturing jobs resulting from technological change
- Among the other possible explanations for poor numbers are lower spending by the US government on policies to help with job search and training, and very high rates of incarceration, which especially affect lower-skilled men. Between 6 and 7% of the prime-age male population was in prison at some point during their lives in 2008 (Prof Note: Little known fact, my lecture slides for several classes (will not disclose which) were developed in a U.S. prison. I had subcontracted the tasks and had individual(s) with terminal degrees completing my lectures. All were convicted of white-collar crimes. My point, there is a huge talent pool that we have locked up!)

Big lenders raise concerns over new loan loss rules – Pg. 16

- The biggest banking lobby group in the US is raising concerns about a radical shake-up of accounting rules that would force banks to recognize losses on loans – starting on the day they are originated
- Under the current regime, banks can hold off adding to reserves until the point at which losses on the loan become probable
- But under the new rule, finalized last week, banks will be made to log all expected losses over the life of the loan on day one, based on a combination of experience, their own forecasts and the state of the economy
- ...in the four years before the crisis, loans held by banks in the US rose 45%, while reserves set aside for losses fell 10%. That means that loan-loss reserves as a percentage of gross loans were near a multi-decade low on the eve of the Lehman Collapse

Answer: It is the Internal Rate of Return that allows for the bifurcation of the reinvestment rate and the discount rate. Values are escalated at the stated reinvestment rate to the final cash flow period, thus creating a zero-coupon bond. The yield of this zero-coupon bond is then calculated and referenced as the Modified Internal Rate of Return. See Staiger memorandum for complete explanation.

20 June 2016

Question: What is stochastic modeling?

Brazil plans budget freeze for up to 20 years – Pg. 2

- (Prof Note: This reminds me of being a child and, according to my mother, I was “Big Boned”. I told myself that rather than diet and exercise, I would focus on remaining the same weight and grow out of “Big Boned” status. Yeah, that worked well!!!)
- The plan to eliminate real increases in budget spending for up to 20 years is the central plank of a series of reforms – from fiscal policy to rules on pensions and the operation of Petrobras, the scandal-hit state oil company - ...

- Once a fast-growing emerging market, Brazil's GDP shrank 3.8% last year and is expected to decline by the same amount this year
- But he said the current emergency was different: 2003 was a balance of payments crisis, not a budgetary problem. Today, with \$370bn of foreign exchange reserves, Brazil's external accounts were more solid...the problem, instead, was one of unsustainable fiscal deficits
- The other difference between Mr Meirelles's job now compared with 2003 is that, as finance minister, he needs to deal with politics. The central bank governor in Brazil is largely autonomous

UK M&A deals plunge on Brexit fears – Pg. 13

- Britain's share of global merger and acquisition activity has tumbled to a record low, as dealmaking freezes amid the uncertainty over the UK's membership of the EU
- The volume of deals involving UK targets is down almost 70% this year compared with the same period in 2015,...
- Global M&A volumes have fallen just 20% from a year ago,...

Students must learn the purpose of finance – Pg. SR-1-6

- ...Purpose of Finance...the inspiration was the recognition that economics, corporate finance, investment theory and accounting are not enough on their own. Financial systems should be designed to fit their purpose otherwise they will not deliver better services and will not avoid financial crises
- Masters of finance graduates need to understand the basic technical subjects, but also other perspectives. The further students work to progress in their careers, the more important these perspectives will become

Answer: Defining inputs NOT as static numbers but rather distribution types. Using random sampling to 'sample' the input distributions to provide an output (forecast) distribution. The two main methods are monte carlo (simple random sampling) and latin hypercube (stratified sampling).

18 June 2016

Question: What is kurtosis?

Hawkish Bullard turns into ultra-dove on rates outlook – Pg. 3

- The former hawk said he expected rates would remain unchanged in 2017 and 2018 following a single rate rise, in a leap towards an ultra-dovish outlook
- Mr Bullard has until recently been seen as one of the more hawkish policymakers. Last year he spoke of the economy as heading into "boom time" levels of unemployment, adding that higher borrowing costs would be needed to ward off the threat of asset bubbles

Goldman's bankers should read their own rule book – Pg. 11

- Since the 2008 financial crisis, any week in which Goldman Sachs does not make the news in a controversial fashion is a good one for the US investment bank. On that measure, the past week has been poor

- In the Malaysian and Libyan cases, the rewards may themselves have been a risk. As the deals have been re-examined, the fact that they were so lucrative for Goldman has led to tough questioning. Should it have realized the potential for abuse in Malaysia, and did not exploit the client's inexperience in Libya to be paid more than usual?

Falling yields contain a new message – Pg. 15

- Asked 30 years ago, when the annual income from a 10-year Treasury had dropped from 14% to 7%, falling yields represented victory over destabilizing inflation
- As the coupon on government bonds is set at issue, inflation is the enemy of fixed-income investors: it eats away at a bond's value. Higher interest rates mean lower bond prices and vice versa
- In the 1990s falling yields meant that investors, "bond market vigilantes", approved of policies that produced steady growth and subdued inflation. A decade later, falling interest rates were first a response to economic shocks – a burst tech stock bubble and the 9/11 attacks – then a sign of "great moderation" that ended in a crisis of bad debts
- Falling yields had become a sign of extraordinary efforts by central banks to stimulate growth and inflation. By suppressing borrowing costs for governments, the hope is it becomes easier for businesses and people to borrow, invest and spend
- A 10-year Treasury offered an annual income of as little as 1.55%, the lowest level since late 2012
- The Central banks of Japan and Europe have set short-term interest rates below zero, as well as purchasing bonds to push down yields for debt maturing years into the future
- This has arguably created a shortage of "safe assets", those where repayment is reliable and inflation and the overall level of interest rates the main risks buyers face
- This has encouraged governments in Europe and the US to extend the lifespan of outstanding sovereign debt through sales of 30, 50 and even 100-year maturities

Answer: 4th moment about the mean. It measures peakedness of a distribution.

17 June 2016

Question: What is the only variable in a vanilla fixed-income security?

Central banks braced for Brexit fallout – Pg. 2

- The Swiss National Bank said yesterday as it left rates on hold: "Significant risks remain for the global economy. Further, the imminent UK referendum on whether to stay in the EU may cause uncertainty and turbulence to increase"
- Investors have rushed into government debt in the past few days, ...
- Falling yields and uncertainty in financial markets have been dragging on bank share prices across Europe, pulling many to multiyear lows yesterday
- The ECB has also said it stands ready to act with additional liquidity measures if the UK decides to quit the EU
- The Bank of England reiterated concerns in minutes released yesterday, saying: "Market contacts attribute much of the deterioration in global risk sentiment to increasing

uncertainty ahead of the referendum. The outcome continues to be the largest immediate risk facing UK financial markets, and possibly also global financial markets”

Fed eyes lasting impediments to US growth – Pg. 2

- ...Fed officials have been rethinking the longer-term outlook for the US economy – and drawing some gloomy conclusions
- ...median prediction for the Fed funds rate’s target range falling sharply in 2018 from 3% to 2.375%. The Fed’s median estimate for the longer-run rate now stands at 3%, a full point below the Fed’s estimate three years ago
- What is leading to the reassessment? A series of long-lasting and persistent factors may be holding down the longer-run neutral rate. The ageing of American society is leading to slow labour force growth as well as sluggish rates of household formation,...
- ...productivity growth is worryingly listless
- ...the US will this year see negative productivity growth for the first time since the early 1980s; a toxic situation that could hamper income growth
- Part of the problem is a failure of businesses to invest, preferring instead to funnel out higher dividends and to engage in share buybacks
- Lower levels of business start-ups, plus growing market power for industry leaders may also be operating as barriers to output growth (Prof Note: Real wealth does NOT come from jobs, it comes from businesses...own your business(es) and build your own equity!)

Gold at two-year high after Fed rate signal – Pg. 22

- Gold scaled the highest level in two years yesterday, topping \$1,300 an ounce, after the US Federal Reserve signaled a slower pace of rate rises over the next few years and Brexit fears intensified
- The metal has been lifted by haven flows ahead of the referendum, which investors fear will trigger ructions in markets should Britain choose to leave
- Gold, which offers no yield to investors, is on course for its first year of gains in four years

Answer: The price as coupons and face value are fixed.

16 June 2016

Question: What is a capitalization rate?

Slowing jobs growth and risk of Brexit prompt Fed to keep rates unchanged – Pg. 1

- (Prof Note: David S. owes me lunch...immature yes but, “I told you so!!!”)
- The US central bank held the target range for the federal funds rate at 0.25% to 0.50%, where it has been since the Fed lifted rates by a quarter point from near-zero levels in December, as it assesses a mixed set of economic indicators
- The median of Fed forecasts suggests policymakers are still expecting two interest-rate increases this year, but rate forecasts for 2017 and 2018 have been pared back, as has the Fed’s estimate of the longer-run policy rate

- But she [Yellen] also withdrew guidance that she expected a rate rise “in the coming months”, suggesting the Fed now is firmly in wait-and-see mode

US chief executives lower forecasts and urge Fed to hold rates – Pg. 2

- US business leaders have offered a bleak view of the economy, lowering their growth forecast for this year and urging the Federal Reserve to be cautious about raising interest rates
- ...expected the economy to grow 2.1% in 2016, down from a forecast of 2.2% in the first quarter

China loan sharks ask for nude photos as collateral – Pg. 6

- Chinese loan sharks are demanding nude photos as collateral from female borrowers which can be used for blackmail if they fall behind on their repayments
- ...interest rates topping 30%, have proved an inflammatory mix and fueled a surge of souring loans
- Female college students in the southern province of Guangdong were told to hand over naked photos of themselves holding their ID cards, with lenders threatening to make them public if they failed to repay their microloans, ...
- Blackmailing with nude photos joins a long list of threats, including property destruction and bodily injury committed by loan sharks attempting to collect unpaid loans

Answer: Net Operating Income divided by Sales Pricing

15 June 2016

Question: Why is the “=NPV()” formula in MSExcel incorrect?

US credit card stocks hit by loan fears – Pg. 14

- ...some consumers were struggling to repay loans, just a couple of months after saying that investors should have no cause for concern
- Credit-card units have been a rare bright spot for the big US banks in recent quarters, as trading businesses have struggled for momentum and as losses from loose lending in the oil patch have begun to show up in corporate loan books

Restlessness over UK referendum overshadows start of Fed meeting – Pg. 21

- Intensifying concerns over the possibility of the UK voting to quit the European Union continued to dominate market sentiment, overshadowing the start of a two-day Federal Reserve meeting and some reassuring US economic data
- ...10-year German Bund entering negative territory for the first time
- Equity and commodity prices came under sustained pressure while the yen strengthened towards levels that could prompt intervention from the Bank of Japan...
- In the US, the 10-year Treasury yield was down 1bp at 1.60% by mid-day in NY – putting it on course for its lowest finish since 2012 – having earlier dipped to 1.567%

Answer: It is actually a Present Value formula. It discounts to a time period prior to start.

14 June 2016

Question: Modified Rate of Return...how is it “modified”?

Job prospects keep Fed guarded on rate rises – Pg. 2

- Federal Reserve policymakers are likely to keep the prospect of further rate rises this year open, spurning any firm commitments on timing, as they await evidence tomorrow on whether the US labour market recovery has hit a modest pothole or a roadblock
- Markets are putting stronger odds on a move by the FOMC in September or afterwards
- For the Fed the problem is that the dreary data were not the only sign of a slowing labour market. The central bank’s own labour market conditions index, which pulls together a range of indicators, has dropped to its lowest reading since May 2009
- Making the picture worse is a decline in indicators of inflation expectations to which Ms Yellen drew attention in Philadelphia. The Fed cannot afford to be relaxed about the development, given its 2% inflation target – a goal it has not hit for four years
- The worry in the US is that such a move could trigger broader contagion across Europe

‘Dismal’ progress on women joining US boards – Pg. 16

- Fewer than a fifth of board seats at the US’s largest public companies were held by women in 2015, unchanged from the year before...
- The research found that men held 80.1% of S&P 500 board seats, while women held 19.9%, which was unchanged on 2014
- Governments in Europe, India and elsewhere have adopted quotas or pushed for voluntary diversity targets

Blackstone raises 5.5bn (euro) for real estate fund – Pg. 16

- ...investors in the sector shift from the US towards Europe
- Blackstone has a record of assembling large portfolios of assets in sectors such as hotels or industrial properties, which it then floats or sells

Bricks-and-mortar retailers struggle to cope with shift to online shopping – Pg. 19

- In the US, clothier Aeropostale filed for bankruptcy protection last month, just weeks after Pacific Sunwear and Sports Authority did the same
- The rise of online shopping has driven not only fundamental change in consumer behavior and bricks-and-mortar retailing, it has also contributed to a radical shift in the nature of the businesses found in city and regional shopping districts, as well as in malls, ...
- Back in the 20th century, the classic British “high street” had a butcher, baker and grocer (Prof Note: Bring back the butcher! Bring back small business!)
- UK shoppers buy more online per head of population than other developed economies, ...

Rated subprime bonds poised for comeback – Pg. 22

- Subprime mortgage-backed securities, where a batch of low-quality mortgage loans are bundled into a bond and sold to investors, were a driving force of the global financial crisis
- There has been a handful of small deals in recent years from non-bank lenders – dubbed “non-prime”. Another milestone will be reached when the first rated deal comes to the market
- New regulation requires that mortgage lending conforms to so-called “ability-to-pay” rules, where the lender must ensure the borrower is able to afford the loan. One way of complying is to issue a “qualified mortgage”, which meets certain requirements around the creditworthiness of the borrower and loan-to-value ratio of the mortgage. But banks have been reluctant to issue non-QM loans

Answer: Bifurcates the reinvestment rate and the discount rate, i.e. they are different. MIRR requires not just time and capital as inputs but also the reinvestment rate.

13 June 2016

Question: What is the definition of IRR?

IMF warns on China’s corporate debt – Pg. 4

- China’s corporate debt risks sparking a bigger crisis if the authorities fail to tackle it, the IMF has warned
- ...China’s corporate debt load – which at 145% of GDP was “very high by any measure” – had seen only “limited progress”
- China has since launched a series of initiatives to whittle back the bad debt sitting on banks’ balance sheets, including securitization and debt-for-equity swaps - ...

Chins bad loan fund at risk of closure after strategy clash – Pg. 13

- Shoreline Capital, a Chinese distressed debt investor with more than \$1.5bn in assets under management, is in turmoil and losing staff at a time when it should be benefiting from mainland banks’ efforts to deal with problem loans
- ...problems began earlier this year when the current fund, which manages more than \$500m, had invested about 80% of that money....

Digital publishers grapple with Hogan verdict – Pg. 14

- When Gawker Media filed for bankruptcy protection last week, following its court defeat to ex-wrestler Hulk Hogan and the resulting \$140m damages bill, it sent a chill through the media world – presaging a future in which the industry has to rethink the editorial and financial risks it takes
- “It is not uncommon for companies to use Chapter 11 as a remedy in cases where they get hit with outsized [legal] verdicts relative to the size of their company”...
- Gawker’s news operations earned plaudits in recent weeks when its Gizmodo site sparked a global debate about Facebook’s role in determining the selection of news on its site

Answer: The discount rate setting NPV equal to zero (0)

11 June 2016

Question: MS Excel's NPV equation is incorrect. How is it incorrect?

Market jitters spark race to safety – Pg. 1

- The global rally in government bonds broke records yesterday while equities buckled as a combination of anxiety over the world economy and Britain's referendum on EU membership sent investors racing to safety
- Bears took charge of financial markets already grappling with the effects of negative interest rates in the Eurozone and Japan as European equities suffered their worst day since the market meltdown at the start of the year
- Bond prices, which move in the opposite direction to yields, have been electrified by ECB and BoJ moves to cut key interest rates into negative territory in their latest efforts to revive listless economies
- Already turbocharged by negative interest rate policies, the bond rally has drawn fresh impetus from a poor US jobs report last week, that is likely to further deter a US rate rise, and the latest British poll suggesting the UK would vote to leave the EU on June 23

Moscow cuts interest rates as outlook brightens – Pg. 4

- Russia's central bank lowered interest rates for the first time in nearly a year yesterday as inflation pressures recede and hopes rise of a pick-up in the economy
- The bank cut the key lending rate by 50bps to 10.5%, the first such move since July, amid confidence that inflation will drop to 4% from about 7% by the end of next year

Sovereign debt demand drives benchmark yields to record lows – Pg. 14

- Global equity, oil and industrial metals prices remained under pressure at the end of a week that saw growing demand for government bonds drive benchmark yields in countries to record lows
- The "risk averse" tone came against a backdrop of uncertainty about the prospects for the global economy, fueling expectations that central bank policies around the world would remain ultra-accommodative
- Across the Atlantic, the 10-year US Treasury yield was down 3bp at 1.65% - putting it on track for its lowest close since May 2013. The policy-sensitive two-year yield, meanwhile, was down 1bp on the day at 0.75% - the lowest since mid-May
- US interest rate futures moved this week to price in a zero probability of the Federal Reserve raising official borrowing costs at its meeting next week, while the chances of a move in July were cut to just 20%....

Answer: It actually is a PV equation. It discounts to one period prior, i.e. $T - 1$.

10 June 2016

Question: What is an annuity?

Venezuela keeps paying foreign lenders despite blackouts and food queue riots – Pg. 1

- Food riots, record inflation, a two-day working week and rolling power blackouts lasting for hours at a time: Venezuela is in the depths of one of the worst economic crises in its history
- Yet against the odds, the oil-producing country has remained a dutiful debtor, making payments on billions of dollars of foreign-currency bonds even as hospitals lack the cash to pay for antibiotics
- The cost of insuring the paper against default has also fallen, although it remains the highest in the world
- ...they believe Venezuela's hands are tied by the legal structure that underpins its sovereign debt

Finance capitals face low-cost challengers – Pg. 16

- People joining a global bank in the future are just as likely to be based in Lisbon, Dublin, Warsaw or North Carolina as they are in London or New York
- The moves highlight how banks are taking a stricter look at which activities need to be based in high-cost financial centres as digital communications and cloud computing make remote working easier
- There are signs that big banks are cooling on long-distance offshoring to places such as India, which can be plagued by rising costs and high staff turnover. Instead they are switching their focus to closer regions such as eastern Europe or Florida
- New York has lost 27,000 financial services staff in the past five years, leaving it with 331,000 positions, and London has lost 15,000, leaving it with 358,000 posts...

BlackRock moves into US mortgages – Pg. 22

- BlackRock is carving a niche in UK mortgages, helping its clients fund half a billion pounds of loans in the latest sign that low returns in traditional fixed-income markets are forcing investors to look elsewhere
- The unusual development comes as historically low bond yields put increasing pressure on asset managers to provide customers, which include pension funds and insurance companies, with adequate returns
- Investors have increased their exposure to mortgage loans in the Netherlands, where non-bank lenders backed by pension funds and insurance companies have seized a share of the new mortgage market

Answer: Typically a fixed sum of money received at regular intervals for the duration of an individual's life.

9 June 2016

Question: What is a mutual fund?

Negative rates stir mutiny with bank threat to put cash in vaults – Pg. 1

- Lenders in Europe and Japan are rebelling against their central banks' negative interest rate policies, with one big German group going so far as to weigh storing excess deposits in vaults
- The ECB and the BoJ have for months imposed negative rates for holding bank deposits in a bid to push lenders to deploy their cash in the real economy through more aggressive lending to businesses. The policy in effect taxes banks for storing excess liquidity
- Negative rates have hammered share prices
- The viability of the approach is open to debate. Holding cash in vaults would incur storage and insurance fees. The ECB's decision to stop producing the 500 (euro) note will also make storing large volumes more difficult

Shake-up coming to asset manager sector – Pg. 22

- The head of one of the biggest US investment managers is predicting a wave of consolidation in the industry, due to the investor shift from active fund managers to low-cost index trackers
- The active-to-passive shift is especially stark in equities
- Last year stock market ETFs globally absorbed nearly \$200bn while actively managed equity funds lost \$124bn
- In the US – where the trend is the most pronounced – the assets of passive US equity vehicles crossed the 40% mark of total US equity fund assets, up from 18.8% a decade ago,...
- But the bond fund industry is also beginning to become increasingly passive

Answer: A professionally managed portfolio

8 June 2016

Question: What is an ETF?

Rogue trader Kerviel wins 400,000 (euro) for 'wrongful dismissal' by SocGen – Pg. 1

- Despite his admission that he amassed 50bn (euro) in unauthorized trades in one of the most notorious rogue trading cases before the financial crisis, a Paris employment tribunal said Mr Kerviel was fired "without real and serious cause" in 2008. He was awarded 100,000 (euro) in compensation as well as his 300,000 (euro) bonus for 2007
- Mr Kerviel was ordered to repay the 4.9bn (euro) it cost SocGen to unwind his trades, a fine he described as a "lifetime death sentence" and which is still outstanding

Seven states fall short of criteria to adopt euro – Pg. 4

- Seven countries are under review for membership of the single currency area – a condition of joining the EU, though not for the UK which has an opt-out clause
- While the euro membership was traditionally viewed as a means to promote currency and price stability, as well as trade, the single currency's brand has been damaged by the region's sovereign debt crisis. That damage has been compounded by Europe's refugee crisis, which has been a factor in the rise of nationalistic political movements in several of the countries under review

Curing default – Pg. 7

- All bonds boast an array of often boilerplate terms and conditions. Elliott argued that one called pari passu clause meant that Argentina could not continue to shun them while making payments to creditors who grudgingly accepted the 30 cents on the dollar offers made in 2005 and 2010 and held new “exchange” bonds
- One of the reasons there has been little litigation is that most countries simply elect to pay off any holdouts – but crucially this depends on their number being limited
- ...the defaults of the likes of Greece, Ukraine and Jamaica have highlighted related problems. These include corralling creditors into an agreement, encouraging early dialogue with investors, the IMF’s own actions and the difficulties in assessing exactly when a country has gone bust. Most of all, countries have a tendency to delay debt workouts – worsening the challenges when reality finally bites

If we want poor kids to succeed, then more rich kids must fail – Pg. 10

- ...top-five earning surnames in 2011 were also the elites six centuries ago, when they were lawyers or members of the wool, silk and shoemaker guilds
- There is a difference between relative and absolute mobility. Relative mobility measures whether you end up on a different rung of the income or social ladder from your parents. It is a zero-sum game: if someone moves up, someone else has to move down
- Absolute mobility simply measures whether you end up better off than your parents, regardless of what happens to everyone else.
- Over the course of the 20th century, absolute mobility increased in many countries as economies expanded and household incomes rose.
- There is evidence that the latest generation may not be richer than their parents
- (Prof Note: Basically the article is saying that child performance has a positive correlation on parental performance. My father died broke and I support my mother....this is not a good omen! Anyone have a couch for me to sleep on? I’m just say, “Just in case!” ☺ I’m house trained and relatively low-maintenance. ☺)

Answer: An exchange-traded fund (ETF) is an investment fund traded on stocks exchanges. It holds assets such as stocks, commodities, or bonds and trades at close to its net asset value, i.e. tracks index performance.

7 June 2016

Question: What is a flat yield curve?

Yellen signals Fed will sit tight on rates while jobs outlook unclear – Pg. 1

- ...she described Friday’s jobs report as disappointing and highlighted uncertainties ahead, including Britain’s referendum on its EU membership
- ...Ms Yellen described the Federal Reserve’s current monetary policy setting as “generally appropriate”, indicating that the Fed wants to sit tight at its meeting next week but is

holding open the possibility of rate rises later should May's jobs setback prove to be an anomaly

- The Fed chair gave a broadly positive outlook for the US economy, saying it had made impressive gains since the post-crisis recession and that positive forces supporting job growth and inflation should outweigh negative ones, supporting arguments for gradual increases in short-term interest rates
- A further uncertainty surrounds inflation, with core price growth hovering below the Fed's 2% target in recent years and registering a 1.6% year-on-year price growth for April. Ms Yellen added that downward movements in inflation-protected securities had her "close attention"

Risk warning over change to lenders' safety measures – Pg. 15

- Banks would be encouraged to lend more to their weakest borrowers and take on excessive risks if global regulators push ahead with a rule change aimed at making it harder to cheat on safety measures....
- Regulators want a simpler and more consistent approach to risk treatments after several reviews found that individual banks' models produced vastly different risk assessments of identical types of loans

Answer: A foreshadowing of recession....

6 June 2016

Question: Why did I not believe rates would be increased, i.e. prior to jobs report?

Secretive McKinsey investment arm fuels conflict of interest fears – Pg. 1

- McKinsey, one of the world's most influential consulting firms, has built a up a secretive \$5bn internal investment arm that manages the fortunes of its past and present partners, raising questions over possible conflicts of interest
- The firm's partners on the board – which include the heads of the Americas, energy, investment banking, and private equity divisions – do not disclose their work at the fund in their corporate biographies, and they are not named on MIO's website
- Ex-partners at the prestigious firm have gone on to run some of the world's largest companies or have taken up important government positions
- MIO has total assets of \$9.5bn; around half are partner investments while the rest is invested on behalf of the McKinsey group pension plan
- In 2014 the fund made 14% for McKinsey partners, compared with 3% average for hedge funds in the same year

Goldman attracts 250,000 jobseekers – Pg. 16

- ...suggesting fears of a "brain drain" in the sector may be exaggerated as banks introduce more employee-friendly policies
- Applications globally rose more than 40% since 2012,

- JPMorgan said it was hiring only 2% of graduate applicants to its investment banking division, and at Citigroup, the proportion of would-be analysts and associated hired in its global investment banking division is 2.7%

Answer: It would cause a further flattening of the yield curve!

4 June 2016

Question: Who is going to pass the CFA Level II examination today?!

Weak jobs growth is 'smack in the face' for US economy and Fed rate increase – Pg. 1

- Non-farm payrolls rose by a seasonally adjusted 38,000 in May, below a revised 123,000 figure for April and well below expectations for growth of about 160,000. Employers took on 59,000 fewer workers in March and April than previously reported
- The unemployment rate slid to 4.7% from 5% but the declines were driven by people quitting the labour force, rather than hiring
- Stocks sold off and the dollar fell on the report, which also sent 10-year bond yields sliding from 1.7938% to 1.728%

Fed official fears vote to leave EU risks global markets shock – Pg. 6

- A vote by UK voters to leave the EU could deliver a "significant adverse reaction" to global markets and impact the US economic recovery....
- She highlighted the "fragility" of the global economic environment while homing in on particular risks brewing in the EU and China

Sub-zero state debt passes \$10tn mark – Pg. 13

- Negative-yielding government debt has risen above \$10tn for the first time, enveloping an increasingly large part of financial markets after being fueled by central bank stimulus and a voracious investor appetite for sovereign paper
- The ascent of the negative yield first affected only the shortest maturing notes from highly rated sovereigns. It now encompasses seven-year German Bunds and 10-year Japanese government bonds as the ECB and BoJ cut benchmark interest rates and launch bond-buying programmes
- Negative rates have not been confined to the sovereign debt market. Corporate bonds with a negative yield have climbed to \$380bn, ...

Soft job data send Treasury yields tumbling – Pg. 13

- A gloomy report on the American labour market sent the policy-sensitive US two-year Treasury note tumbling at its fastest rate since September, when the Federal Reserve pulled back from raising interest rates
- Longer-dated Treasury yields also fell, with the 10-year note yielding 1.71%, down from 1.85% earlier this week. Disappointing US jobs data also ignited firmer prices for Eurozone and UK bonds

Answer: Michael Cardman! (no pressure Cardman!!!)

3 June 2016

Question: HuD-1s are no longer HuD-1s....what are they now called?

ECB plays down hopes on growth uplift – Pg. 4

- Mario Draghi has cautioned that the pace of the eurozone's recovery may be slowing, as the ECB kept interest rates at record lows
- The region grew by 0.5% between the fourth quarter of 2015 and the first quarter of this year, outpacing the US and the UK and fueling expectations that the single currency area's sluggish recovery had reached a turning point

Brexit vote looms over timing of next Fed rate rise – Pg. 5

- Britain's referendum on its EU membership has emerged as a central issue at the Federal Reserve's policy meeting this month that could push the US central bank towards holding fire on rates, ...
- While an increasing range of US economic data including consumer spending numbers this week appear supportive of a second quarter-point rate increase as soon as June 15, the Fed's meeting comes only a week before the vote that could send shockwaves across the global financial system in the event of a Leave result
- The idea that US monetary policy could be influenced by a vote in a foreign country is highly unusual
- Pushing the button on a rate increase ahead of the referendum risks not only inflaming volatile market conditions, but also sending a message to markets that the Fed sees an urgent need to lift rates despite risks abroad at a time when the central bank does not appear obviously behind the curve on interest rates as core inflation hovers below target
- If the Fed holds fire on June 15, (Prof Note: my personal bet/vote) it would have the opportunity to consider a move six weeks later at its July meeting. A drawback is there is no scheduled press conference after that meeting, but the Fed likes to avoid the perception that it is constrained to move rates in months when Fed Chair Janet Yellen is formally due to address the media

Fed to toughen stress tests for lenders – Pg. 14

- Federal Reserve officials have confirmed plans to toughen the annual round of stress tests for the biggest, most complex banks, while extending relief to smaller lenders with less than \$250bn in assets
- ...make big banks "fully internalize the risk" they pose to the economy
- The eight Sifis – which face capital surcharges ranging from 1% to 3.5% of their total risk-weighted assets – are JPMorgan Chase, Bank of America, Wells Fargo, Citigroup, Goldman Sachs, Morgan Stanley, Bank of New York Mellon and State Street

Wells Fargo plays down rate rise benefits – Pg. 16

- The head of Wells Fargo, the world's biggest bank by market value, has downplayed the profit-boosting effects of possible interest rate rises by the US Federal Reserve in coming months, saying he will continue to plan on the basis of "lower for longer"
- Wells has long been the most profitable of the big US banks, thanks largely to its strategy of focusing on retail and wholesale banking in American, where it is the number one lender and has the largest share of deposits. Its five-year average ROE, at about 13%, is comfortably ahead of a peer group that includes JPMorgan Chase, Bank of America and Citigroup

Answer: Closing Disclosure...occurred last October as a result of CFPD and the new regulations. Banks must have closing disclosure document three days prior to settlement or it cannot close.

2 June 2016

Question: What are the five theories of term structures of interest rates?

Jobs more important than wage gap, says OECD – Pg. 2

- Countries should worry less about the gap between high and low wages and more about jobs, ...to try to recast the heated debate about inequality
- Its conclusions come as concerns mount that household incomes are not keeping pace with growth, inequality is rising in many advanced economies and the latest generation of workers will be the first in more than a century to be worse off than their parents
- ...the best policies dealing with the problem include greater competition, strengthening demand, lower corporate taxes and more public investment in infrastructure and education
- The OECD said government policies should address the global productivity slowdown, which has left household incomes stagnant and fueled a populist uprising, ...
- It noted that growth in output per hour worked in advanced OECD countries averaged 2% in the 1990s, but only 0.9% between 2007 and 2014
- The report also sees merit in cutting corporate taxes to boost innovation and productivity. To pay for this, the OECD suggests cutting back on government subsidies except for child support and help for low income families

Brazil's growth data reveal depths of recession – Pg. 4

- Brazil's economy contracted 5.4% in the first quarter from a year earlier, highlighting the challenge facing interim president Michel Temer as he tries to end the country's worst recession in more than a century
- Economists say the once high-flying emerging market is suffering a deep recession that is starting to show characteristics of a depression
- GDP contracted for the fifth straight quarter in the three months to March and has declined or been virtually flat in eight of the past 10 quarters
- Most economists see the economy hitting the bottom in the next quarter, helped by exports and the stabilization of a long fall in investment

Investors warn of crowdfunding dangers – Pg. 17

- Veteran investors in start-ups are questioning the long-delayed launch of the US market for equity crowdfunding, warning that small investors risk sinking their money into high-risk deals ignored by seasoned professionals
- US regulators opened the market for equity crowdfunding on May 15, allowing anyone over 17 with a few thousand dollars to invest in start-ups. Private companies will now be able to raise up to \$1m from unaccredited investors
- The new rules require businesses to file accounts with the SEC that have been vetted by an independent accountant and would force companies to go public once their revenues reach a certain size

Answer: Unbiased expectation, Local expectations, Liquidity Preference, Segmented Market, Preferred Habitat

1 June 2016

Question: What is securitization?

Renminbi rocked Beijing reinforces market pledge as currency weakens – Pg. 1

- China's currency suffered its biggest monthly depreciation since its devaluation last August as the central bank denied claims that it has abandoned market-orientated exchange rate reform
- The renminbi fell 1.6% against the dollar in May, ...
- The central bank cast that reform as a move to loosen government control of the exchange rate and let market forces play a greater role. Many foreign investors were skeptical of the move because it came when market forces could be reliability expected to weaken the renminbi
- But the renminbi has followed the same basic trajectory of other non-dollar currencies as expectations of a summer Federal Reserve rate increase have revived

US consumer spending confirms rebound – Pg. 2

- Americans increased spending by the most in more than six years in April, confirming signs of an economic recovery and adding to the case for a second increase in short-term interest rates this summer
- Household spending increased by 1% over the previous month, the biggest since August 2009 and higher than analyst forecasts, and incomes rose 0.4%. Adjusted for inflation, spending was up by 0.6% on the month
- Separate figures yesterday showed the US housing rebound remains on track. The S&P/Case-Shiller rose 5.2% in March from a year earlier, little changed from the previous month's rate. Average home prices in 10 leading US cities are now back at the levels of winter 2007, but still below their pre-crisis peaks
- The higher expenditure data were driven by a 2.2% surge in durable goods, mostly cars. Spending on non-durables rose 0.7%, driven by clothing and food, ...

- Inflation data contained within the release were steady if still below the Fed's 2% target. The personal consumption expenditures index of prices rose 0.2% on the month and 1.6% on the year

Eurozone prices highlight inflation challenge – Pg. 3

- Prices in the Eurozone have continued to fall, with the inflation rate for the single currency area remaining in negative territory in the year to May, mostly as a result of the drop in energy prices over the past 12 months
- Inflation for the single currency area rose – but only slightly, edging up from minus 0.2% to minus 0.1%, ...
- The core measure, which strips out price changes for more volatile items such as food and energy products, rose to 0.8% in the year to May – up from 0.7% the previous month

Chinese developers face overseas setbacks – Pg. 12

- Chinese property developers have suffered a string of setbacks in overseas building projects from New York to Sydney in recent weeks, highlighting the cultural and operational challenges these groups face working in unfamiliar territories

Answer: The process of taking illiquid asset, or group of assets, and through financial engineering, transforming them into a security (investopedia)

31 May 2016

Question: What is a Syndication?

Home run Wells Fargo signals crisis-era is behind it with move to boost mortgage lending – Pg. 11

- Wells Fargo, the biggest provider of US home loans, is poised to boost mortgage lending after pulling back sharply in recent years
- ...suggests banks are finally getting over post-crisis fines and regulations. It also presents a potential challenge to so-called shadow banks, more lightly regulated institutions that have rushed into the mortgage market
- Wells agreed four months ago to pay \$1.2bn to settle allegations that it engaged in “reckless” lending practices for about a decade

Low volatility fund inflows top \$10bn – Pg. 12

- Equity funds that promise to shield investors from market volatility attracted inflows for the 11th straight month in May, making them a marketing success story for the asset management industry but triggering warnings that they might not behave as expected in a market downturn

Dollar pushes ahead after Yellen remarks – Pg. 18

- ...Janet Yellen became the latest and most important US policymaker to argue that a rate rise this summer was on the table

- The dollar index – a gauge of the currency against its trading partners – climbed 0.5% to 95.97 on a quiet European trading day. UK and US markets were closed for public holidays
- The odds of the Fed lifting interest rates 25bps at its meeting in mid-June are now 30%, up from 21.1% a month ago
- Gold continued its torrid May, falling for a ninth straight day in its longest losing streak since March last year. It dropped 0.5% to \$1,207.62 an ounce

Answer: A syndicate is a temporary professional financial services group formed for the purpose of handling a large transaction that would be hard or impossible for the entities involved to handle individually. Syndication allows companies to pool their resources and share risks (Investopedia)

30 May 2016

Question: What is a Syndicator?

Bleak future for Japan as close to half its households include a relative over 65 – Pg. 4

- Some 45% of Japan's households now include one person aged 65 years or more, underlining how swiftly the country is moving towards a costly demographic inflection point
- By 2060, there will be 1.3 Japanese of working age (15 – 64) for every person over 65, ...
- Japan is at the forefront of a rich world trend in which fewer workers support, more seniors. Germany, faces a dependency ratio of 1.5-1.6 by 2060, ...as fertility rates decline and people live longer. But the near absence of immigration makes Japan's case more stark

Oil companies' debt soars to \$383bn – Pg. 13

- The net debts of the biggest Western oil companies have surged by a third over the past year, increasing their vulnerability to another fall in crude prices
- The debt surge was particularly sharp in the first quarter, when oil dropped to a low of \$27 per barrel
- The rising debts and lowered expectations for future oil prices have prompted many credit rating agencies to downgrade oil companies, with Exxon last month losing its triple-A grade from S&P
- Most of the largest US and European oil companies have committed to maintaining their payouts, limiting their ability to invest in future production

Passive funds grow 230% to \$6tn – Pg. FM1

- Fund managers that attempt to beat the market are losing significant ground to cheaper rivals as investors shun stockpickers amid concerns over bad performance and high fees
- In contrast, assets held in active funds, where stock pickers try to beat the market, have grown 54%, to \$24tn
- In the wake of the financial crisis, with low interest rates hitting returns, investors have been paying much closer attention to costs and switching high-fee active products for cheaper passive funds

Answer: A group of person that forms a syndicate

28 May 2016

Question: What is Securitization?

Fresh critique on inequality caused by the 'neoliberal' agenda – from the IMF – Pg. 1

- The IMF has long been berated by the left for its “neoliberal” policies that force debtor countries to open markets and adopt fiscal austerity. Now the critique has emanated from a surprising place: inside the IMF
- Even the use of the term “neoliberalism” is provocative. It is normally used by critics of the free market economics advocated by Friedrich Hayek and Milton Friedman.
- The new IMF work examines two specific elements of the so-called neoliberal agenda: capital account liberalization, or removing barriers to the flows of capital; and fiscal consolidation, or what is now more commonly called austerity

US economy grows faster than expected in first quarter – Pg. 3

- The US economy grew at a slightly swifter pace than initially thought in the first three months of 2016, suggesting it was more resilient to market volatility and a global slowdown than feared
- The economy grew at an annualized pace of 0.8% in the first quarter, compared with a previous estimate of 0.5%, but still slower than the 1.4% pace logged in the final quarter of 2015 and a far cry from the 3.9% notched two quarters before that, ...
- Wall Street expected a reading of 0.9%

Investors appear impervious to renminbi slide – Pg. 11

- The People’s Bank of China on Wednesday set the midpoint of its currency trading band for its loose peg against the dollar at Rmb6.5693, a level not touched since March 2011
- Coaxed along by the Federal Reserve, the market is growing more convinced that a US rate increase looms, as the dollar’s strength underlines. A rising dollar hits China’s exporters and puts pressure on the PBoC to weaken its currency
- The market has painful memories of a weakening renminbi. When the PBoC surprised the market in August by reforming the way it sets the band, the effect was to devalue the currency, causing global financial turmoil. The panic during January was in part triggered by Chinese stock markets being suspended, with a weaker currency and sharply lower commodity prices fanning global deflation concerns
- This is why investors worry about currency wars, a flight of capital and knock-on problems for China’s trading partners
- The central bank will doubtless adjust the renminbi’s trading band to prevent too much depreciation alarm spreading. But the worry is that the market soon tires of this ease-and-squeeze strategy and starts to look more closely at where the Chinese economy is really heading

Answer: Process of taking an illiquid asset, or group of assets, and through financial engineering, transforming them into a security.

27 May 2016

Question: Who is Robert Owen (hint: New Harmony)? Fascinating article today “Money for Nothing”

Fed governor believes interest rates likely to rise ‘fairly soon’ – Pg. 2

- A continued strengthening in US economic data could clear the way for a second increase in short-term interest rates “fairly soon”,said amid intense speculation about the outcome of this summer’s rate-setting meetings
- A number of Fed policymakers have said the central bank should be prepared to lift interest rates by another quarter-point at its June 14-15 meeting, in what would be a second move following the December rise
- Recently labour markets had remained “healthy” and there has been “tentative and encouraging” signs of firmer wages...

Moody’s paints gloomy picture of deteriorating financial outlook for corporate China – Pg. 4

- The financial outlook for Chinese companies is deteriorating at a record rate as a large debt overhang accumulated since the 2008 financial crisis and waning corporate profits presage an “extended period of subpar economic growth”,...
- The agency more than quadrupled the number of Chinese debt issuers it classified as having a “negative outlook bias” on their credit ratings at the end of the first quarter of this year, compared to the end of 2015
- A negative bias includes both those companies with ratings on review for a downgrade and those with a negative outlook on their rating
- The upsurge in misgivings over the health of corporate China comes after Moody’s dropped the outlook for China’s government bonds in March to negative from stable, reflecting an erosion in fiscal strength, a fall in foreign exchange reserves owing to capital outflows and uncertainly over Beijing’s ability to implement reforms

Money for nothing – Pg. 6

- Switzerland’s traditionally conservative electorate will next month vote on the superficially preposterous idea of handing out an unconditional basic income of \$30,275 a year to every citizen, regardless of work, wealth or their social contribution
- In countries as diverse as Brazil, Canada, Finland, the Netherlands and India, local and national governments are experimenting with the idea of introducing some form of basic income as they struggle to overhaul inefficient welfare states and manage the social disruption caused by technological change
- ...President Richard Nixon came very close to implementing a negative income tax (a variant of basic income) across the US in 1970
- The decoupling in many countries of median household income growth from expansion in GDP has created a sense of middle class crisis, fueling anger over inequality and the rise of populism in the US and Europe

- ...the introduction of self-driving trucks and cars would eliminate millions of jobs. At present, there are about 3.5m truck drivers in the US, forming the largest job category in 29 states
- Many executives are also lukewarm about the idea, objecting to the delinkage of economic reward and effort

US shoppers hold out for bargains – Pg. 14

- Consumers have more money in their pockets thanks to low petrol prices and wage increase but they are being careful about how they spend it. When they hit the shops, they expect bargains

Answer: Social reformer striving to achieve a utopian society

Wealth Management (Insurance Note): It is essential that everyone have a home inventory, as I have stated in class. Recently my family estate incurred a \$42,000 theft loss and was only able to recover \$8,000 with an additional \$2,000 of recoverable depreciation. This was due to a lack of inventory. This was preventable had there been a video image of all the items, as can be produced by any smart phone today. Insurance policies must be read and understood for category limits, e.g. coins at \$200, and deductibles. Note that the lack of inventory was due to a lack of backup, i.e. the computer files were deleted, not a lack of inventory completion. Consider applying data backup and storage procedures that we all have for our workplace in our homes! Home server with offsite backup is being installed and data backup procedures for locations without reliable internet are being authored at Staiger, Inc!

26 May 2016

Question: How many new U.S. banks have opened since 2010?

Fall in US productivity sparks fears of populist backlash as wages stagnate – Pg. 1

- Productivity is set to fall in the US for the first time in more than three decades, raising the prospect of persistent wage stagnation and the risk of a further populist backlash
- ...forecasts the rate of US productivity growth sliding behind the feeble rates in other advanced economies, with GDP per hour dropping 0.2%
- Janet Yellen...has highlighted disappointing productivity numbers as one of the reasons for tepid wage growth in the US
- Unless the rate of productivity growth increases, advanced economies will struggle to raise living standards and pay for their ageing populations
- Output per person, an alternative measure of productivity, grew just 1.2% globally last year, down from 1.9% in 2014
- But the US, which appeared to be outperforming other advanced economies, is now concerned about its own performance. Growth in output per hour slowed last year to 0.3% from 0.5% in 2014, well below the pace of 2.4% in 1999 to 2006

Output crisis has hit most leading economies – Pg. 4

- Without an improvement in output for every hour worked, economies can grow only if people work harder and longer or more people find jobs
- In advanced economies, the most recent peak in the productivity cycle came in the 1990s when computer technology displaced the typewriter and pools of secretaries. But the subsequent slide was masked by a surge in the efficiency of emerging markets, which threw off bad policies and marched to close the gap with the rich world
- Different economies have focused on different problems – such as inequality in the US, the workings of a single currency in the Eurozone and the UK's relationship with the EU
- US...Depressed productivity growth has provoked fraught debate among US policymakers as the country languishes in its shallowest economic recovery since the end of the second world war
- China experienced a sharp slowdown in growth of output per person to 3.3% in 2015 from 5.1% in 2014 – even as other big Asian countries, notably India, held up better
- Continental European economies have suffered more than most since the financial crisis of 2008-09, failing to recover much more sinking into the Eurozone crisis in 2011-12

Citi fined \$425m over rate rigging – Pg. 13

- Senior managers at Citigroup's trading business knew that Libor trader Tom Hayes had sought to manipulate the market at his former employer before he started work at the US group, authorities found as they ordered the bank to pay \$425m
- Hayes, a former UBS and Citi trader, was jailed for 11 years for conspiring to manipulate Libor - ... (Prof Note: How many "Senior managers" at Citi have been terminated? How many have been banned from working in financial services for life?)

China sets renminbi fix at lowest level in 5 years – Pg. 22

- China's central bank set its daily currency "fix" at the lowest level in five years, tracking a weaker market price as the dollar rally took its toll on the renminbi
- The renminbi closed 0.2% weaker on Tuesday at 6.559 per dollar compared with that morning's midpoint of 6.5468

Answer: 3

25 May 2016

Question: What is the total capital managed by hedge funds today?

Fracking woes spark US car debt surge – Pg. 3

- A surge in overdue car loans in oil-rich parts of the US in the past year and a half has exposed the damage done by the collapse in drilling activity and marred broadly positive trends for late debt payments by American consumers
- Late mortgage payments also ticked up slightly in those counties,...
- By contrast, across the nation the share of outstanding debt – including mortgages, student loans and credit card debt – that was overdue in the first three months of the year was the lowest since the eve of the financial crisis in 2007

- The national story was more positive, driven by improving mortgage delinquency rates. Only 2.1% of mortgages were 90 days delinquent during the first quarter, down from 2.2% in the previous quarter and the lowest share since 2007. The share of overdue credit card loans also fell
- There was a 1.1% increase in overall debt, driven by mortgages, which increased \$120bn from the fourth quarter of 2015 to a four-and-a-half-year high. The story of student debt was less positive. The value of student loans rose \$29bn on the quarter to \$1.26tn, with the delinquency rate exceeding other types of debt at 11% - although that was down from 11.5% in the fourth quarter
- The US is in the midst of its longest private-sector hiring streak on record, while wage growth has shown signs of picking up

Overpriced, underperforming – Pg. 5

- Flows of money from big institutions have transformed hedge funds, which were once primarily a vehicle for rich families. Today, large pension funds account for about a quarter of the money managed by hedge funds. Since the market hit its post-crisis bottom in March 2009, passive, low-cost equity fund investors have thrived while hedge fund returns have underperformed the S&P 500 by 51%
- Hedge funds' success in generating gains during the 2000-02 dotcom crash lured many institutions to invest in them for the first time
- Entering 2000, there were 3,102 hedge funds managing \$456bn, mostly for wealthy families...this year, it counted 8,474 funds managing \$2.89tn, mostly for institutions
- Then there is the emotive issue of fees, which are typically referred to as "2 and 20" – a 2% fee levied on assets, regardless of any performance, plus 20% of fund profits. Such fees are far higher than those charged by mutual funds or other options open to large pension managers

Japan buybacks surge to record levels – Pg. 18

- Tokyo-listed share buybacks are poised to smash full-year records already in 2016 as negative interest rates force companies to reinvent investment strategies and corporate governance reforms finally bite
- The buybacks have offset an investor backlash after the worst Japanese earnings season since Shinzo Abe became prime minister in 2012

Answer: \$2.89tn

24 May 2016

Question: Lending in the U.S. is concerned with the impact of what financial regulation currently?

Brazil warned of 'explosive' build-up of public debt – Pg. 6

- Brazil's new government urgently needs to defuse fiscal "time bombs" that threaten an already strained national budget,

- The Temer government is trying to refloat a sinking economy after the suspension of President Dilma Rousseff in an impeachment process this month. Among the priorities is resolving a budgetary mess created during her five years in power
- Brazil has created a law that envisages a doubling of spending on education to 10% of GDP over 10 years
- Meanwhile the pension system is expected to grow in cost by 7% of GDP over the next decade
- Brazil's pension system is generous, allowing for early retirement, indexing pensions to the minimum wage, and even permitting some inheritance of pensions

Eurozone growth slows to lowest in 16 months – Pg. 6

- Growth in the Eurozone appears to be slowing after a rapid recovery at the start of the year,...
- In contrast the eurozone's two biggest economies, France and Germany, have put in relatively strong recent performances. The disparity potentially indicates diverging fortunes of the region's core and peripheral economies such as Italy, Spain and Greece

Eurozone investors look for rates relief – Pg. 20

- The outlook for Eurozone share prices in 2016 relies on whether aggressive ECB policy can boost earnings for companies in the region and offset global headwinds
- This year, the Euro Stoxx 600 is down nearly 8%, with deteriorating earnings weighing heavily on sentiment
- One bullish element for Eurozone equities rests on whether the ECB's policy of suppressing interest rates translates into better earnings performance. Borrowing costs for companies in the Eurozone have hovered around 1 to 1.5% for the past two years falling from more than 5% in late 2008
- The Stoxx 600 currently trades at 15.4 times earnings for this year, while the S&P 500 is at 17.5

Triple A quality fades as groups embrace debt – Pg. 22

- The triple A rated company is nearly extinct
- In the US, the number has fallen to two – Johnson & Johnson and Microsoft
- The demise of triple A rated companies – there were 98 US companies that held the highest credit rating from S&P in 1992 – reflects a dramatic rise in the use of debt to help bolster shareholder returns and fund takeover activity
- Management teams have long relied on debt to increase the value of their companies, spurring a steady decline in rating quality
- The benefit when a company with no debt begins to add leverage, is often a higher market valuation
- Groups holding the top credit rating in the US, which includes offerings from Harvard, MIT and Stanford, yield roughly 2.6%...double A rated companies by contrast have a slightly lower average yield of 2.3%. Bond yields fall when prices rise

Answer: Basel III

23 May 2016

Question: What is the size of the U.S. equity market capitalization?

Prospect of rate rise grows as US moves closer to passing Fed tests – Pg. 1

- The US is already on the verge of meeting most of the economic conditions that the Federal Reserve has set for interest rates to be raised next month,
- Until last week markets were putting extremely low odds on a summer rate rise, in part because of the dovish tone of Fed chair Janet Yellen's last speech two months ago. That picture was transformed on Wednesday, as the Fed minutes from its April rate-setting meeting suggested it was preparing the ground for a second interest rate increase after the quarter-point rise in December
- To justify a move at its meeting on June 14-15, the Fed set itself three tests: to see further signs of an economic rebound in the second quarter, further jobs-market strength and for inflation to carry on towards the Fed's 2% goal

Boston Fed chief backs case for gradual rate increases – Pg. 4

- More recently the changing economic weather has prompted the Boston Fed chief to alter course, and he has recently been warning traders they were underestimating the central bank's willingness to lift interest rates
- The markets have been burnt by hawkish signaling from the Fed before – which partly explains why traders have been skeptical that the central bank will deliver anywhere near as much tightening as its policymakers' March median forecasts suggested
- Financial markets have improved markedly since March, while US consumers, who drive two-thirds of growth, have been showing greater verve...
- Consumption forecasts for the second quarter were in the range of 3% to 3.5%, which points to broader growth of about 2%, ...
- ...Fed funds rate still at roughly 35bps,

Answer: Approximately \$30tn

21 May 2016

Question: What is the yield on a bond back by Harvard?

US cautions Japan against attempt to weaken yen – Pg. 4

- There is no disorderly trading in the yen that would justify intervention, ...as Washington issued a stern warning against Tokyo acting to weaken its currency
- The yen's rise had prompted a stream of verbal warnings by Japan's ministry of finance, first decrying "disorderly" and "one-sided" markets, then making outright references to "intervention"
- The strength of the yen threatens Japanese exports – one of the bright spots in a sluggish economy

- The official indicated US support for Japan to postpone an increase in its consumption tax from 8 to 10% due next spring, saying “rescheduling it or fully compensating for it” with an offsetting fiscal stimulus would make sense

Goldman shareholders revolt against top executive pay plan – Pg. 10

- Goldman Sachs became the latest bank to suffer a shareholder protest over executive pay yesterday when about a third of votes were cast against the remuneration of top managers led by Lloyd Blankfein
- Critics complained the bank had excluded the costs of a multibillion-dollar legal settlement for mis-sold mortgage-backed securities before the financial crisis when determining executive pay
- The rebellion over pay came even though the Wall Street chief took a pay cut in 2015 for the first time in four years. Mr Blankfein was handed a \$23m package, down from \$24m in 2014
- Last month, Citigroup suffered a 36% vote against its executive remuneration deal

US corporate debt draws foreign buyers – Pg. 13

- The demand for yield accelerated in the past week as investors piled into high-grade US corporate bond funds, providing a big boost for companies seeking to sell debt
- The plunge in yields on corporate and sovereign bonds in Europe and Asia – the value of bonds with a negative yield is nearly \$10tn, ...has sent investors racing to the US market
- The inflows have suppressed corporate borrowing costs at a time when new debt issuance is accelerating, with multibillion-dollar sales from US computer manufacturer Dell, electric utility Southern Company and pharmaceuticals group AbbVie drawing significant order
- High investor demand has allowed companies to issue debt at lower yields, though US yields are still more attractive than in other parts of the world
- The flows have been concentrated in investment-grade paper

Answer: 2.6%

20 May 2016

Question: What is the main difference between project and portfolio risk?

Golfer Mickelson to return \$931,000 in profits amid US insider-trading probe – Pg. 1

- Golfer Phil Mickelson has agreed to give back \$931,000 in profits he made from stock trades as US authorities pursued insider-trading charges against a famous sports gambler and a former director of Dean Foods

Fed prepares ground for return of rate rises – Pg. 4

- After treading water since December, the Federal Reserve has taken a big step towards restarting its rate-raising campaign. The US central bank this week formally put markets on notice via minutes of its April meeting that an increase in short-term interest rates is a real possibility this summer

- So what has changed since March, when Janet Yellen, gave a notably dovish assessment of the outlook in a New York speech advocating a “cautious” approach to policy?
- Financial market conditions have improved markedly as the dollar has lost altitude and oil prices have firmed, while early economic readings for the current quarter have taken a turn for the better following a soft start to the year
- Second-quarter GDP growth is projected to clock in at an annualized rate of 2.5%, ...
- To justify a move in June, the Fed has set itself three tests. It wants to see incoming data add to signs of a second quarter rebound, for there to be a further strengthening in the jobs market, and for inflation to carry on progressing towards the Fed’s 2% goal
- If global markets are starting to shudder, the Fed and Ms Yellen, its risk-averse chair, will feel acute pressure to stand still

New York luxury flats receive sharia funding – Pg. 14

- Sharif El-Gamal, the property developer, has secured \$219m in sharia-compliant financing for a tower of luxury flats two blocks from the World Trade Center in New York, where he sparked global controversy in 2010 by proposing to build a mosque
- ...led by Malaysia’s Maybank and Kuwait’s Warba Bank, was the largest sharia-compliant syndicated construction loan in New York,...
- ...sales of the 50 units at 45 Park Place, priced on average above \$3,000 a sf
- Sales of \$1m-plus homes in Manhattan are 5% lower than a year ago, ...as the plunging oil price and currency volatility have sliced the purchasing power of foreign buyers

Answer: Portfolio risk consider linear association, i.e. covariance/correlation coefficient

19 May 2016

Question: What is the definition of a technical recession?

Japan growth rise eases pressure on Abe – Pg. 2

- Japan’s economy grew at an annualized rate of 1.7% in the first quarter of 2016, easily beating expectations of a 0.3% rise, in a big boost to the country’s policymakers
- Rising GDP reverses a contraction in the fourth quarter of 2015 and means Japan has avoided another technical recession, ...
- The growth data will give heart to the Bank of Japan – suggesting the economy is growing faster than its long-run trend of about 0.5% - although it is unlikely to have much direct effect on monetary policy. The BoJ is still under pressure to ease because of the rising yen and the weakness of inflation

Millions of US workers win extra pay for overtime – Pg. 3

- The rule will double the salary threshold to \$47,476 per year under which most salaried workers are guaranteed overtime when working more than 40 hours a week. That is below the \$50,400 announced in a proposal from the administration last summer, but well above the current level of \$23,660 a year, which has been unchanged for more than a decade

- The new threshold, which takes effect on December 1 2016, will be updated every three years,...
- The share of full-time workers qualifying for overtime based on their salaries has slid steadily from 62% in 1975 to 7% today. Unions have argued the current threshold is below the poverty line for a family of four

Treasury yields rise with dollar as focus switches to US interest rates – Pg. 21

- Shorter-term US Treasury yields hit three-week highs and the dollar edged ahead as participants focused on the possibility of the Federal Reserve raising interest rates sooner than had been expected
- ...the latest bout of uncertainty over US monetary policy followed the release on Tuesday of data suggesting that manufacturing activity had begun to rebound in the second quarter and that inflation had bottomed out
- ...Fed funds futures market to move to price in a 16% probability of a rate rise next month, up from 4% earlier this week
- The yield on the two-year US Treasury note touched 0.86%, the highest since April 27, before easing back to 0.85%
- Gold was down \$8 to \$1,271 an ounce...

Answer: Two consecutive quarter of negative growth

18 May 2016

Question: What is a Capitalization Rate?

Fed official talks up rate rise chances – Pg. 2

- Financial markets are being overly pessimistic about the US outlook and may underestimate the chances of an interest rate increase as soon as June, ...
- Among the reasons for investor caution has been weak first quarter numbers. But the Fed in April signaled that its worries about global risks had receded since its March meeting. The US has shown signs of bouncing back from the weak start to the year, with retail sales rising 1.3% in April and manufacturing production growing for the first time in three months

Wisconsin's middle-class stronghold bucks national trend – Pg. 4

- ...household incomes have fallen in more than 80% of US cities since the start of this century
- ...with demographic changes, such as baby boomers retiring, employers increasingly struggle to find workers
- While Wausau has been more economically resilient than other parts of the US, the area has not escaped some national trends...Median household income fell from \$80,000 to \$75,000 between 1999 and 2014, and the region lost 3,200 manufacturing jobs between 2000 and 2014

US groups step up share buybacks – Pg. 11

- US companies stepped in to support their shares during the market tumult at the start of the year, potentially making the first quarter one of the biggest ever share buybacks
- ...share repurchases are 20% higher in the first three months of the year versus the fourth quarter and 31% above the year-ago period, ...
- ...US companies reported a 7% drop in first-quarter earnings, the fourth consecutive quarter of year-on-year declines

Answer: Net Operating Income divided by sales price

17 May 2016

Question: What rate did I just lock-in for 15-year conforming \$\$\$?

Japan defends yen intervention option – Pg. 4

- Yen intervention remains an option for Japan because currency volatility can damage and destabilize the economy, ...
- Japan's concerns over yen strength have not been shared by the US and other world leaders who agreed during a G20 meeting in February to refrain from competitive currency policies
- The export-denting rise in the yen has cast a shadow over Japan's economy just as Abenomics runs low on firepower

Beijing's curbs slow China spending spree on US property – Pg. 4

- An unprecedented influx of Chinese money into US real estate is slowing following moves by Beijing to restrict the amount of funding leaving the country, ...
- Chinese nationals are permitted to convert only \$50,000 worth of renminbi per year. Those seeking to spend more abroad used workarounds such as pooling allowances or using a Chinese credit card overseas, but the state foreign exchange regulator has clamped down on such practices
- Price rises of almost 60% year on year have stoked fears that localized bubbles may be on the verge of bursting. Local governments in top cities such as Shenzhen and Shanghai have moved to stem the rises, making it more difficult to purchase second homes

Answer: 2.625%

16 May 2016

Question: For a \$200,000 15-year mortgage a reduction in interest to 2.625% from 2.75% sales how much total interest over the lifetime of the loan?

Central banks warned on stimulus overuse – Pg. 4

- Central banks and governments of rich countries are running out of ammunition for stimulating their economies,....
- He warned governments not to rely too much on fiscal stimulus through cutting taxes or increasing public spending

- Central bankers were also under “stress” to stimulate more when inflation is below target. Taking the most extreme form of stimulus – “helicopter money” – where the central bank prints money so governments can give a cheque to citizens, was unlikely to work....
- The BoJ and the ECB are under pressure to consider such a move

Moody’s downgrades Saudi Arabia on oil woes – Pg. 4

- Moody’s has downgraded Saudi Arabia’s credit rating, underlining deepening concern over the country’s precarious fiscal position and ability to diversify away from oil revenues
- It cut Saudi Arabia’s long-term rating by one notch from Aa3 to A1, on par with Japan. It said the outlook for the kingdom was stable
- Moody’s predicted Saudi Arabia’s nominal GDP would fall 5% this year because of the effects of the oil price decline, only returning to pre-shock levels by 2019
- The Saudi government is therefore likely to raise \$324bn – equivalent to 50% of nominal GDP in 2015 – for the cumulative financing of a forecast average deficit of 9.5% of GDP between 2016-20
- Total external debt was expected to rise to 30% of GDP by 2018 and to about 40% by the end of the decade,...

Goldman trades more gas than Exxon and Chevron – Pg. 15

- Goldman Sachs has quietly overtaken Chevron and Exxonmobile to become one of the biggest natural gas merchants in North America, expanding in physical commodities trading even as other banks pull back (Prof Note: I remember saying at Constellation to my boss, “customers are nothing more than a physical asset hedge on my trading book!” Yeah...while I was correct, I would definitely express it differently now. (The division actually made more money trading financials, i.e. derivatives, than we actually did delivering the physical product to the end user))
- Goldman has expanded the business as banks await fresh rules on handling commodities such as oil, gas and aluminium

Answer: \$2,203

14 May 2016

Question: The U.S. yield curve is flattening....when this occurred in 2006/7, how could one make \$\$\$?

Investors pull \$90bn from equities – Pg. 1

- Investors are pulling money from global equity funds at their fastest pace since 2011, as benchmark indices stall ahead of the anniversary of last year’s record highs
- Markets have rebounded from a steep sell-off at the year’s start, but confidence has slipped and investors have shifted to the sidelines
- The withdrawals underline fears over growth in Japan and the Eurozone, as well as questions over US companies’ abilities to weather a fragile economic backdrop

- Many of the concerns that plagued markets when the year began – the collapse in oil prices, fears of a Chinese hard landing and talk of recession in the US – have eased, but investors are looking at a horizon pockmarked by risk
- Most recent US readings have proved disheartening, with monthly job growth falling short of expectations

ECB plan fuels round of euro issuance – Pg. 11

- The imminent arrival of the ECB as a buyer of corporate debt handed the region's bond market its second biggest week ever for issuance, as companies on both sides of the Atlantic took advantage of low borrowing costs
- Issuance in the US also quickened after a languid start to the year,....
- Europe's bond market has been electrified by the prospect of the ECB buying corporate debt in its latest effort to spark growth and inflation in the Eurozone
- The acceleration in issuance in the US precedes what investors and strategists say is likely to be another busy week, as Dell readies to launch what is expected to be the year's second largest bond sale to finance its takeover of EMC

Answer: Short Banks, short equities....read the news....blood may be back....

13 May 2016

Question: What is a meritocracy?

Rousseff defiant Brazil's suspended president vows to fight impeachment – Pg. 1

- The new government takes the helm as Latin America's largest economy suffers potentially its worst recession for a century and as its political class is being devastated by a sweeping corruption scandal at state-run oil company Petrobras
- Senators voted 55-22 against...she was suspended for up to six months while the charges are deliberated by the house

Federal Reserve is too 'white and male', Democratic lawmakers tell Yellen – Pg. 2

- ...complaining of a lack of diversity within the central bank system and a leadership that is "overwhelmingly and disproportionately white and male"
- The letter signed by 11 senators and 116 representatives calls on the Fed to do more to ensure its senior ranks reflect the country's make-up in terms of gender, race and ethnicity, economic background and occupation. It also demands that the Fed place greater priority on securing full employment for minorities (Prof Note: It appears my dream of becoming the Federal Reserve Chairperson is now dead! ☺)
- Democrats, on the other hand, have urged Ms Yellen to maintain low interest rates in pursuit of higher employment, and in her most recent hearings before Congress she faced a barrage of complaints about the uneven economic progress seen between different races and ethnicities
- Some 11 of the 12 regional Federal Reserve Bank presidents are white and 10 of the 12 are men

- All of the 10 voting members of the FOMC, which sets monetary policy, are white, while four are women
- (Prof Note: Personally, I would like to see more meritocracies. I still remember a meeting at Constellation NewEnergy in the boardroom with the heads of all the divisions. Trading strategies for Electric commodities were being discussed. The room was all white (as I remember) with one woman. I was rallying against wholesale electric trading and said to the open room, "Could an electrical engineer with an understanding of finance please raise your hand, I have a question?" Only I raised my hand and I said, "I do not understand nodal congestion and I fail to see how anyone in this room understands it if I do not. Further, without a complete understanding of nodal congestion, how can we trade in it?" (I have always been known for how quickly I make friends!) I was told to not be condescending and basically to figure it out. Two years later the same group less one, i.e. me, had bankrupted Constellation requiring a bailout! There is absolutely an "old boys network" that exists, in my opinion. Meritocracy will bring diversity and success!)

Munis welcome the world's yield starved – Pg. 18

- Foreign investors still represent a tiny fraction of the \$3.7tn market
- However, with almost \$10tn of bonds globally carrying negative yields, ...and corporate bonds in the US and Europe rallying hard, many expect the buying to accelerate
- The benchmark 10-year US government bond yields 1.73%. Similar German, French and Swedish sovereign debt offer less than 0.5%, with negative yields for shorter durations (Prof Note: Helloooooo...lets not forget about currency risk!)

Answer: The holding of power and/or advancement where selection is based up ability

12 May 2016

Question: What is the median price of a home in the U.S.?

Household income tumbles in majority of US cities this century – Pg. 1

- More than four-fifths of US urban areas have seen declines in household income since the turn of the century, ...exposes the middle class decline at the heart of this year's presidential election campaign
- The research on urban centres hosting three-quarters of the US population shows that median household incomes, adjusted for the cost of living in the area, grew in only 39 out of the 229 metro areas between 1999 and 2014
- Middle-income Americans are defined by Pew as adults who earn two-thirds to double the national median, adjusted for household size
- The drivers of the middle class squeeze vary, but some of the steepest income declines were seen in cities hit by industrial job losses in recent decades
- The area around Denver, Colorado, has attracted more than 600,000 people since the turn of the century. But adjusted for inflation, the median income for a household of three fell from almost \$83,500 in 1999 to just under \$76,000 (Prof Note: We have to adjust higher-education focus. MBAs are great, and I have one, but they are only useful, personally, for

individuals/families with significant wealth, i.e. 8 figure net worth. Else, they prepare people for jobs and building equity for others. We must focus on skills that build wealth for individuals, i.e. business creation over job gains. Also, look at our Federal Reserve Chairperson? Who better to do this, i.e. save the middle class? Bernanke, King of Crisis, took over in 2006 with a flat yield curve. This screams short! What will Yellen do and how can you make money?! Carpe Diem!)

Wage Squeeze – Pg. 7

- The inflation-adjusted annual median income for a household of three in Raleigh fell by more than \$10,000 to \$74,283 in 2014 from \$85,784 in 1999, even as its population grew by two-thirds to more than 1.3m people from just under 800,000
- More surprisingly, the only income group to grow as a share of the population was its poorest.
- Even for those who find work in Raleigh, a lack of affordable housing is compounding the difficulties for those at the lower end of the income scale
- (Prof Note: This is a huge problem. The American Dream is becoming to have a job and rent a house. I do not have a proposed solution but sage advice from grandparents, “Live below your means and save, Save, and SAVE.)

Gulf states notch up debt sales record – Pg. 20

- Middle Eastern governments have already set a record for debt sales, as the sustained fall in oil prices weakens public finances across the world’s largest crude-exporting region
- The issuance aims to ease pressure on local bank liquidity, which has tightened since the oil price slide, as well as providing a benchmark for the companies to tap markets

Answer: \$220,000

11 May 2016

Question: When discussing infrastructure, what is P3?

Saudi state group to pump more oil ahead of world’s biggest listing – Pg. 1

- Saudi Arabia is raising production and pressing ahead with a global expansion plan for its state oil company ahead of what could be the world’s largest ever stock market listing
- Saudi Aramco, which pumps more than one in every eight barrels of crude globally, (Prof Note: When I was in prep school in the eighties, most of the foreign students were children of expat Aramco employees...interesting fyi...)
- The reform plan – Vision 2030 – aims to end the country’s dependence on oil within 15 years, leveraging the assets of the state oil company to fund wide-ranging investments to diversify its economy
- Last year Saudi Arabia’s crude output averaged 10.2m b/d, ...

US state officials face ban on free meals, sport tickets and holidays in Xi-style crackdown – Pg. 4

- Now he is pushing for members of the Republican-controlled state legislature to change the law to extend the ban to themselves. Lawmakers can accept any gifts, including cash, as long as they disclose it
- (Prof Note: I have seen so many corporate “gifts”. In homebuilding a purchasing manager was fired for having refusing to pay for his personal home theater system as the vendor was being used and he felt he was entitled to a “freebee”. When working for the fund I remember a developer at the end of our first meeting asking me, “Well, aren’t you going to ask me for names?” I said, “Why?” He said, “To use on your expense report.” I will readily admit HR called me more than once about an expense BUT nothing was ever falsified and, hey, I like great scotch! ☺)

Neglected nation – Pg. 7

- The American Society of Civil Engineers yesterday projected a \$1.44tn investment funding gap between 2016 and 2025, warning of a mounting drag on business activity, exports and incomes
- Without radical surgery, the decay in tunnels, railways and waterways will cost the US economy nearly \$4tn in lost GDP by 2025 as costs rise and productivity is impeded, ...
- Around the country more than 61,000 bridges were deemed structurally deficient in 2014
- Last year US public capital investment, which includes infrastructure, was just 3.4% of GDP...the lowest in more than 60 years

US Treasury warns over online platforms – Pg. 14

- The US Treasury has warned of the fragility of the business models of a new crop of online lenders, a day after revelations of alleged mis-selling of loans at Lending Club shook confidence in the sector
- ...had no experience of operating “through a complete credit cycle”. It warned of deterioration in the loans they were selling on to individuals and institutional investors
- Such concerns were magnified this week after Lending Club – the former darling of the sector – booted out its chief over alleged mis-selling of loans and lack of disclosure on a personal investment (Prof Note: Stop the self-dealing!)

Answer: Public-Private Partnership

10 May 2016

Question: What is the base equation for valuation in finance which, ironically and interestingly, I do not use in models for clients (unless specifically requested and, even then, I push back slightly)?

Christie to head tycoon’s transition team – Pg. 3

- (Prof Note: This continues to bother me...is Christie not still the governor of New Jersey? Is he not still being paid to govern New Jersey? Personally, I believe he, and all politicians running for another office, should have to forfeit their salaries during these times! Am I missing something?)

Pitch battle – Pg. 7

- Under EU regulations that come into force in June – drawn up to try and improve competition and choice in the audit market – companies have to put their audit out to tender every decade and change supplier every 20 years at least
- More than one in five companies think transition costs to change auditor will be 20-50% of their current annual audit fee, ...
- ...Big Four – PwC, Deloitte, EY and KPMG – which handle 98% of the FTSE 350 audits and 95% of those for Fortune 500 companies
- The firms are also seeking to address claims that audit standards globally are at risk from the prominence of their typically faster-growing and more lucrative consulting arms
- Auditors are now trying to play a role in translating that information into meaningful business intelligence for clients
- At the heart of developments in data mining is the ability of auditors to collect, analyze and test entire data sets

Treasury review attempts \$13tn balancing act – Pg. 22

- ...tougher regulatory environment pit established “primary dealers” against the computer-powered high-frequency traders that dominate in equity markets and are seeking a bigger role in the \$13tn Treasury market
- The debate matters greatly because the Treasury sells billions of dollars in new debt every month and wants the auction process, which is underwritten by the club of 23 primary dealers, to run smoothly
- Primary dealers play a big role in the bond market. Many large investors such as sovereign wealth funds and money managers can buy and sell Treasury paper only via official dealers
- At last month’s 10-year note sale, dealers had just 32% share, down sharply from the 80 to 90% during 2004-09
- ...size of the market has increased threefold since 2007, from \$4.5tn to \$13.5tn

Hesitant trend continues for US equities as oil reverses gains – Pg. 23

- US equities’ hesitant trend helped push the yield on the 10-year US Treasury, which moves inversely to its price, down 2bps at 1.75%, while that on the equivalent-maturity Bund slipped 2bp to 0.13%

Answer: Net Present Value (in truth I do use Present Value to quantify % of value attributable between reversion and operating)

9 May 2016

Question: What is a Dynasty Trust? (think wealth management)

Britain would quit EU trade bloc after vote to leave, campaign says – Pg. 1

- Britain will quit Europe’s single market if the country votes to leave the EU, ...

- The admission, which was the vast majority of economists have warned would be the most disruptive option for Britain outside the EU, was seized on a pro-Europe campaigners, who warned of the long-term damage that such a move would bring

New order for Saudi post-oil economy – Pg. 3

- The deputy crown prince has already indicated he is prepared to wield oil as a political tool, hinting that the kingdom could easily accelerate output to more than 11m barrels day as regional rival Iran attempts to recoup market share after years of sanctions
- There is expected to be little clarity by the next Opec meeting in June. The kingdom normally raises production to feed power plants in the summer months to help meet soaring air conditioner use. Whether any production increase will be maintained after the summer remains to be seen

The new Switzerland? – Pg. 7

- Yet despite its small town feel, Sioux Falls has become a magnet for the ultra-wealthy who set up trusts to protect their fortunes from taxes and future ex-spouses
- The state's role as a prairie tax haven has gained unwanted attention since the release of the Panama Papers,
- The US has a long history of attracting funds from undisclosed foreign sources. In 2011, the Florida Bankers Association told Congress there were hundreds of billions of foreign deposits in US banks because "for more than 90 years the US government has encouraged foreigners to put their money in the US banks by exempting these deposits from taxes and reporting"
- ...estimates that there is \$800bn of offshore wealth in the US, nearly half of which comes from Latin America. That puts it well behind Switzerland's \$2.7tn, but it is expected to grow at nearly 6% a year – faster than any rival except Hong Kong and Singapore
- The growth has been fueled by international disclosure rules introduced in 2014 to crack down on tax havens – and adopted almost everywhere except the US, which had introduced its own regulations. But these rules have gaps that preserved the advantages of trust such as the ones on offer in South Dakota
- Trusts are able to avoid scrutiny under both US and international rules as long as the owner appoints a local trustee and a foreign "protector" to direct the trustees. South Dakotan companies actively promote the secrecy offered by opening a trust in the state
- With no personal or corporate income tax, no limit on "dynasty trusts" and strong assets from soon-to-be ex-spouses – South Dakota has leapt to the top of annual rankings for the trust industry. Nevada, Delaware and Alaska also compete for accounts (Prof Note: What I like about Alaska, and possibly South Dakota, is the revenue generating ability of the states, i.e. lack of dependency on Federal Government. When I worked in Alaska it was always, "the lower 48" said with resentment)

The end of American meritocracy – Pg. 9

- ...nation of 320m...

- Imagine that between a half and two-thirds of its people, depending on how the question is framed, disagree. They believe the system's divisions are self-perpetuating. They used not to think that way
- ...Donald Trump has completed a hostile takeover of one of those groups – The Republicans (Prof Note: I could not say what Trump has done any better...)
- Since the late 1960s both parties, in different ways, have turned a blind eye to the economic interests of the middle class
- Before he became president, Barack Obama argued it would be fairer to base affirmative action on income not colour
- Last week it was announced that Malia Obama had been accepted into Harvard, her father's alma mater. About a third of legacy applicants, those whose parents attended, are accepted into Harvard
- ...term "hereditary meritocracy"...
- Judged by aptitude, almost half those in America's top two-fifths income bracket are there because of luck and family background

Answer: A trust designed to hold assets for many generations.

7 May 2016

Question: What is the current rate on a conforming 15-year fixed mortgages (high credit)?

Trump raises doubts on US debt obligation – Pg. 2

- ...suggesting that the US could "do discounting" in the \$14tn government debt market
- "I would borrow knowing that if the economy crashed, you could make a deal. And if the economy was good it was good, so therefore, you can't lose" (Prof Note: Ok...my nervousness is going to fear...)
- Mr Trump said he was not proposing to renegotiate existing bonds, a move that would rock international markets. But he saw potential to buy back and refinance US Treasury bills – a benchmark for global asset prices – at lower interest rates over longer durations
- Mr Trump has suggested tax cuts and spending increases that could add between \$11.7tn and \$15.1tn to America's debt over 10 years...at the same time, he has proposed eliminating the national debt in eight years

US stock funds suffer \$11bn outflows – Pg. 11

- US equity funds suffered their largest redemptions since the start of the year as investors sought the safety of cash, government debt and gold
- Markets in Japan and Europe were down sharply for the year, while the S&P 500 was up less than 0.5%
- Investors also continued to pull money out of equity funds for Japan, the UK and Europe, ...
- The brunt of the US stock outflows was felt by just two exchange traded funds: State Street's SPDR S&P 500 and Invesco's PowerShares QQQ. The two accounted for nearly four-fifths of the withdrawals, ...
- US investors have turned to money market funds – often seen as a proxy for cash

Dollar retreats after poor US job figures – Pg. 11

- The dollar retreated yesterday after doubts over the US economy resurfaced in light of disappointing April jobs growth that prompted a reduction in market expectations of Federal Reserve interest rate increase this year
- The headline job figure of 160,000 was weaker than expected, and arrived below the 208,000 seen in March
- That left market expectations of a Fed rate increase this year at no better than 50-50

Answer: 2.75%....basically...that is free money! Holy Cow!!!

6 May 2016

Question: What is Canada's ranking by the world economic forum for the most sound banking system?

Evidence builds for pick-up in US wages – Pg. 2

- While Federal Reserve chair Janet Yellen appeared dismissive in March when asked whether wage growth was accelerating in the US, some companies and economists claim that pay gains are finally showing signs of life
- The Fed's own Beige Book...found in April that all but one district had seen increased wages, with a number reporting accelerating growth
- Economists expect the US to extend its trend of robust hiring, with employers adding 200,000 jobs in April, just shy of the 215,000 in March
- The consensus estimate from analysts suggests average hourly earnings will rise 2.4% from a year earlier. That is quicker than the 2.3% reading for the previous month but still well below readings of close to 3.5% seen at the tail-end of the last decade
- A recent boost to the US participation rate may be taken as an encouraging sign that stimulate borrowing costs are starting to lure people off the sidelines and into the active labour force. The Fed would be wary of taking risks that would interrupt that trend

Fannie Mae's earnings halve as home loans weaken – Pg. 15

- Net profits more than halved in the first quarter at Fannie Mae...highlighting the fragile underpinnings of America's \$10tn home-loan market
- Since the big bailout at the height of the 2008 global financial crisis, both Fannie Mae and Freddie Mac, its smaller sibling, have effectively been wards of the state, paying billions of dollars of profit each year to the US Treasury. In 2012 the government tightened its grip, forcing them to gradually reduce capital levels to zero by 2018, in the hope that doing so would spur legislative reform
- Fannie and Freddie have long been the bedrock of American's mortgage market, supporting liquidity in the secondary market and helping to increase the supply of affordable housing
- So when they wobbled in the financial crisis, the government was quick to prop them up by buying common and preferred shares. Four years later it changed the terms of the preferred stock dividend from 10% to a 100% sweep of all profits.

Ageing risk to developing nations' credit – Pg. 18

- Developing countries face the sort of population imbalance suffered by Japan...as the cost of falling fertility threatens to drag on the fastest-growing economies
- ...ageing populations across emerging markets are forcing governments to increase access to healthcare while relying on a shrinking workforce to pay for social programmes, leading to a deterioration in public finances and a rise in government borrowing
- By 2050, S&P expects average debt in emerging markets to rise from 42% of GDP to 136%, compared with 134% in advanced economies, unless policy changes are made
- Developed economies spend far larger sums on healthcare than emerging markets, with Japan spending \$88bn in 2012 compared with \$7bn in Turkey, ...
- ...emerging markets such as Brazil, India and Turkey are expected to sharply increase spending on healthcare in the next few years

Answer: #1 eight years in a row!

5 May 2016

Question: What is the approximate contribution, by percentage, of the banking system in Canada to overall Canadian GDP?

ECB scraps 500 (euro) bill citing 'illicit activities' – Pg. 6

- ...depicts as a crackdown on crime but which critics in German-speaking countries say is part of an onslaught on cash and savings
- Although the bill accounts for just 2.3% of banknotes in the single currency area, it represents almost 30% of their value
- By making it more difficult to keep very large sums in cash, the abolition of the note could push otherwise reluctant people to put their savings in banks, raising fears that negative interest rates could eat into the principal
- To date such rates, which are imposed on commercial banks' accounts at the ECB itself, have not directly applied to ordinary savers in the Eurozone

Yellen's words hold sway over dollar strength – Pg. 22

- And yet Ms. Yellen, through words rather than deeds, is wielding a greater influence over currencies. Her caution over the pace of tightening, ...is the defining theme in foreign-exchange markets
- Last year the Fed came under fire for its communications. Yet the way the dollar has fallen since Ms Yellen's utterances suggests she is in command
- Dollar weakness threatens the economic strategy of Japan's prime minister, Shinzo Abe. Ms. Yellen and the US government have not brought about the downfall of Abenomics,...

Answer: 3.3%

4 May 2016

Question: How much does it cost the Canadian Treasury to produce the one penny coin?

Dollar's losing streak highlights doubts on Fed interest rate target – Pg. 1

- The dollar touched a 15-month low yesterday, reflecting growing market doubts that the US economy can grow fast enough for the Federal Reserve to meet its interest rate target
- Only four of the 32 biggest currencies in the world have failed to gain against the dollar this year, complicating the landscape for economic policy globally
- Policymakers in the Eurozone and Japan are seeking to increase stimulus to raise growth levels and inflation but instead find their strengthening currencies having the opposite effect. In the US, which has started to raise rates, the dollar's fall may increase inflationary pressures and boost growth

Australia cuts interest rates to record low on weak prices data – Pg. 3

- The Reserve Bank of Australia has cut interest rates to a record low of 1.75% in an attempt to stimulate the economy and boost what it described as “unexpectedly low” inflation, prompting a sharp sell-off in the Aussie dollar

European markets record 20% fall-off – Pg. 22

- Trading volumes on European stock markets dropped dramatically last month, reflecting growing economic and political uncertainty, with market participants fearing that the decline will prove to have been a harbinger of a tough summer
- City traders have been struggling to pinpoint a reason for the dramatic decline. Many hedge funds have suffered steep losses in the first quarter
- Others have cited uncertainty over whether the UK will leave the EU, worries about economic growth and the likely impact of new regulation on banking and trading

Dollar swings to 15-month low as prospect of Fed action recedes – Pg. 23

- A volatile session for the US dollar and renewed weakness for oil left global equity markets trading cautiously, with some disappointing earnings from European banks and soft Chinese economic data further unsettling the mood

Game-changers loom after gold's 20% advance – Pg. 24

- Gold has enjoyed its best start to a year in three decades, climbing more than 20%. The advance has attracted some of the world's most sophisticated hedge funds, but can it be sustained without a pick-up in physical demand from the world's two biggest consumers – China and India? As gold grades around \$1,300 a troy ounce, here are five things to watch for curious investors and gold bugs alike:
 - o The Fed
 - o The dollar
 - o Investor demand
 - o China and India
 - o And a wild card...Brexit

Answer: \$11.0m Canadian Dollars

3 May 2016

Question: In what year was the last Canadian penny minted?

China cracks down on shadow banking – Pg. 2

- China's banking regulator is cracking down on financial engineering that Chinese banks have used to disguise trillions of dollars in risky loans as investment products
- The clampdown, which will force banks to make provisions they previously avoided by disguising loans as investments, is designed to deflate one of the fastest-growing areas of the vast shadow banking apparatus, where bad debts are increasing
- During the past three years, banks in China have used complex accounting techniques to move loans off the balance sheets and into a category of investments that requires less provision than loans
- These so-called debt receivables have become one of the fastest-growing areas of Chinese banks
- Under the rules, released at the weekend by the China Banking Regulatory Commission, banks can no longer use wealth management funds to invest directly or indirectly in their own investment products

Puerto Rico on course for default as bank misses payments – Pg. 6

- Puerto Rico was heading for a potentially crippling default last night after the island's governor ordered a moratorium on debt payments due by its de facto finance authority
- Puerto Rico, which has \$70bn of debt obligations and a severely underfunded \$46bn pension system, has endured almost a decade of economic decline (Prof Note: PR is not the place it was 30 years ago. However, it is still a great place.)

Japan stocks weaken as dollar and yen diverge – Pg. 20

- Continued divergence between a widening dollar and strengthening yen roiled the Japanese stock market, as US markets ticked higher and London was closed for a bank holiday
- Japanese export companies led the selling after the yen hit an 18-month high against the dollar, as the US currency continued its drift lower

Answer: 2012

2 May 2016

Question: What is the USD/Canadian Dollar exchange rate?

Norway wealth fund set to launch crackdown on high executive pay – Pg. 1

- The world's biggest sovereign wealth fund is launching a crackdown on executive pay, targeting high salaries at companies around the globe in an attempt to exert its influence in a debate that has been gathering pace in recent months

- Norway's \$870bn oil fund, which has previously refused to interfere in how much chief executives are paid, has decided its position is untenable and is looking for its first company to target publicly on pay in the coming months
- ...for almost every listed company in the world as Norway's oil fund owns on average 1.3% of each one
- The fund has been making a big push to be more active in corporate governance matters such as election of directors and board composition
- The fund now believes that remuneration has become a global issue

Rising MBA tuition fees fail to damage demand – Pg. 10

- Rising tuition fees are an issue, particularly in the US, where students now face paying back six figure sums for two year MBA courses at top schools, even before other essentials such as books, health insurance and other living costs are factored in
- The average fee in 2016 for the top 25 US schools is \$118,468 – 81% higher than in 2006
- A big cost advantage for European schools compared with those in the US, apart from annual tuition fees, is the provision of one-year rather than two-year MBA courses

US lenders sound alert on real estate – Pg. 16

- Top US bankers have sounded caution over commercial real-estate lending as concerns rise that bubbles are forming in parts of the country's property market
- Lenders have helped to fund a boom in recent years in cities such as New York and Miami, where luxury high rises have sprung up across the skyline
- Rising rental incomes have made CRE look attractive at a time when rock bottom interest rates have reduced returns on offer from other assets
- Property prices have swelled, helping push up the value of banks' CRE loans by 11% in the year to March to \$1.83tn,...
- Banks increased their share of the US market from 34% in 2014 to 41% last year,...
- In February, sales of offices, apartment blocks, hotels and other commercial buildings collapsed by 46% from the year before to \$25.5bn,...
- There are signs that banks are taking a tougher line. A survey of senior loan officers by the Fed in the first quarter found a net 23% were tightening standards for "multifamily" projects – big apartment blocks. That was up from 7.5% three months earlier

Answer: 1 USD:1.29 Canadian Dollar

Guess Where Michael C. is located currently?

30 April 2016

Question: How many yen equal a U.S. dollar?

Eurozone growth bounces back – Pg. 1

- The Eurozone economy grew faster than the US and UK in the first quarter, finally surpassing its pre-crisis level of output after eight painful years of crises and near stagnation

- Growth of 0.6% in the first quarter was helped by a surprisingly robust performance in France
- Growth in the UK slipped to 0.4% in the first quarter, while growth in the US over the same period was 0.5%. GDP in both economies has long passed pre-crisis levels, however, and unemployment rates are a little more than half Eurozone levels

Yen surges to 18-month high after BoJ inaction – Pg. 13

- The yen is on track for its biggest weekly gain since the depths of the 2008 financial crisis after the BoJ's reluctance to fire another easing "bazooka" emboldened traders and raised doubts over the central bank's ability to reverse the currency's searing rally this year
- The lack of action from a central bank which, since the election of Shinzo Abe as Japan's prime minister in late 2012, has built a reputation for bold moves, triggered a 3% leap in the yen on Thursday – its seventh-biggest one-day gain of the past decade

Answer: 106.36

29 April 2016

Question: The FOMC is talking about how many more rate increases this year?

Slowdown in US growth sparks doubts over economic durability – Pg. 1

- The US economy grew at its slowest pace in two years during the first three months of 2016, raising questions over the durability of its seven-year expansion at a time of global uncertainty
- GDP rose 0.5% - less than half the rate of the previous quarter – thanks to falling corporate investment and lower exports
- The deceleration comes amid sluggish growth around the world, with the IMF this month cutting its global forecast for the fourth time in a year
- Growth in household spending – the motor of the US recovery – slowed to 1.9% in the first quarter from 2.4% previously...

Chinese province falls into negative growth – Pg. 4

- The economy in China's industrial province of Liaoning contracted in the first quarter, making it the first region to register negative growth in seven years as a severe downturn in the energy and heavy industry sectors hits hard in the country's north-east
- China's national growth recorded an annual rate of 6.7% in the first quarter, but that headline figure masks sharp discrepancies between provinces reliant on heavy industry, mining or oil, and the southern and eastern regions with more diversified economies

Priceline chief steps down over relationship – Pg. 14

- Priceline Group chief executive..resigned yesterday after an investigation into a "personal relationship" with an employee found that he had contravened the travel company's code of conduct for executives (Prof Note: Insanity....hubris makes one forget ethics and right from wrong!)

Answer: Two more...

28 April 2016

Question: What two companies in the U.S. retain a triple-A rating?

Fed concerns ease over state of global economy – Pg. 1

- The central bank held rates at 0.25 – 0.5% yesterday, as expected, noting a slowdown in US economic growth and more sluggish household spending
- ...Fed also suggested that it remained on guard for another adverse turn of events abroad
- The median expectation from Fed policymakers' interest rate forecasts suggest the official rate will be lifted twice this year, with some analysts looking to June or July for the first of these moves and December for the second
- Complicating the Fed's calculations are signs of a slowdown in the US economy

Carlyle profits plunge as sluggish deal exits bite – Pg. 14

- Profits at Carlyle fell by four-fifths in the first quarter, with the Washington-based firm joining other big US private-equity groups in reporting a slowdown in exiting deals early this year as stock markets sold off
- Private-equity firms rushed to sell or list investments early in 2015 as stock markets surged, which also boosted their stakes in companies they had already taken public
- Blackstone and KKR, Carlyle's rivals, also reported sharp drops in ENI for the first quarter as the value of stakes in former buyout targets dipped

Sales of packaged loans hit 5-year low – Pg. 22

- Europe's securitization market has experienced its worst quarter for new sales in nearly five years, underscoring the industry's decline despite policymakers' efforts to revive it
- Securitization – taking mortgages and other loans, and packaging them into bond-like instruments – was once a booming industry in Europe but has struggled since the financial crisis

Answer: Johnson & Johnson, Microsoft

27 April 2016

Question: How many companies in the U.S. have a triple-A Rating?

Debt Rises rapidly in emerging markets – Pg. 2

- Emerging markets' private sector debt burden reached new highs in 2015,
- ...total private sector debt in big emerging markets rose to the equivalent of about 78% of GDP in 2015, up from 71% at the end of 2014

- Part of the reason for the recent slowdown in debt issuance by emerging market companies was that borrowing was becoming more difficult and expensive as emerging markets underwent a painful economic adjustment
- About a quarter of foreign currency debt was in the form of international debt securities, with the remainder split roughly evenly between foreign currency loans from domestic banks, and loans from foreign banks and forms of external lending

Exxon loses triple A rating as crude price rout continues – Pg. 13

- The downgrade to double A plus reflected the ballooning of Exxon's debt and analyst views that the largest US oil group and fourth-largest publicly traded US company would have to increase capital expenditures in the coming years to maintain production
- The downgrade from S&P leaves just two publicly traded US companies with triple A ratings: Microsoft and Johnson & Johnson
- Exxon, which had held its triple A status since at least the 1940s, has issued debt rapidly over the past two years, as the price of oil tumbled, to fund its dividend programme and capital spending. The company, which sold \$12bn of bonds this year, counted roughly \$35bn of net debt at the end of 2015. In 2012, the figure stood at \$2bn
- Despite the rise in debt, Exxon has relatively low leverage ratios, with net debt at 0.8X earnings before ITDA

US groups expand taste for buybacks – Pg. 20

- The number of large US companies reducing their share count through buyback jumped this year, reinforcing the appeal of a practice that helps polish earnings
- Nearly one-third of S&P500 constituents cut their share count by at least 4% in the first three months of the year,...
- Use of buybacks has assumed increased significance with earnings growth among S&P 500 companies expected to have dropped 8% in the first quarter, as weakness in the oil and gas sector leads the downturn in profits and revenues
- Revenues are expected to have dropped in the first three months of the year – the fifth quarterly drop in a row – as a still strong dollar hits US exporters...
- Record-low interest rates in recent years encouraged companies to help fund share buybacks through tapping the debt markets

Answer: Two (2)

26 April 2016

Question: What are the three main measures of central location?

Landmark Manhattan office address poised to sell for as much as \$1.4bn – Pg. 1

- 550 Madison Avenue, the former Sony Building in the heart of Midtown Manhattan, has a new owner and a new – but as yet unknown – name
- ...the new owners plan to keep the building as it is today: one of the premier office and commercial addresses in New York

- It has only ever had two big tenants: original occupants AT&T, and Sony itself

BoJ under pressure to act as yen surges – Pg. 4

- The BoJ faces intense pressure to ease monetary policy this week as a surging yen threatens its drive for 2% inflation
- But if the BoJ does decide to act, it has three main choices: move deeper into negative interest rates; buy assets faster than the current ¥80tn a year; or change the mix of asset purchases, most likely to buy more equities

Yellen caution signals rates staying on hold – Pg. 4

- A subdued start to 2016 for the US economy coupled with depressed inflation expectations will probably prompt the Federal Reserve to keep interest rates unchanged this week, as chair Janet Yellen insists on an ultra-cautious approach to normalizing monetary policy
- Among the hazards ahead is Britain's referendum on its EU membership, which will happen only days after the Fed's June meeting. If markets are shaky in the lead-up to that event, it will strengthen voices calling for further delay as the US central bank inches its way towards tighter monetary policy
- Among the reasons for caution are poor activity data in the opening months of 2016. The New York Fed's economic modelling points to GDP growth of only 0.8% in the first quarter, followed by expansion of about 1.2% in the second. Early indicators of activity in the second quarter have also been sluggish: the Philadelphia Fed's business outlook survey indicator fell into negative territory this month
- Inflation numbers have also lost altitude after a jump early this year
- The Fed's next meeting after this week's is on June 14-15. That is just a week ahead of the UK's referendum on June 23

Answer: mean, median and mode

25 April 2016

Question: How many new U.S. banks were opened between 2010 and mid-2015?

Crisis fears as China's debt load surges – Pg. 1

- China's debt load grew at its fastest ever pace in the first quarter, soaring to western levels of 237% of GDP and raising the risk of a financial crisis or prolonged slowdown
- Economists are concerned that the massive increase in lending will trigger either an acute financial crisis – a "Lehman moment" reminiscent of the US in 2008, when banks failed and paralysed credit markets – or a Japan-style "lost decade" of slow growth and deflation
- While the absolute size of China's debt load is a concern, more worrying is the speed at which it has accumulated – Chinese debt was only 148% of GDP at the end of 2007
- Beijing is juggling spending to support short-term growth and deleveraging to ward off long-term financial risk
- Many are concerned that China's debt could lead to a so-called balance-sheet recession – a term coined by Richard Koo of Nomura to describe Japan's stagnation in the 1990s and

2000s. When corporate debt reaches very high levels, he says, conventional monetary policy becomes ineffective because companies focus on paying down debt and refuse to borrow even at rock-bottom rates

Answer: Only 3

23 April 2016

Question: How many times does the FOMC meet per year?

Students want their professor's full attention – Pg. 6

- The academic establishment has chosen to put research quality as the primary determinant of progress up the academic career ladder
- Yet, apart from the continued assertions by academics such as Dame Nancy, there is no evidence whatsoever that there is any correlation between research excellence and teaching excellence
- As the costs of tertiary education continue to rise, the amount of funding that is diverted from teaching to research is nothing short of a scandal
- Research may well be necessary and desirable. If so, it should have its own pot of money and stop dipping into monies intended for student tuition (Prof Note: Look at Georgetown's MPS Real Estate programme. By my estimate, 90% of the monies are pulled from the programme to main campus. The programme is left with lower-qualified administrators that lack, what should be the requisite credentials for a lower analyst position. When this was addresses to the asst provost, Cindy Chance, her response was to solicit ideas from students for additional continuing education ideas to further the revenue...scandalous! (I have the transcript of the conversation!))

Yen tumbles on talk of negative rates on loans – Pg. 11

- The yen has tumbled by the most in eight weeks following reports the Bank of Japan may offer negative rates on some loans in an effort to help financial institutions
- Lending to banks at negative rates would duplicate a policy the ECB adopted in March. The ECB is now letting banks that expand their loan books borrow at rates as low as minus 0.4%
- The possibility of banks receiving money in return for borrowing saw their stock prices stage a rally, ...
- Such loans could ease some of the pressure on bank profits caused by negative rates, but they are having little stimulative effect in the Eurozone, where – like Japan – there is modes customer demand for new loans

Answer: Minimum of eight (8)

22 April 2016

Question: What is the CAPM?

Blackstone profits fall 77% as fees dive – Pg. 14

- Blackstone, the world's biggest manager of alternative investments from private equity to real estate, ...
- The performance fees Blackstone charges its fund investors on successfully exiting deals fell 81% on the year, indicating a broader slowdown for private equity firms hoping to sell assets this year after a record period for exits in 2015
- ...stock in Hilton hotels, its single biggest holding, fell as much as 20% during the quarter, before recovering to end the period up 5%
- Assets in its real estate business, overseen by Jon Gray, topped the \$100bn mark for the first time

Argentina bonds prove a blockbuster – Pg. 20

- The price for the country's \$16.5bn benchmark 10-year government bond rose to 103 cents in the dollar, pushing the yield down to 7% from 7.5%
- A small number of US fund managers took the lion's share of the issuance, while allocations between 10 and 20% of bids were common elsewhere, ...
- In total, US investors took two-thirds of the sale, with Europeans allocated 25%, the Middle East 5% and investor in Latin American 4%
- Investors say Argentina is one of the few positive stories in the emerging market universe, noting that its exile from global markets over the past decade has necessitated deleveraging
- The new government's commitment to repair relations with the international financial community by taking steps to address domestic economic problems and solve the conflict with so-called "holdout" creditors has added to the country's appeal

Answer: Equation which consolidates risk into a single factor, beta, which is used to quantify cost of equity.

21 April 2016

Question: When did inflation-adjusted median household income peak and what was the value?

ECB action spurs smaller bond sales – Pg. 20

- A flurry of smaller euro-denominated corporate bond sales shows that the age of "go big or go home" may be coming to an end
- Increased demand has, in turn, reduced the premium paid by companies selling smaller and less liquid bonds
- Rising numbers of oversubscribed small deals run counter to a trend for investors to favour large offerings because they can buy and sell the debt without moving market prices too far
- Concerns about the illiquidity of corporate bonds have heightened as many investment banks have retreated from trading and acting as market makers
- Blockbuster deals are often favoured by asset managers partly because these are easier to trade, but also because they are frequently benchmarked against indices that exclude smaller offerings and are often restricted in the total value of bonds they can buy outside of that index

Japanese yields move further below zero – Pg. 20

- Yields on long-dated Japanese government bonds dipped further into record low territory yesterday as the quest for returns intensifies against the backdrop of the central bank's negative interest rate policy
- As markets await the Bank of Japan's monetary policy meeting next week, Japan no longer has any sovereign debt trading with a yield over 0.3%
- In conjunction with the falling yields on domestic bonds, Japanese investors are looking overseas for higher fixed rates of return

Answer: \$57,843 in 1999

20 April 2016

Question: Define "Economics"?

Saudi Arabia borrows \$10bn as oil slump drains reserves – Pg. 1

- Saudi Arabia is raising \$10bn from a consortium of global banks as the kingdom embarks on its first international borrowing in 25 years to counter dwindling oil revenues and reserves
- The landmark five-year loan, a sign of Riyadh's newfound dependence on foreign capital, opens the way for the country to launch its first international bond issue
- Strong interest in the loan, especially from Asia, came despite rating agencies' downgrades on Saudi creditworthiness since the oil price collapse
- Saudi Arabia may now raise its first global bond in the wake of the loan deal,...

Shortage of skilled workers set to drive US wages higher as population ages – Pg. 1

- The US faces significant labour shortages in a wide range of sectors as unemployment falls towards 4% and the working-age population stagnates, ...(Prof Note: The average age of appraisers is mid- to upper-fifties...we need to pay appraisers more!)
- With the time needed to fill a job already near the highest in at least 16 years and the number of people voluntarily leaving jobs at its strongest since the recession, difficulties finding skilled labour will intensify, pushing up wages and squeezing corporate profits...
- Barring a recession, joblessness should fall another point compared with its 5% rate now, and wage growth will be running at 3-3.5% in 2017, a percentage point higher...
- While demand for workers has been sufficient to lure some Americans off the sidelines and into work, the steady exit of ageing baby boomers from the workforce is likely to weigh on the labour force participation rate over the longer term

US lenders suffer biggest revenue fall in 5 years – Pg. 14

- The six biggest US banks have suffered their steepest decline in quarterly revenues since 2011, after a profound slump on Wall Street overshadowed better results in their consumer businesses
- Deep cost cuts failed to counteract the fall in revenue so the six lenders also saw their collective net income plummet 24% year on year to \$18bn

- The aggregate figures for the big six banks illustrate the sector's reliance on turbulent securities businesses. Banks that have sizeable consumer divisions held up significantly better.

Answer: The branch of knowledge concerned with the production, consumption, and transfer of wealth.

19 April 2016

Question: What are the total reserves held by the world's central banks?

Central banks forced to take their own zero-rates medicine – Pg. 2

- European and Japanese rate cuts are putting pressure on many central banks' returns – a source of income used to cover running costs and to provide finance ministries with profits on which they have come to rely
- While central banks are best known for setting interest rates and printing cash, overall they are among the biggest of investors. Total managed reserves were \$10.9tn at the end of last year, ...
- But the combination of negative rates and mass bond buying by central banks, or quantitative easing, has lowered the return on financial assets.
- Central banks have in the past tended to invest in conservative assets such as highly rated government debt and in the most commonly traded currencies. As of the end of last year, they held 20% of their reserves in euro-denominated assets, a much lower amount than in earlier stages of the financial crisis, and 4% in yen. Most reserves – around 64% - are held in dollar-denominated assets
- Central banks hold reserves to stabilize the value of their currencies, intervening by buying and selling assets to temper volatility in foreign-exchange markets. Reserves can also build up as a result of deliberate attempts to depreciate currencies

Argentina storms back to markets as bond issue draws bids of over \$50bn – Pg. 13

- Argentina has secured one of the most awaited market comebacks in recent history, ending 15 years in exile with a sale of debt that has attracted bids of more than \$50bn
- The successful issuance represents a remarkable turnaround for the Latin American country, which has been frozen out of global debt markets since defaulting on close to \$100bn in 2001
- The size of Argentina's debt sale and the length of time it spent frozen out of markets distinguish it from other countries, such as Ivory Coast and Ecuador, that have issued debt after default

Brazil intervenes to slow rise of the real – Pg. 22

- Brazil's currency reversed big gains following the vote in Congress to impeach Dilma Rousseff, ...and sank lower yesterday after the central bank intervened to prevent it appreciating too steeply
- The real rose 3.7% against the US dollar last week in the run-up to Sunday's impeachment vote, ...

Answer: \$10.9tn

18 April 2016

Question: What must you not forget today?

Fears over British EU referendum hold back hiring and investment – Pg. 1

- Uncertainty over the outcome of Britain's EU referendum is having a chilling effect on business activity, with companies pulling back on hiring and investment across sectors from real estate to recruitment
- The slowdown is hitting property prices at the high end of the London property market and hiring in financial services last month fell 21% against last year
- Global intervention to support the economic argument that Britain would be worse off outside the EU has been gathering pace in the past week after the IMF said Brexit would wreak "severe damage" to the British and European economies
- Property prices across the UK are still at historic highs, but the growth in central London, traditionally a target of foreign investors, from French bankers to Russian Oligarchs, has slowed sharply

Soft US growth raises questions on rate rise – Pg. 3

- Soggy US growth in the early months of the year has raised new questions over the next Federal Reserve interest rate increase as policymakers balance evidence of strong corporate hiring against softer activity and inflation numbers
- A rate move at the Fed's meeting on April 26-27 now appears to be off the table,...
- Recent data disappointments have included slow March retail sales and inflation numbers, as well as weak factory figures on Friday

Saudi Arabia warns it will protect US investments if 9/11 bill passes – Pg. 3

- Saudi Arabia has warned the US it will protect its investments in the country if Congress passes a bill that would allow Saudi officials to be held responsible for any role they might have had in the 9/11 terrorist attacks
- ...take measures to ensure its substantial holdings of US Treasuries could not be subject to legal action in the US, ...
- The bill, which was proposed ...would remove immunity from lawsuits for officials of foreign governments involved in terrorist attacks on US soil (Prof Note: students always ask how to "play" something. Well...if you believe this bill, if passed, will cause the sale of US Treasuries that will be a leftward shift of demand and rightward shift of supply. What does that do to yield? What instruments/investments will be helped/harmed by this change in yield? Think like an investor...this is how one "plays" a situation. Get ahead of market pricing. Look for relationships that are not priced into the market and take a position. This is exactly why I like students to speak up in class and try and answer. You need to take a position and then defend it. If you are not right we all learn. If you are right we still all learn.)

- Analysts say Saudi Arabia, which pegs its currency to the US dollar, may need to maintain US-denominated reserves of as much as \$300bn to ward off speculative pressure on the riyal (Prof Note: Again, with the “playing”...will Saudi consider dropping the U.S. peg? What does this mean?)

Answer: File your taxes (if in the U.S.). One person wrote me on the 15th glad to have the extra three days. Do not forget....

16 April 2016

Question: What is the cost of attending Harvard University without financial aid for 2015-2016, i.e tuition, fees and room/board?

G20 warns of reliance on low rates – Pg. 1

- With an increasing number of countries shifting to negative interest rates in an effort to boost demand, the G20 said monetary policy could not by itself provide a return to balanced growth
- China, a prime engine of global growth, is acknowledged globally as one of the few big economies that has acted on all fronts. The 6.7% annual growth rate it posted for the first quarter of 2016 yesterday was comfortably within the government’s targeted range

There is more to university than money – Pg. 9

- ...UK government proposals to include graduate employment as a measure of teaching quality. The question about the “point of university” is not limited to Britain
- It can be found across much of the western world, most notably in the US, where in the face of escalating costs, technological change and economic uncertainty politicians, parents and employers are pondering the purpose of higher education (Prof Note: With Georgetown increasing tuition 9.5%/year how can education have any purpose other than to focus on increased earnings capacity?! It is being priced out of reach for so many!)
- Studying at university can and should be a unique and “transformational” experience. It should challenge your principles, take you outside your comfort zone, broaden your horizons and deepen your awareness, give you opportunities to grasp new experiences – often abroad – and even expose you to some shocking realities through volunteering in areas that you may never have known (Prof Note: Talk about Ivory Tower! With the cost so great and students coming out with so much debt, Universities must provide demanded skills to students to repay their debt. Else they will be “tranformationed” to poor!)
- Their very name derives from the Latin universitas, meaning “the whole” or “the total”
- For students a key question remains: “Is it worth it?” Maybe not, if earnings power is all that matters. But a degree is much more than a passport to a better career. A university education should open up new vistas and experiences (Prof Note: Agreed BUT the costs must be acknowledged and managed. I fear for the younger generation. Had I had to pay for my graduate school I would not have so many degrees and I would not be the person I am today. We must address cost!)

Answer: \$60,659 or \$5,000/month CASH!

15 April 2015

Question: When are U.S. Taxes due?

Investors mutiny over BP chief's 20% pay rise amid worst ever loss – Pg. 1

- Investors voted against the company's pay decisions for the first time in living memory, with 59% of proxy votes cast against BP's decision to pay Mr Dudley nearly \$20m for 2015, a year in which the company ran up a \$5.2bn loss
- The rebellion highlighted a growing global trend of institutional investors and advisers taking a more aggressive stance over pay
- Mr Dudley's pay looked particularly out of line to shareholders because other major energy company bosses took pay cuts in 2015
- (Prof Note: Sounds a bit like Dean Kelly Otter's, Georgetown, raise of tuition by 9.50% each of the past two years while providing the students less in promised in committed services/education and continuing to pay certain instructors \$28,000/class. I would suggest a vote of no confidence but a petition already went to the President of Georgetown which was ignored and unanswered.)

Americans still not convinced economy is improving – Pg. 4

- Yet the overall message from polling is fairly downbeat: seven years after the recovery started, the population is still unhappy with the economy's performance.
- Compared with 2009...GDP expanded 2.4% last year, well above the euro area's 1.6% and faster than any big European economy except Spain
- Joblessness is half its crisis-era peak, with employers adding more than 200,000 jobs a month. The US has seen its longest-ever streak of private sector job growth, adding 14.4m jobs over 73 months, even if the overall share of the population in work remains far below levels in the late 20th century. Equity in housing has also rebounded, as have shares, bolstering wealth for many
- The explanation is slow wage growth, he said, which is more tangible to people than GDP growth or unemployment
- Meanwhile, the middle class, ...has shrunk to less than half of the population, with more shifting to the extremes

Muted inflation adds to Fed uncertainty – Pg. 4

- Price growth was weaker than expected in March in the US, adding to the uncertainty over when the Federal Reserve will next pull the trigger on an interest-rate increase
- ...Ms Yellen has signaled that a rate move in April is unlikely as she underscores the need for the Fed to "proceed cautiously" in lifting rates given the uncertain inflation outlook
- The inflation numbers come amid evidence of a weakening in overall GDP growth in the first quarter of the year

Answer: Not today but Monday, i.e. 18 April 2016. Just think, you can spend your weekend doing your taxes. 😊

14 April 2016

Question: When in fifth grade (approximately 10 years old) children often play a game of staring at each other to see who can go the longest without blinking. Why is winning this contest and mastering the skill of staring so essential?

Banks face harsh sanctions as Fed rejects wind-up provisions – Pg. 1

- Five big US banks including JPMorganChase and Bank of America have been warned by regulators to reform or face harsh sanctions after their plans to show how they could be would up in a crisis were deemed inadequate
- The “living will” plans – a key part of post-financial crisis reforms – are intended to prevent more taxpayer bailouts of big institutions and the kind of chaos sparked by the 2008 collapse of Lehman Brothers

Fund fears worsening public finances threaten recovery – Pg. 3

- Public finances across the world are deteriorating, threatening to undermine the global recovery, ...
- The fiscal warning came as the fund stepped up its rhetoric over the dangers of Britain potentially leaving the EU, saying the uncertainty created by a vote to leave would be “protracted” and risked hitting the financial sector in London hard
- High debt, low inflation and low growth have added to fiscal pressures in advanced economies, increasing the burden of public debt compared with previous forecasts. As a result, the ratio of debt to national income – currently 107.6% of national income is now expected to begin to decline in 2017
- There is even greater pessimism over the fiscal position of emerging and middle-income countries, such as Brazil, which have been hit by a storm of declining commodity prices, slower world growth, weaker trade limiting revenues from tariffs, rising US interest rates and depreciating currencies that have raised the servicing cost of foreign debt
- It called on countries with strong public finances, such as the US and Germany, to increase investment to raise growth now, while also putting in place a medium-term plan to reassure financial markets that spending would not get out of hand

Watershed looms for US debt transparency – Pg. 20

- One of the longest-serving market regulators is retiring this year and has some advice for officials picking up the baton: the US bond market needs closer monitoring in the coming years
- ...believes the focus should be on fixed income over the next three to five years
- One significant area of fixed income under scrutiny is the \$13tn US government bond market, which experienced a sudden and inexplicable dislocation in trading in October 2014. Finra is supportive of the US Treasury’s proposals to overhaul the transparency of the world’s largest sovereign debt market

- The importance of transparency and regulatory rigour was hammered home by the financial crisis of 2008, when officials realized belatedly how, at key moments of market stress, they lacked the tools and information to spot and comprehend positioning across derivatives and funding markets that linked banks and other entities
- All US corporate bond trades are reported to Trace and all trading commissions are reported to investors, however the regulator has at times spotted a disconcerting variance in pricing, with securities sometimes being traded within minutes of an initial sale at a hefty mark-up
- Another area on which Finra is keep to shed some light is the potential for conflicts of interest between bond trading desks and analysts

Answer: When staring at a counterparty in a deposition when you know they are blatantly lying! The skills we learn in grade school have real-world business applications! ☺

13 April 2016

Question: What did the Bank Holding Act of 1956 allow?

Traders call end to slump as oil price hits highest level this year – Pg. 1

- Brent crude...climbed by nearly 4% to a four-month high of almost \$45 a barrel amid mounting expectation of a deal to freeze production at this weekend's Opec summit
- The crash, in which oil fell from more than \$100 a barrel in mid-2014 to below \$30 in January, has ravaged the budgets of producer countries, led to widespread lay-offs in the industry and stoked fears of a global deflationary spiral
- But the collapse in prices is finally showing signs of tightening the market, as companies have shelved more than a quarter of a trillion dollars in investment plans and the US shale industry goes into reverse

IMF warns of 'severe' damage from Brexit – Pg. 3

- The IMF has warned that Britain's economy will suffer, as will other countries, if the UK votes to leave the EU in its June 23 referendum
- The IMF said the referendum was already hitting the UK economy by lowering investment

Fund reduces global growth forecast amid 'downside risks' alert – Pg. 3

- The "increasingly disappointing" world economy is facing the threat of a "synchronized slowdown" and mounting risks including another bout of financial market turmoil and a political backlash against globalization,
- ...the IMF reduced its global growth forecast...3.2%
- Its gloomy forecasts include downgrades for the growth prospects of large economies ranging from the US, which is now expects to grow by just 1.9% this year, to Japan (0.5%), the euro area (2.4%) and the UK which it also expects to slow to 1.9% growth this year
- ...China, which the IMF said it now believed would grow 6.5% in 2016, ...

Answer: Allowed Bank Holding Companies to engage in various nonbanking activities

12 April 2016

Question: What year did the first central bank use negative rates?

Lew urges IMF to get tough on exchange rate manipulators – Pg. 1

- In a speech aimed at reasserting US leadership over the global financial system, Mr Lew called for “new players” such as the China-backed Asian Infrastructure Investment Bank to live up to the standards set by established institutions such as the IMF and World Bank (Prof Note: ...and were exactly what was the IMF during the Asian Financial Crisis?)
- Growing concerns about the fragile recovery in the world economy mean that the IMF is widely expected to cut its 3.4% global growth forecast today
- Globalization and the US trade deficit have long been politically sensitive topics but have been central in this year’s US presidential campaign
- China last year began reporting data to the IMF on its official reserves as part of its bid for the renminbi to join the elite basket of currencies used to determine the IMF’s special drawing rights

Criticism of negative rates mounts as politicians urged to intervene more – Pg. 3

- In less than two years, negative interest rates have gone from being a subject of fireside speculation to a reality for nearly a quarter of the global economy
- The idea was that cutting rates below zero would encourage banks to lend more and deliver further stimulus to stagnant economies
- The big concern is that negative interest rates will destroy banks’ profitability and if passed on to retail investors would force consumers to hoard cash
- ...Denmark’s Nationalbanken was the first to go negative in 2012...it January it started to try to raise its deposit rate back from a record low of 0.75%
- ...if retail customers are protected, negative rates mainly target exchange rates
- A cheaper currency remains an important tool for central banks in sparking domestic demand. Lowering the value of the currency should raise inflation by increasing the cost of imports

Berlin average bond yields hit zero for first time as losses loom – Pg. 3

- The average yield across German government bonds, known as the Umlaufrendite, fell to zero for the first time in history yesterday
- The measure...takes an average across the outstanding market
- The negative yields phenomenon has also spread to other bond markets, including covered bonds – a market for bank funding developed in 18th century Prussia

Breaking the law – Pg. 7

- Lawyers still provide high-cost customized advice. The highest-earning legal partners preside over pyramid-shaped firms, raking in huge fees while teams of junior lawyers do the drudge work of searching for precedents and drawing up contracts
- ...few people these days can afford a lawyer
- The cost is prohibitive....(Prof Note: The cost of not having a great lawyer is even higher!)

- Lawyers craft individual advice for clients. The way to bring cost down is to industrialize much of the process
- There are other forces working in traditional legal profession's favour. Since the 2007 financial crisis, the level of regulation has increased. And companies are frightened of getting things wrong so they will continue to spend on legal services
- (Prof Note: I am emotional over this subject. I tell every class, "When it comes to lawyers, bring a gun to a knife fight!" I use three lawyers exclusively, two from DLAPiper and one from K&LGates. Full Disclosure: K&LGates is my outside counsel. Each is between \$900 - \$1,000/hour. Just today I settled a potential litigation in my favour due to their prowess. Personally, I feel a majority of the attorneys in the \$250 - \$600/hour range should be billing, at best, \$100/hour. That has also been my experience. I will gladly pay \$1,000 for an hour of work than pay \$450/hour for 5 hours or lesser quality work. Also, the \$1,000/hour is not accurately seen as the single lawyer rate but rather firm rate. You pay \$1,000/hour you get the resources of a global firm. When I needed computer forensics K&LGates had an expert. When I needed a forensic meteorologist, K&LGates had an expert. When I needed an expert on Puerto Rico property, K&LGates had an expert. I still remember my K&LGates attorney being asked at the beginning of a meeting where she went to law school. She said, "Yale". Then she was asked about college and she said, "Harvard." The person leaned back in their chair and laughed and said, "Seriously?". My attorney said, "yes, seriously!" I was there thinking, 'oh, this is already going well for me.' (and it only got better from there for me!))

Goldman pays \$5.1bn for mis-selling – Pg. 13

- Goldman Sachs has inked a \$5.1bn settlement with US authorities over mis-sold mortgage-backed securities, in a final agreement that sheds light on banks' behavior in the run-up to the financial crisis
- Federal officials provided fresh details yesterday of what they described as "serious misconduct" by Goldman when it sold pools of loans to investors that went on to cause an economic meltdown
- ...Goldman acknowledged it had made "false and misleading representations" to prospective investors on the loans underpinning the securities (Prof Note: What I want to know is who at Goldman is Madoff's cellmate?)

Answer: 2012

11 April 2016

Question: What is the minimum times/year that the FOMC meets?

Fears grow over effect of negative rates on economy – Pg. 1

- Negative interest rates risk hitting consumer spending and undermining the economic growth they are intended to encourage...
- The Bank of Japan, the ECB and four other central banks around the world have introduced overnight negative interest rates in an effort to bolster growth and raise inflation expectations

- A typical 35-year-old has to save more than three times as much to make the same retirement income when long-term interest rates are at 2% as when they are at 5%...

World Bank loans at record level since financial crisis – Pg. 3

- ...almost half of this year's lending – about 45% - will come in the form of what the World Bank calls "development policy lending" – lending directly to national budgets that is not tied to specific physical projects - ...
- Demand for such loans is growing as the collapse in oil and other commodity prices has left yawning budget gaps in countries such as Nigeria
- Such lending has prompted criticism that the World Bank is at risk of encroaching on the IMF's crisis-response role, and that it is in effect enabling governments to avoid making the tough political decision to turn to the IMF for assistance
- There is some evidence that lending by the bank has helped governments at least to delay an approach to the fund, whose rescues often come with demands for reforms attached and carry stigma for countries

Global economic recovery 'in danger of stalling yet again' – Pg. 3

- The index shows how measures of real activity, financial markets and investor confidence compare with their historical averages in the global economy and within each country. There is evidence of extreme weakness in emerging markets, with recent data from many economies much worse than their historical averages, although there has not been a further decline in 2016
- Most positive economic news is currently coming from the US where employment, retail sales and credit growth remain strong despite faltering business confidence
- Eurozone indicators are generally a little stronger in 2016 than last year although investment, retail sales and consumer confidence remains weak across the bloc, raising concerns about the sustainability of the recovery
- The UK has also held up, although investment, business confidence and industrial production appear to be suffering from uncertainties caused by the June referendum on EU membership
- In emerging economies, China appears to have withstood fears of capital flight and currency devaluation that were rampant at the beginning of the year

Opec's days as economic force are 'over' – Pg. 17

- ...the current oil slump has exposed the organization's inability to act in a unified way
- ...Iran wants to increase its output after sanctions were lifted in January as part of a nuclear deal with world powers

Answer: Eight

9 April 2016

Question: What is my new favourite incorrect answer on an examination for a question similar to the following: "Who is the current Federal Reserve Chairperson?"

Icelanders' simmering anger starts to boil over – Pg. 2

- In the years since the 2008 financial crisis, Iceland – one of its unlikely epicentres – has recovered far better than most. It is enjoying robust economic growth, low income inequality and a 4% unemployment rate that would make southern Europe's lost generation salivate
- Iceland's ills were papered over by the extraordinary boom that preceded the last crisis, when a fishing-dominated economy suddenly became a global banking hub, sucking in foreign money with promises of high returns. Its citizens enjoyed among the world's highest per-capita GDP
- The OECD also said Iceland's income inequality had dropped sharply to levels below that of Sweden by 2013

EMs braced for \$500bn in net outflows – Pg. 13

- Emerging market economies face a significant outflow of capital this year, led by domestic investors, casting doubt over the sustainability of the recent recovery in sentiment for asset class
- The focus on flows comes after Janet Yellen, and Christine Lagarde, managing director of the IMF, warned of the possibility that disappointing growth in China and other EM countries would weigh on the global economy this year
- Concerns of a disorderly depreciation of the Chinese renminbi had diminished, with an improvement in communications by policymakers...

Answer: "I cannot spell it" (That was the answer!....Janet Yellen is the answer to the question)

8 April 2016

Question: What is China's current FX reserve?

Echoes of 90s Russia as social stress returns – Pg. 1

- In the grip of its longest recession in 20 years, Russia is resigning itself to the loss of the growth of prosperity it has come to see at the hallmark of Vladimir Putin's rule....
- Despite the Russian president's high ratings, trust in his ability to deliver a better future is gone....
- Growth during the Putin era lifted large parts of society out of poverty, helped Russians live longer and created a taste for the spoils of middle-class life. But with the economy stagnating, there are fears the gains of the Putin years will be lost and society may begin to echo the 1990s with its social stresses and falling life expectancy

Global trade set for fifth year of slow growth – Pg. 6

- The global economy will see its fifth consecutive year of below-par growth in international trade this year, marking its worst period since the 1980s, ...
- ...international trade to grow by just 2.8% this year, in line with 2015

- ...IMF widely expected to downgrade its 3.4% forecast for global growth next week when central bankers and finance ministers go to Washington for the spring meetings of the IMF and World Bank
- Global trade collapsed in 2009 as the effects of the crisis reverberated through the world economy, before bouncing back in 2010.
- The WTO said that by its calculations the value of world trade in current dollars terms last year fell by 13% to \$16.5tn from \$19tn in 2014

China's forex reserves rise for first time in 5 months – Pg. 6

- ...last month to \$3.2tn
- A stronger remminbi also decreases the chances of “capital flight” – companies and households selling Chinese assets and rushing to pull their money out of the country. As China's growth has slowed to its lowest rate since the 1990s it has seen capital leave in record volumes since June 2014

Investors braced for more junk defaults – Pg. 20

- The vast majority of investors believe the US credit cycle has turned, with a spate of defaults from the riskiest borrowers expected
- More than 80% think the default rate on junk-rated companies will reach at least 5% by the end of the year, up from the current 3%, ...
- Spreads – the different between US government bond yields and those offered on debt sold by junk-rated companies – have compressed

Answer: \$3.2tn

7 April 2016

Question: How many Federal Reserve Districts are there in the U.S.?

Collapse of Pfizer-Allergan deal sends shockwaves through US – Pg. 1

- The decision to terminate the largest tax inversion deal in history marked a watershed victory for an interventionist Washington and left the US drugmaker scrambling to re-evaluate its strategy
- Pfizer was seeking to escape the high US corporate tax rate by shifting its address to low-tax Ireland, ...
- Pfizer stood to escape US tax on more than \$128bn of profits stored abroad
- Under the new Treasury rules, when calculating the size of the foreign acquirer, any assets acquired from a US company within three years of the signing date of the latest acquisition must be ignored

Minutes show Fed policymakers at loggerheads over next rise in rates – Pg. 1

- Many Federal Reserve policymakers were warning of “appreciable” risks to the US economy from global turbulence at their latest meeting as the deeply divided group debated how soon to further increase short-term interest rates

- In the meeting the Fed scaled back its 2016 interest rate forecasts to two quarter-point rises, falling closer into line with subdued market expectations as it flagged up risks to the US outlook from markets and weaker growth abroad
- The minutes confirm that for many Fed policymakers the financial market turmoil that accompanied the start of the year remains an active concern, suggesting they are in no hurry to lift rates

Puerto Rico passes bill to halt payments to creditors – Pg. 2

- The island's House of Representatives passed legislation allowing ...Puerto Rico's governor, to declare a state of emergency and halt payments to creditors until January 2017, ...
- The bill is the latest attempt by Puerto Rico to maintain basic services ahead of multibillion-dollar payments that policymakers say it will be unable to make. Nearly a decade of decline had saddled the commonwealth with \$70bn of debt that the governor has characterized as "unpayable"
- Puerto Rico does not have access to bankruptcy protections afforded to US cities and publicly owned corporations
- The bill would affect debts issued by Puerto Rico and its authorities and public corporations, including the Government Development Bank for Puerto Rico, the island's de facto finance authority. It would also touch Puerto Rico's most senior notes, including general obligations debt and bonds backed by sales taxes

US makes concessions on retirement advice – Pg. 14

- The investment industry has wrung concessions from the Obama administration in new rules that the White House says will save US retirement savers \$17bn a year in hidden fees, outsize commissions and poor returns from conflicted financial advice
- A "fiduciary rule" designed to raise the standard for retirement advice was due to be published yesterday, and administration officials signaled that they had scrapped contentious details that the industry had said would make the new regulations unworkable
- Commission-based brokers will be given wider latitude to recommend illiquid or complex financial products, and will have to give fewer cost projections than envisioned in a draft rule that was published last year to outrage from industry executives and lobby groups
- Nonetheless, the new rule looks set to reshape large parts of the investment landscape, holding broker-dealers and advisers to a fiduciary standard that requires them to put clients' interest above their own (Prof Note: This is why I always ask how people are compensated. It angers a lot of people but I believe people, in general, act to their checkbooks)
- The rule will make it far more onerous to take commissions on the sale of financial products, pushing more people into low-cost index tracker fund and threatening the viability of complex insurance products such as variable annuities
- Many financial professionals in the US are required only to recommend products that are "suitable" for a client, rather than a pick the best product

Answer: 12

6 April 2016

Question: What does GDP measure?

Foreign groups furious over White House tax crackdown – Pg. 1

- A White House tax crackdown yesterday provoked fury from multinationals as it looked likely to put a halt to a Pfizer's planned \$160bn takeover of Allergan, which would let one of the largest US companies move overseas
- ...Obama stepped up the offensive, championing new proposals to deter "inversion" deals that companies use to move to low-tax jurisdictions, accusing them of exploiting "one of the most insidious tax loopholes out there"
- Politicians have been riled by a defining trend of the recent M&A boom that has seen dozens of US companies using inversions to escape the high US corporate tax rate
- The latest Treasury moves would make inversions less lucrative by eliminating a tax benefit for "abusive" inverters
- The tax benefit stems from companies' use of internal loans to cut their tax bills. By loading up subsidiaries with debt from the head office, foreign companies can deduct the interest payments from their US tax bills – a practice called earnings stripping

Lagarde urges reform to lift growth – Pg. 2

- The IMF chief called on the US to raise the federal minimum wage, expand earned income tax and strengthen family-friendly benefits
- The Eurozone needed to unveil better training and employment-matching policies to tackle an unemployment rate that remains in double figures. Commodity exporters and low-income countries should diversify
- ...Ms Lagarde, who last month won a second five-year term at the helm of the IMF, ...

Yellen caution reflects Fed's limited room for manoeuvre – Pg. 2

- Janet Yellen's signal last week that the pace of future US interest rate increases will be glacial has been met with impatience and incredulity in parts of Wall Street
- So how to account for the chair's caution? A significant reason is the denuded arsenal the Fed has at its disposal. If the Fed had to reverse course to stimulate the economy, it would be cast into a perilous position
- China remains the big worry

India cuts rates to lowest level in five years as economy surges – Pg. 2

- India's central bank yesterday trimmed interest rates by a quarter of a percentage point to the lowest in five years, as the economy continued to benefit from a mix of moderate inflation and high growth
- The Reserve Bank of India cut the benchmark policy repo rate from 6.75% to 6.5%
- Boosted by the impact of lower energy prices, India, a big oil importer, has overtaken China as the world's fastest-growing large economy, although it is still less than half China's size on a purchasing power parity basis

- The RBI projected growth in the financial year to the end of March 2017 of 7.6% based on gross value added, while inflation is forecast to decelerate slightly to about 5% (Prof Note: My largest traveling regret is that I have not been to India!)

Recovery fears spark flight to havens – Pg. 13

- Investors poured money into haven assets yesterday as fears of fragile global growth intensified concerns that central banks are not powerful enough to generate a strong and sustained recovery

Answer: Measures total value of goods and services produced during a time period

5 April 2016

Question: What is the favourite expression in the Capital Markets regarding the Fed?

Worst performance in two decades delivers fresh blow to active funds – Pg. 1

- US mutual funds have underperformed the equity market by the greatest margin in nearly two decades as a turbulent first quarter wrongfooted many traditional asset managers in another blow to their dominance in the industry
- The deteriorating ability of highly paid professional asset managers to navigate the stock market is expected to accelerate the seismic shift in investment management towards low-fee alternatives, such as exchange traded funds and index-tracking mutual funds
- Just 19% of US mutual funds that invest in “large-cap” companies, such as Apple, IBM, JPMorgan and AT&T, managed to outperform the S&P 500 in the first quarter, ...
- Only 6% of growth funds outperformed their index, the worst since at least 1991, and the average fund lagged behind by 3.5%
- Value funds, which aim to buy companies trading at an unwarranted discount to their real worth, did somewhat better but only 19.6% beat their benchmarks.
- Nearly 30% of so-called “core funds” – which pursue a blended strategy – outperformed their gauges but their success rate dropped every month this year

IMF warns on China markets ‘spillovers’ – Pg. 4

- Emerging markets such as China pose a growing risk to advanced economies with events in developing economies increasingly responsible for price movements in financial markets in richer countries, ...
- Moreover, markets were only just beginning to feel what was likely to be the growing impact of China in the years to come as its financial links with the rest of the global economy increase,...
- The Chinese bond market...now had the third-largest market capitalization in the world at \$6.7tn and had been growing at an annual average rate of 22% over the past five years, ...

Start-ups US university more selective than Harvard – Pg. 4

- ...largely online curriculum, will announce this week that it received more than 16,000 applications from 50 countries for 306 places, for an acceptance rate of just 1.9%

- Harvard...5.2%...Yale...6.3%...Stanford...4.7%
- The interest in Minerva, an intense for-profit undergraduate programme, shows students' growing appetite for alternatives to increasingly costly US colleges
- College costs have risen far faster than inflation, and US student debt doubled from \$600bn in 2008 to more than \$1.2tn by the end of 2015
- With no sports teams, libraries or other overheads that contribute to the prestige of traditional universities but inflate costs, Minerva charges about \$28,000 a year for tuition, room, board and other fees....
- "Students are realizing that institutions can't just sit on their brands that they've built over decades or centuries and deliver the same ineffective experience" ...

'Don't fight the Fed' mantra starts to lose its bite – Pg. 20

- The US bond market, through low yields, has long reflected the wider market view that the Fed's outlook for the economy, inflation and interest rate policy was optimistic
- Gnawing at investor sentiment is what central banks can do to offset fundamental forces, led by weaker emerging market growth and supply gluts for many commodities, while highly levered companies face falling revenues and lower profitability
- But is Ms Yellen in danger of letting markets dictate Fed policy? After all, she recognized that the headwinds of weak global growth, low oil and China uncertainty were likely to ease, and yet despite efforts by hawkish Fed members to talk up rate-rise prospects, the dovish tone of Ms Yellen prevails

Answer: Never bet against the Fed

4 April 2016

Question: What is the different between real and nominal interest rates?

Fears mount in currency markets as Britain nears in-out vote on EU – Pg. 1

- The cost of buying protection from a plunge in the value of sterling after Britain's EU referendum has soared to levels higher than those seen during the 2008 financial crisis, as fears of Brexit mount in financial markets
- The moves suggest investors and companies are less complacent and beginning are less complacent and beginning to take seriously the prospect that the UK might be on a path to leave the EU within three months
- Sterling's value has this year slumped 7% on a trade-weighted basis
- Investments fell 2% in the final quarter, showing companies were putting projects on hold before the vote

School of hard knocks is no barrier for billionaires – Pg. 1

- Self-made billionaires are as likely to have dropped out of high school or university as to have obtained a postgraduate degree
- Research suggests that a lack of top-level education is no barrier to accruing vast wealth

- A quarter of the world's richest entrepreneurs, including Bill Gates, left formal education before graduating from university. Only 20% completed a masters degree and 5% reached doctorate level
- Concern about the effect of rising tuition fees has led some to question the value of university education from those wanting to start a business at a young age
- (Prof Note: I really struggle with quantifying the value of higher education. How can finance professors earning \$120,000/year (or less in many cases) understand finance when they have so little money personally? The world is different when managing one's own money than managing another person. For instance, when I was a portfolio manager it was all about yield over a benchmark now, for me, it is all about probability of loss and getting my money back while earning a multiple over inflation, i.e. a real return v nominal return. This Fall St. Mary's College allowed me to design and lecture a course based solely on properties less than \$1.0m, i.e. affordable to the common man. No other University would allow me to do this. Has higher-education outpriced its return? Why such a focus on jobs when, to build wealth, one must focus on building a business, i.e. building one's own equity?)

Investment Strategy – Pg. 5

- When the dust had settled from the great US property bust, Blackstone's real estate division found itself sitting firmly on top of the heap
- Now Blackstone dwarfs every other firm
- Blackstone owns more offices in the US and India than anyone else. It is also the largest residential landlord in the US and has a portfolio of 50,000 rental homes that it would like to take public by next year (Prof Note: I just read a 2025 prediction that the U.S. would become a rental society)
- Blackstone and other alternative investment groups have been among the biggest beneficiaries of the US Federal Reserve's quantitative easing policies
- Low borrowing costs, combined with depressed asset prices, were a godsend for these companies, whose lifeblood is debt
- Private equity is all about using other people's money, equity capital from investors and debt from the banks and capital markets

Answer: Real is inflation adjusted, i.e. representative of purchasing power.

2 April 2016

Question: What did non-farm payrolls increase by in March 2016?

US maintains robust employment growth – Pg. 2

- The US economy sustained its momentum in March as employers added a greater-than-expected number of jobs, ...and wages rose by more than inflation
- ...non-farm payrolls expanded by 215,000 in March, compared with an upward revised 245,000 in February, led by gains in retail, construction and healthcare

- The unemployment rate rose only slightly to 5% from 4.9%, but this was thanks to an increase in the labour force participation rate, which measures the number of people in work or actively looking for a job, and which rose to 63%, the highest since March 2014
- Over the past six years, businesses have added more than 14.4m jobs, ...
- One reason for caution is that the Fed is looking for more conclusive evidence of a pickup in wage growth

China criticizes rating agencies after downgrades – Pg. 4

- China has hit back at international rating agencies after recent downgrades to the country's government debt outlook
- "Moody's and Standard & Poor's...have some degree overestimated the problems facing our economy, and underestimated our country's ability to implement reforms and address our risks, ". ..
- As China's economy slows from the double-digit expansion of the early 2000s to a targeted range of 6.5 – 7%, agencies worry that the government will not be able to wean the economy off investment-driven growth, which is largely funded by domestic bank loans
- S&P justified its outlook downgrade with its belief that, over the next five years, "China will show modest progress in economic rebalancing and credit growth deceleration". It forecasts annual economy growth of 6% over the same period
- Yesterday, Moody's issued a further warning against defaults by state-owned companies, ...

Regulator blamed as Anbang walks away from hotel deal – Pg. 10

- Anbang Insurance walked away from its \$14bn all-cash attempt to buy Starwood Hotels & Resorts because China's regulators have "clipped the wings" of its chairman...
- After a fierce, weeks-long bidding war between Marriott International and an investor consortium led by Anbang, the Chinese company called off the deal yesterday
- Anbang burst on to the international scene in 2014 with its \$2bn purchase of the historic Waldorf Astoria hotel in New York.

S&P 500's record dividend run ends – Pg. 13

- A run of record dividend payments for S&P500 companies ended in the first quarter as energy groups slashed payouts and other businesses increased their payments for less
- Appetite for dividend-paying stocks remains robust amid low bond yields. The average dividend yield for the S&P 500 is 2.19%, and has remained above the 10-year US Treasury yield in recent months
- Shrinking profitability at US companies more broadly was also a factor, with earnings expectations having fallen sharply over the past year

Answer: 215,000

1 April 2016

Question: How does France reference April Fool's?

Big ticket foreign deals take China to its largest share of global M&A – Pg. 1

- China has claimed its largest quarterly share of global mergers and acquisitions on record, with takeovers by mainland companies of foreign rivals accounting for almost one-sixth of all deal activity
- ...Chinese companies have emerged as a dynamic force in dealmaking in a number of sectors
- Their choice of target companies highlights China's attempt to serve its growing consumer class, as it copes with sharp declines in its stock market and economic growth prospects
- ...Chinese buyers are among the most frugal when it comes to paying banking fees

China's new missile can hit any US target – Pg. 3

- A new generation of Chinese intercontinental ballistic missiles may come into service as early as this year and will herald a period of rapid nuclear build-up by China...
- With a 14,500km estimated range, the DF-41 is the first Chinese missile capable of carrying multiple warheads that can strike any part of the US from anywhere in China
- The new missile is the latest in Chinese efforts to challenge US global primacy
- While it will be a long time before China achieves nuclear parity with the US and Russia, the world leaders in stockpiled warheads, China clearly sees this as a gap that must be addressed
- ...estimates for total Chinese warheads are between 200 and 400...the US has a stockpile of 4,760 nuclear warheads...

GE Capital in move to be stripped of US 'Sifi' label – Pg. 11

- GE Capital has told US authorities that it wants to be struck off the list of "too-big-to-fail" financial institutions, having cut its balance sheet in half and radically scaled back its links to other companies
- GE Capital was put on the list three years ago, on the basis of its size, breadth of businesses and dependence on financial markets for funding
- The other two non-bank Sifis are insurance companies Prudential Financial and AIG
- Under rules governing the FSOC, revaluations are carried out each July. But non-bank financial companies such as GE Capital can request interim revaluations if there is an "extraordinary change that materially decreases the threat" they pose to US financial stability
- GE Capital's determination to shrink has been a boon for Wells Fargo, the biggest US bank by market capitalization, which has snapped up several of the assets
- GE Capital said yesterday that it aimed to reduce its balance sheet by another 25%, to \$199bn, by the end of the year

Fidelity cuts valuations of its Silicon Valley start-ups – Pg. 14

- Fidelity Investments has cut the valuations on many of the start-ups in which it owns shares, underscoring the adjustment under way in Silicon Valley as investors become more skeptical
- The writedowns also reflect declines in technology shares more broadly, companies such as Twitter and LinkedIn have seen stock prices sink

- Dropbox, known for its photo sharing services, has been trying to move from consumer sales to a model that emphasis enterprise sales. However, it has struggled with several new products

MetLife ruling shakes US post-crisis laws – Pg. 15

- US finance chiefs often grumble about the tough rules imposed by the Dodd-Frank reforms that followed the 2008 crisis. But most went along with the various strictures, wary of fueling another bout of anti-Wall Street hostility

Answer: poisson d'avril....an easily caught fish that is made of paper and put on people's backs.

31 March 2016

Question: What are China's FX Reserves currently?

Investment banks face deepening gloom as trading revenues plunge – Pg. 1

- Global investment banks suffered declines of as much as 56% in their trading businesses in the first three months of the year, ...stoking fears of further lay-offs for staff and lower dividends for shareholders
- Not only are many European banks reorganizing and trying to sell assets into a falling market but they also have less exposure to the US market, which has fared better than Europe and Asia
- ...first-quarter falls in trading revenue of up to 48% for Goldman Sachs and 56% for Morgan Stanley as slowing Chinese growth, stubbornly low oil prices and fading hopes of a US interest rate rise weigh heavily on client activity and market performance
- On Wall Street, the five leading banks – Goldman, Morgan Stanley, Citigroup and Bank of America – are expected to see trading revenues fall an average of almost 25% when they report first-quarter results next month,...

MetLife escapes 'too big to fail' label – Pg. 13

- ...a court in Washington yesterday found it had acted unlawfully by deciding the insurance group deserved tougher regulation as a "systemically important" financial institution (Sifi). The government can appeal
- The banks already classed as systemically important have less chance of escaping via the courts because the criteria for their designation – unlike that of non-banks – is written directly into the law

'Fintech' forecast to spur nearly 2m job losses – Pg. 14

- European and US banks will cut another 1.7m jobs in the next decade as financial technology companies stalk profitable growth areas such as lending and payments, ...
- The job cuts – equal to more than 30% of the staff the banks currently employ – come on top of the 730,000 jobs that City says US and European banks have already shed from their peak staffing levels

Yen ends 8-day decline after Fed comments – Pg. 22

- ...Janet Yellen, the Fed Rsv chair, played down expectations of an early US rate rise, leaving Japan's economy at the mercy of a stronger domestic currency
- Yen strength had given rise to speculation that Japanese authorities would intervene to weaken it. Bu that idea looks off table, exacerbating problems for Shinzo Abe, ...

Answer: \$3.2tn

30 March 2016

Question: For GDP, what is the percentage of consumption for China (2013/14)?

Prospects dim for rate rise as Yellen adopts cautious line – Pg. 1

- The prospect of an early US interest-rate increase diminished further yesterday as Janet Yellen advocated caution given unfavourable market conditions, weaker than expected overseas growth and an uncertain inflation outlook
- The Fed Rsv chair said recent declines in market expectations for interest-rate rises had helped cushion the US economy from adverse developments overseas, describing the moves as an "automatic stabilizer"
- She homed in on risks still stewing in China and the oil markets as she argued in a New York address for the central bank to move carefully as it considers when to lift rates again
- The Fed chair said her basic expectation was for "stable" inflation but "the decline in some indicators has heightened the risk that this judgment could be wrong". If so, inflation could take longer to return to the Fed's 2% target, requiring the central bank to keep policy looser for longer than expected

Growing US labour market belies morose mood – Pg. 4

- ...recent gains in the participation rate, which measures those in work or actively looking for a post, are set to continue for a little while longer, rising from the current 62.9% to above 63% in the coming months as the jobs market strengthens
- The turnaround in the US jobs market has manifestly failed to cultivate a feel-good factor among large parts of the population. This is in part because conditions remain a shadow of those in the 1990s – a period Janet Yellen...referred to in the title of a 2001 book as The Fabulous Decade (Prof Note: I plead ignorance! I must read this book...the 90s were fabulous! This just reminded me....)
- ...overall participation remains deeply depressed compared with the heights reached before the last recession, and even if there is a further bounce this year, economists at the IMF and elsewhere say the medium-term trend in the rate will remain downward
- This is a result of the "downdraft" created by rising numbers of retirees in America's ageing population -
- Even with the unemployment at 4.9%, ...US jobs market is displaying continued signs of slack, with those working part-time because they cannot find a full-time job still above their averages in the first half of the 2000s

- The time productivity growth and wage gains have remained moribund and, until earnings finally turn around, the morose mood may remain widespread among the US electorate

China's 'new economy' outperforms old – Pg. 22

- With 68% of A-share-listed companies having reported results, “new economy” companies – defined as those in the accommodation, business services, information technology, science and research, transportation and retail sectors – posted average earnings per share of Rmb0.48 last years, up from Rmb0.45 in 2014, ...
- By contrast, “old economy” sectors – defined as agriculture, construction, utilities, manufacturing, mining and real estate – suffered a decline in average earnings per share....

Answer: Slightly under 40.0% (38% (approximately))

29 March 2016

Question: What is Capital Budgeting Risk?

Saudi Arabia loses out in key markets as Russia and Iraq step up oil exports – Pg. 1

- Saudi Arabia lost market share in more than half of the most important countries to which it sold oil in the past three years, even as the kingdom increased crude output to record levels
- Oil-producing nations including Russia and Iraq are putting pressure on Saudi Arabia in markets it regards as strategically important trading partners
- The world's biggest oil exporter lost ground to rivals in nine out of 15 top markets between 2013 and 2015, including China, South Africa and the US,...
- (Prof Note: I am paying 25% more at the pump over the last two months...outrageous!)

World watches minimum wage experiment as Britain introduces its speediest increase – Pg. 3

- The new policy, which starts on Friday will see the wages for low-paid workers rise four times faster than average earnings this year
- The stagnation in wages in recent years has been blamed on the rise of global competition, the decline in collective bargaining, a slowdown in productivity growth and the way in which technology has “hollowed out” some middle-skilled jobs

Central banks in spotlight over 'currency truce' – Pg. 18

- Real or imagined, currency wars and competitive devaluations have been the staple conversation of the FX market for decades, recently fueled by the monetary easing programmes of the central banks of the US, Japan, and Europe
- Low and negative interest rates are seen as devaluing currencies, thereby helping spur higher inflation and firmer growth. The trouble with this approach is that, in the case of Japan and Europe, their respective currencies have been strengthening of late
- The Federal Reserve got the conspiracy theorists excited after a surprisingly dovish March meeting, seemingly bypassing its reliance on data-dependence. This came after the dollar had fallen, bolstering commodity prices and sentiment for emerging markets

- The Fed may have good reason to pause. Market turmoil is seen by some as making it more difficult to raise rates

Answer: Cost of capital may be lower in foreign country if risk is reduced

28 March 2016

Question: What is Covered Interest Arbitrage?

Japan's hard-up retirees turn to crime for free board and lodging behind bars – Pg. 1

- Crime figures show that about 35% of shoplifting offences are committed by people over 60. In that age bracket, 40% of repeat offenders have committed the same crime more than six times
- Even with a frugal diet and dirt-cheap accommodation, a single Japanese retiree with minimal savings has living costs more than 25% higher than the basic state pension of \$6,900/year....
- Prison...is a woefully inefficient way for the government to target welfare spending at those most in need (Prof Note: This breaks my heart! It is never too early to think and plan for retirement. Passive income must be omnipresent in everyone's mind!)

Big 10 banks fined \$43bn over seven years for failures in customer reporting – Pg. 13

- ...making it the single most expensive compliance issue,...
- The main types of failure and wrongdoing that resulted in fines worth a total of \$150bn for 10 US and European banks....compliance issues range from rigging foreign exchange rates and money laundering to product mis-selling
- The second most expensive issue for the 10 banks was failures in how they sold residential mortgage securities, which results in a penalties total of \$27.7bn

US high-street banks face \$5bn hit from the Fed's more dovish stance – Pg. 15

- But this month the Federal Exchange confirmed what investors has assumed for several weeks: rates are to be kept lower for longer
- Investors expect the Fed to prove even less obliging to banks than they have stated publicly. Futures markets point to just one increase this year
- Net interest margin – the difference between the rates at which banks borrow and lend – touched its narrowest last year since records began in 1984,
- Banks across the Atlantic have it even worse. The ECB has gone sub-zero, ...
- Banks are also more rate sensitive if they can keep a lid on deposit rates. When monetary policy tightens, the more cash depositors have in low-rate current accounts the better for banks
- While their fates are shaped by decisions in Washington, banks can help themselves. The most obvious way is to cut costs. Staff are being let go and branches closed across the industry
- Other business lines can also help. BB&T unveiled a deal last month to buy the insurance broker Swett & Crawford for \$500m

Answer: Imbalance arising from disequilibrium in Interest Rate Parity (IRP)

26 March 2016

Question: What is interest rate parity (IRP)?

Weak inflation turns up heat on Bank of Japan – Pg. 4

- Inflation in Japan was flat in February and the underlying trend is weakening, putting pressure on the BoJ to ease monetary policy further
- The headline consumer price index was up 0.3% on a year ago,....
- The BoJ is in the throes of a long monetary campaign to escape from decades of on-and-off deflation, but it has suffered repeated setbacks, with signs of a low round of wage rises in Japan this spring
- In January, the central bank made a surprise move to negative interest rates of minus 0.1%, ...

Dollar recovers on rate tightening prospects – Pg. 13

- The dollar strengthened this week against a host of rivals as investors focused on the possibility of a Federal Reserve interest rate tightening during the next three months
- In the past six trading days the dollar index has risen 1.6%, erasing nearly all of its losses sparked by the Fed citing global concerns for staying on the policy sidelines in Mid-March
- A summer tightening is seen spurring a resumption of the divergence trade between the US and other big economies, whose central banks remain firmly in monetary easing mode, notably Japan and Europe

Answer: Specifies that investors should expect to earn the same return in all countries after adjusting for risk

24 March 2016

Question: What was one of the reasons (I realize there were many) for the American Revolutionary War? (think finance)

London court orders extradition to US of trader accused over 'flash crash' – Pg. 1

- A judge ruled that Mr Sarao, who traded from his home in the London suburbs, should be sent to the US to face trial on 22 charges ranging from wire fraud to commodities manipulations on US futures markets over a four-year period. The offenses carry sentences totaling up to 380 years
- US prosecutors claim Mr Sarao engaged in a type of market manipulation known as "spoofing" that played a role in one of the most spectacular moves ever seen in the US equity markets on a single day
- But some academics have questioned whether one man in a bedroom of his parents' west London home could have influenced a crash of such magnitude (Prof Note: Who is on trial as

a regular for allowing a man living with his parents to have such influence? How can this man be accused of crimes carrying sentences more than double Madoff?)

- But lawyers for the US authorities claimed that Mr Sarao had modified software to enable him to place and then cancel or modify orders thousands of times in one day (Prof Note: So far it sounds a lot like ebay sniping...Lets round up all the Ebayers in the U.S.!!!)

Shaking off the bears – Pg. 7

- ...started 2016 with a swift fall of more than 10% - the worst start to a calendar year in history but have regained it all (Prof Note: I said in January to a group of individuals that I saw the S&P correcting 15% and was correct at the time. Then the Fed reversed course...I was right with the information at hand...)
- In the short term, traders refer to a cyclical bear market when a fall of 20% from peak to trough is registered. On that basis, large US stocks, as measured by the S&P500 index, have avoided the bear. They have never been down more than 15% from their record set in May last year
- But industrial and transport stocks, and smaller US companies, all seen as leading indicators of where the rest of the market is heading, were down more than 20% from their highs during the worst of the action in February
- A sharp rise in inflation would force the Federal Reserve to abandon the low interest rates that have helped to finance the boom in stock markets, and could also push up bond yields. Historically low rates have been critical in supporting the equity bull market
- Outside the US, which accounts for 43% of global stock market value...the story is clearer. Stocks rose to a post-crisis peak in 2011, and have been mired in a bear market ever since
- ...they tend to see markets following longer secular – not cyclical – bull and bear trends, influenced by social mood, economic and profit cycles and, most importantly, swings in valuation
- Japan, where stocks are barely half their level at the end of 1989, might be a good indicator of what to expect

US oil shipments fall 5% since end of ban –Pg. 22

- The US government abolished 40-year-old constraints on crude oil exports in December. But since then less US oil has been put on ships headed abroad

Answer: England wanted the colonies under the monetary control of the Bank of England.

23 March 2016

Question: What are the three basic risk measures?

New race for the saver's dollar – Pg. 7

- But wealth managers and other retirement specialists contend that a key provision – a watertight legal requirement to put their client's interests first – is simply too onerous and will leave the poorest savers struggling to find advice

- Even before the final proposal is published, it is clear that some of the most lucrative products and practices will be in jeopardy under the new standard, with life insurance companies and retail brokers among the likely losers
- US financial advisers have been held to a fiduciary standard that requires them to put their clients interest above their own since the Investment Advisers Act of 1940. But many of the other professionals who dispense advice are not
- Staff at the country's 5,100 broker-dealer firms, plus thousands of call-centre operatives at mutual fund companies, salespeople from insurance firms and a host of others, are only required to recommend "suitable" products
- The fiduciary rule is being drawn up by the US Department of Labor, whose responsibility for overseeing retirement investment has expanded since the days when employers' defined benefit pension plans were the dominant savings vehicle
- There are also question marks about whether many of the most complicated retirement products will still fit into the country's \$7tn of retirement accounts. Among those that may not pass muster are non-traded real estate investment trusts, ...a concern that has been exercising shareholders of life insurers

Saudis to freeze oil output without Iran – Pg. 20

- Saudi Arabia is prepared to sign up to an oi output freeze next month even without Iran taking part,
- Iran has sought to increase production and exports after the lifting of sanctions against its oil industry in January. Iranian officials have shown no willingness to back any deal that would result in restricting its own output
- About 15 Opec and non-Opec countries – accounting for two-thirds of global oil output - have so far supported an oil freeze,
- A provisional deal has helped to support prices and reverse negative market sentiment towards oil

Answer: Range, standard deviation and variance

Expense Management: Wow did I get responses (thank you to everyone). The three tools recommended were: (1) Mint.com (free Intuit product), (2) Quicken and (3) www.personalcapital.com. I have heard of each of the three and heard good things about each. There is a concensus that none track investments well (that is word of mouth...I do not know). I heard so many great expense stories that I will share one of mine. I receive an email from my mechanic which includes a parts list for the tractor. I immediately forward to a supplier and order and pay for all the parts. When I go and pick up the parts there is a large item that is \$300. So I ask what it is and am told it is a headlamp for the tractor. I ask, "Could you please tell me why I need a headlamp on a tractor when no one uses the tractor at night? Am I missing anything?" I am told 'no' but the tractor looks better with the headlamp. Oh, and there is a 15% restocking fee if I return it. So I take the lamp and then am charged for the install! Soooo...if you are ever on Nevis and want to use a tractor at night, come see me! Oh, and I certainly hope Kenny Chesney got it right!!!

22 March 2016

Question: In 2015, what is the total owed by average U.S. household carrying Credit Cards, Mortgages, Auto Loans, and Student Loan debt by category listed?

'Peak death' might not be enough to save Japanese funeral industry – Pg. 1

- ...world's third-biggest economy enters its mournful demographic ascent to "peak death"
- The shift comes as Japan begins what actuarial tables show will be a two-decade boom of activity for the sector
- A persistently low birth rate means Japan's annual 1.3m deaths already outnumber births by 300,000. The country's rapidly ageing population puts bookings at the nation's mortuaries on course to peak at 1.67m in 2040
- ...average \$21,000 cost of a funeral...
- Demographics are also forcing a fundamental shift in Japanese mourning...life expectancies in the low eighties mean that by the time they die, most Japanese have been retired for nearly two decades and their funerals are no longer padded with former colleagues

Suite spot...Marriott clinches Starwood deal – Pg. 13

- Marriott International clinched a deal with Starwood Hotels & Resorts, making a last-minute comeback to edge out a rival bid from China's Anbang in the fiercest bidding war dealmakers have seen in recent history
- Starwood signed an agreement to manage three hotels in Havana, marking the first time in nearly 60 years that a US hospitality company has been allowed to operate in Cuba
- Starwood said it had accepted Marriott's sweetened cash-and-stock offer of \$79.53, valuing the company at about \$13.6bn

G20 countries suspected of secret deal – Pg. 20

- Under the 1985 Plaza Accord big central banks intervened to take the dollar lower and rid the US of recession. Two years later the Louvre Accord set out to stop the dollar falling further
- The dollar has weakened big time across the board – falling against its peers and emerging market FX. So dovish was Janet Yellen, the Fed Chair, last week that FX commentators are shifting their expectations from a dollar rally to dollar weakness in the near future

Answer: Credit Cards (\$15,762), Mortgages (\$168,614), Auto Loans (\$27,141), and Student Loans (\$48,172)

Expense Management: This weekend we held a Georgetown MS Excel modelling workshop and inevitably we discussed wealth management (one of my favourite subjects). I discussed that my New Year's resolution was a complete wealth management plan and I was going to start by documenting all expenses. I was told by individuals I respect that just documenting expenses would take a year and I thought they were nuts! They were right! I mention this as it has been a humbling experience. I have clawed back fees, recurring expenses for which I had no idea, and the data has actually changed my behavior, e.g. where I get gas as I record location and price and I drink water (not for health but I am not paying \$3 for ice tea!). I track each expense and record in an excel spreadsheet capturing and retaining

an image of every receipt. I urge everyone, if they do not do this already, to start. One cannot have a plan without data. When I have the spreadsheet structure perfected I am happy to share. No, it is not as simple as date, expense, image, etc. (as I have discovered) Each expense must be categorized and then reconciled to a credit card (charge source) which is reconciled to a bank account which is funded by a revenue source. So, step 1 for a wealth management plan: Document all expenses. More to come throughout the year...

21 March 2016

Question: For the American household, what is the ratio of mortgage to student debt?

China's central bank chief in debt alert amid overseas binge – Pg. 1

- China's central bank governor has warned that the country's corporate debt levels are too high and are stoking risks for the economy, just as highly-leveraged Chinese companies have gone on an overseas takeover binge
- Corporate debt in China has risen to about 160% of GDP, while total debt is about 230%, ...
- The BIS warned this month that a steep rise in private and corporate debt in emerging market economies "including the largest" was "eerily reminiscent" of the pre-crisis financial boom in advanced economies
- Chinese officials are concerned that the stability of China's financial system could be threatened if Chinese companies are unable to repay a large amount of debt, which in turn can threaten economic growth
- This month Moody's warned it may downgrade China's sovereign rating, a sign of increasing investor concern about the country's rising debt and falling foreign exchange reserves
- About one-third of listed Chinese companies owe at least three times as much in debt as they own in assets, ...

High house prices keep spouses apart – Pg. 4

- 76% of Hongkongers aged 18-35 are still living with their parents, ...despite an unemployment rate of just 3%. That is almost twice the level of the US, the UK or France
- Concerns about job opportunities and being locked out of the housing market mean Hong Kong millennials have much in common with their western peers
- But while American and European youths are entering a world alien to previous generations, the problem confronting Hong Kong's millennials is one with which their parents are all too familiar
- The land-scarce territory has the least affordable homes in the world, a position it has held for years. Median prices last year – which may represent a peak – were 19 times gross income, more than twice the proportion in the UK
- There are deep repercussions to young people's decisions to stay home with their parents: at 1.1 children per women, Hong Kong's fertility levels are far below the replacement rate

Fed fuels inflation-proofed bonds rally – Pg. 15

- Investors have rushed to snap up inflation-protected US government bonds in the wake of last week's Federal Reserve meeting, which analysts say indicated that officials are willing to tolerate higher inflation before tightening monetary policy more aggressively
- The Fed now foresees just two quarter-point increases in its interest rate corridor in 2016, compared to four previously, and has pared its forecasts for 2017 and 2018 as well
- Money managers say these were significant revisions that indicate a shift in the Fed's thinking towards stronger acceptance of letting inflation accelerate above its 2% target (Prof Note: This is VERY important as I was speaking in January and asked my opinion of the S&P500. I said, 15% below, and agree with the information I had at the time. With the Fed changing direction, it will greatly benefit equities. When will the Bull Market ever end?)

Answer: Student debt is 1/7 the amount of mortgage.

Pondering Thought: "Obama to nominate first woman to head U.S. combatant command" ...should women in the U.S. have to register for the draft?

19 March 2016

Question: What is the size of the global equity market today compared to 2008, i.e. the beginning of quantitative easing?

Chinese M&A – Pg. 5

- ...surge of Chinese deals – which have totaled \$102bn since January compared with the record \$106bn for all of last year,...
- Anbang...the group company, which launched a \$13.1bn bid for US hotel operator Starwood Hotels this week, quickly following its offer for \$6.5bn for Strategic Hotels & Resorts, has never published an audited financial statement. Neither does it divulge the identity of its ultimate owners, give a full list of its executives or explain how its growing roster of foreign subsidiaries fit within 10 business divisions listed on its website
- The lack of transparency...may be linked to the preference among many Chinese bidders for all-cash offers. An offer made in shares and cash, a common feature of deals in the west, would require the Chinese company to divulge significant shareholder information and give a thorough account of its assets
- A broader concern about China Inc's acquisition spree stems from questions about why it is happening. Is it being driven by strength, or is it a reflection of the waning vigour of heavily indebted corporations in a slowing domestic market?the exodus of Chinese investment capital is in fact a "quest for cash flow"

Answer: Double

18 March 2016

Question: Where and when was the first St. Patrick's day parade?

Fed sharpens focus on global risks – Pg. 4

- The global financial and economic turmoil that dominated the first two months of 2016 has cast a much longer shadow over Federal Reserve policy than many on Wall Street expected
- The US central bank on Wednesday sharply reassessed the pace at which it expects to lift interest rates, prompted in part by worries that overseas risks could short-circuit America's recovery even after a recent improvement in the market's mood
- "The problem the Fed has is its mandate is to worry about the US alone, but there is increasing sense that the US is shifting from being a large, closed economy to a smaller, open economy – relative to the rest of the world – that is more buffeted by events elsewhere" ...
- One lesson from the violent market movements of early 2016 that followed the Fed's December rate increase was that it is difficult for the Fed to signal a policy tightening without driving up the dollar and provoking a market ruckus that reverberates back and hits the US
- Domestically focused US analysts were wrongfooted on Wednesday in part because, by a myriad of measures, America's domestic economy is at least as strong now as was predicted at the end of 2015, when the Fed pushed through its quarter-point rate increase (Prof Note: While I pride myself on not being domestically focused...I was wrongfooted as well)
- Growth estimates for the first quarter are tracking at nearly 2%, ...core inflation measured by the consumer price index has firmed to 2.3%, and the unemployment rate is heading further below 5% with job growth remaining above 200,000 a month
- Ms Yellen denied in her press conference that the Fed was aiming to overshoot its 2% inflation target by dragging its feet on rate rises. But she also stressed that the target was symmetrical, meaning the Fed is not hellbent on keeping price growth at or below 2% at all time

ICE shakes up scandal-hit Libor – Pg. 13

- The new administration of Libor are overhauling the way it is calculated, reducing its reliance on banker estimates in a bid to restore faith in the scandal-hit benchmark rate
- The 30-year old rate has traditionally be calculated by averaging daily estimates of short-term interbank borrowing rates supplied by bank employers (Prof Note: Not True! It is not an average but rather a trimmed mean!)
- ...banks have paid more than \$9bn in fines in the manipulation scandal
- ICE is planning to root the daily rate in market transactions "to the greatest extent possible". It will use a "waterfall" process that starts with transactions but relies more on human estimates when the volume of trading falls
- This shift to transactions is made possible by expanding the calculation beyond bank to bank lending. The new calculation will include short-term funding that comes from central banks, companies, non-bank financial institutions and other counterparties
- Over time, ICE hopes to develop a computer process that could calculate Libor without human estimates, even when transaction volumes are low

European stocks dive on profit concern – Pg. 20

- European financial stocks plunged further yesterday with losses for the week around 6%, as investors worry about a stronger euro and easy monetary policy impairing the industry's profitability
- An environment of low and negative interest rates challenges the business model for banks with sector earnings pressured by aggressive easing from the ECB coupled with a wait-and-see policy at the BoE and the US Federal Reserve
- Lower interest rates will limit banks' net interest margins and harm profits. Increased and expanded bond purchases by the ECB will probably flatten the yield curve

Answer: Boston, 1737

17 March 2016

Question: Which country has the greatest concentration of red heads?

Global risks bring Fed into line with markets on next rate rises – Pg. 1

- The Federal Reserve has scaled back its forecasts for lifting interest rates this year, coming closer into line with market expectations for two quarter-point rises as it flagged up risks to the US outlook from the global financial and economic developments
- The Fed's more dovish outlook on rate rises makes it less out of step with other central banks which are still intent on further monetary loosening to offset weaker global growth
- The US central bank kept its target range for the federal funds rate unchanged at 0.25% to 0.50%, holding fire for a second meeting following its landmark quarter-point rate rise in December 2015
- Fed rate-setters yesterday left their options open over the timing of the next rate increase, as they gave a broadly positive assessment of the US economy's performance, noting that inflation had picked up, the labour market was strengthening and the economy had continued to expand moderately despite the hazards overseas

Groups face pension deficit 'time bomb' – Pg. 14

- UK and US companies are weighted down by \$520bn in pension deficits and need to "get out of the insurance business", ...
- The challenge is dwarfed by the size of the gap facing public sector schemes. Citi said there were \$78tn of unfunded or underfunded government pension liabilities in the OECD. That compares with published national debt of \$44tn
- (Prof Note: Just last night I had coffee with a former student. They are 32 years old and the conversation was entirely about their retirement. I was honoured to be asked my opinion and thrilled that retirement was a focus at age 32! Bravo!!!)

CMBS deals hit by shopping mall woes – Pg. 20

- Investors are favouring bonds backed by single, prime commercial mortgages from big US cities, putting pressure on deals backed by pools of less attractive assets such as suburban malls

- The value of so-called trophy assets, which tend to be sliced up and sold to investors in single borrower bonds, has not suffered as much as that of conduit deals which place a variety of commercial mortgage loans into one security
- “The regional malls in suburbs are very troublesome because of Amazon and other ecommerce sites, which have made the business model for those regional malls less valid” (Prof Note: There is very little I purchase without doing a price check on Amazon.)
- Conduit deals are facing other challenges as well. Investors say that banks are less willing to facilitate trading in the market and are holding reduced inventories of bonds, contributing to a lack of “liquidity”, particularly for riskier tranches
- The rating agency estimates \$150bn of CMBS will mature by the end of 2017

Answer: Scotland with 13% of the total population

16 March 2016

Question: Are redheads more susceptible to pain?

BoJ downbeat as negative rates maintained – Pg. 4

- The BoJ has downgraded its view of the economy but held interest rates at minus 0.1%, as it wrestles with public confusion over January’s unprecedented move into negative territory
- The BoJ’s language suggests a high chance of more easing later in the year – but shows how the knock-on effects of negative rates are putting practical limits on the ECB and others’ use of their radical new tool
- January’s move to negative rates prompted falls in bank share prices and led financial trade unions to scrap their wage demands – the opposite of what the central bank needs to fuel inflation
- Nor did the January move greatly weaken the yen, as it was overwhelmed by haven demand for the Japanese currency
- Higher wages are the fuel the BoJ needs for higher consumption and higher inflation. Lower settlements are an implicit vote of no-confidence in the central bank and its inflation target
- Recent economic data in Japan have been weak

Economists expect key interest rate to stay unchanged – Pg. 4

- The Fed is likely to reduce the number of rate increases it predicts for the remainder of this year, ...
- The central bank is likely to keep its benchmark – the target range for the federal fund rate – unchanged at 0.25% to 0.50%. Meanwhile, the median forecast of rate increases this year is likely to be trimmed back from four quarter-point rises to two or three
- The jobs market is still improving, and there have been, in the worlds of Stanley Fischer, Fed vice-chair, stirrings of inflation, as the core personal consumption expenditures price index rises 1.7% year-on-year
- Ms Yellen needs to forge a consensus within a committee with sharply divergent views

Barclays bonuses halve for a second year – Pg. 16

- ...hiring freeze since last year had cut staff numbers by more than 6,000, achieving “double what was done in the last four years in the first four months” of his time in charge

Answer: Can require up to 20% more anesthesia due to pain sensitivity

15 March 2016

Question: What is the total global population of redheads?

Eurozone’s recovery trails S&P500 – Pg. 20

- The ECB stimulus efforts notably boosted banks, and the region’s share markets – led by Italy and Spain – have risen sharply this month, helping to narrow this year’s differential from the US
- The broad Euro Stoxx 600 index remains 5.7% lower for the year and in US dollar terms has dropped 3.5%. The S&P500 is roughly 1% lower for the year, while transport stocks, seen as a barometer of the economy, are in positive territory for 2016
- The single currency has appreciated against the US dollar this year as investors have lowered expectations of Federal Reserve interest rate rises

US interest rate cycle stuck in low gear – Pg. 20

- Without a Fed Funds target rate above 2%, he argued “30 years yields at 2.5% are too high”, adding a prediction that the yield on 10 year debt would settle at 1.5%
- The coupon on such bonds is fixed at the point of issue, so it rises in value as the interest rate available in the market falls, and global government bonds went on to experience their biggest such rise since at least 1993
- Focus inside the US, and there are numbers approaching the 2% rate of inflation targeted by the Fed. The annualized core rate of inflation followed by the central bank currently runs at 1.7%, and is up from 1.4% in 2015
- During 2016, recent demand for safe assets has been prompted by worldwide fretting about the wider state of economic growth
- A lower horizon for rates would represent a return to the theme of the past five years, if not the past 20 – ever-lower long-term interest rates, and a flattening of fixed income yields curves

Investors braced for tide to turn – Pg. SR1

- Malaysian funds have been selling overseas real estate assets over the past year to repatriate capital as their home country suffers from the oil slump
- Within east Asia, market turmoil does not so far appear to have hurt demand for real estate: investment volumes into Chinese, Hong Kong and Taiwanese property were up 47%, 66% and 18% respectively in 2015

Answer: 4%

14 March 2016

Question: What are the education levels of the four 2016 Republican candidates?

Economists expect the Fed to leave benchmark rates on hold – Pg. 2

- Economists anticipate the US Federal Reserve will leave benchmark interest rates unchanged when policymakers meet this month and next, but believe the uncertain outlook for global growth will not stand in the way of the central bank resuming its path towards normalization in June
- ...flickers of inflation and a labour market that has created more than 12m jobs over the past five years ultimately coaxing the Fed back into action – albeit gradually – intensifying the divergence between monetary policy in Europe and Asia

Facing reality – Pg. 7

- Yesterday, it became clear what he meant: austerity would have to go even deeper – some 4bn (sterling) of further cuts were needed to help balance the books – and the outlook was at its grimmest for almost a decade: “The world is a more uncertain place than at any time since the financial crisis”, ...
- He was forced to abandon his plan to cut 4.4bn (sterling) of tax credits from working families last November....
- Mr Osborne’s position is made more sensitive by the issue overshadowing the Budget and British politics: Europe. In a party split down the middle on whether to stay in the EU, the chancellor is an uncompromising leader of the campaign to remain in the EU

Troubling warnings from the 1930s – Pg. 9

- On both sides of the Atlantic, people have lost faith in their public institutions. They are also losing trust in their neighbours
- For most Americans and Europeans the situation is worse today than it was then. Many have since had their homes repossessed. Median incomes were lower in 2015 than when Mr. Greenspan issued his warning. A majority on both sides of the Atlantic believe their children will be worse off than they are
- Most people feel worse off, which is what matters in politics. In his book, *The Rise and Fall of American Growth*, Robert Gordon argues that the century-long leap in productivity that began in 1870 can never be repeated.
- The second disturbing trend is a growing sense of unfairness – the feeling that the elites are continually lining their pockets. Scholars talk about the “Great Gatsby Curve” – the massive rise in inequality that took place in the 1920s before the Wall Street crash. The numbers today are eerily similar to then
- Despite the US economy’s recovery, 2015 saw the sharpest rise in US wage inequality since the end of the Great Recession
- The third is a rising culture of nihilism. When people think their concerns are being ignored – and worse, that they are also being belittled – they lash out
- In all probability it will be Mrs Clinton against Mr Trump. Western democracy is on trial. Autocrats in Russia and China will be watching keenly

Answer: I remain fascinated by the quick search for this answer. The most opaque was Donald Trump. It appears he attended Fordham for two years and transferred to UPenn Wharton for the remaining two. It does not appear Trump has a Wharton MBA which is what I gathered from news reporting. Cruz has a Harvard Law Degree and Rubio a law degree from University of Miami. I found finding John Kasich's education interesting as it seemed buried and appears to be an undergraduate from Ohio. I continue to ponder the value of higher education.

12 March 2016

Driverless Car note: Will the driverless car redefine/redistribute real estate costs? I believe it will. That one hour commute will go from unproductive to productive, gaining two hours of work time.

Question: In 2014, in the U.S. how many more deaths were caused by cars over guns?

Sharapova drug admission plays poorly with sponsors – Pg. 11

- Maria Sharapova, the world's highest earning female sports star, lost three key corporate sponsors this week but had one reconfirm its support, after the Russian tennis player admitted ailing a drug test
- Nike Suspended
- Tag Heuer ... followed suit while Porsche...."postpone planned activities" ...
- (Prof Note: Be careful with personal and professional imagines, what takes 20 years to build can be lost in 15 minutes. Also, and I have learned this, keep an open mind. Be willing to adjust opinion with new information and try and hold back forming an opinion until facts are known.)

Gold regains heavyweight investment status – Pg. 12

- ...gold price hitting a 13-month high of \$1,283 per troy ounce yesterday,
- When the ECB further cut interest rates on Thursday, it helped to drive the price of gold, which is seen as a haven asset

Investors flock back into US funds – Pg. 13

- Investors poured into US equity funds for the first time in 2016 as a string of better than expected economic reports and a stock market and commodity rally allayed fears that the country's economy was on the brink of recession
- Portfolio managers said the stabilization in oil prices had at least temporarily removed a key concern for the US economy and that consumer spending trends remained largely upbeat
- After tumbling as much as 11% since the year began, US stocks have rallied. The benchmark S&P 500 finished Thursday less than 3% lower for the year. By contrast, Italian, German and Japanese equity bourses remain more than 10% lower this year

The deadly human factor – S5

- ...the biggest fear for westerners now is the human factor: murder and war,that's not because humans have become deadlier than before. Rather, it's because the other eternal causes of premature death – disease and accident – have become less deadly

- ...in 2014, for the first time in 60 years, guns killed about as many Americans as cars did
- (Prof Note: Fascinating article)

Answer: None...it was about even.

Shaking head note: Today I read that California raised the smoking age to 21. I do not smoke and am allergic to cigarette smoke so this is not my issue. However, as a nation, how can we require that our youth register for the draft at age 18 and potentially call on them to fight for freedoms when they cannot enjoy the freedoms for which they fight? Personally I find this to be a bigger issue than immigration and should be discussed as part of the 2016 election.

11 March 2016

Question: What are the endowments for Hopkins, GW, Georgetown, and American University?

ECB cuts rates and boosts QE to ratchet up Eurozone stimulus – Pg. 1

- The ECB has unleashed a bigger-than-expected package of measures to stimulate the Eurozone economy, with expanded quantitative easing, incentives to banks to increase lending and further interest rate cuts
- The ECB cut its deposit rate by 10bps yesterday to minus 0.4% but eased the impact on banks with chapter short-term loans and longer-term liquidity at negative interest rates – essentially paying Eurozone lenders to increase credit to households and companies
- The ECB raised the amount of bonds the eurozone’s central bankers buy each month under QE from 60bn (euro) to 80bn (euro) – a greater amount than many analysts had expected

Balance sheet stress skews Treasury futures – Pg. 22

- Dislocation in the world’s biggest government bond market is sending warning signs of stress in the system, with dealers and hedge funds blaming tougher bank capital rules as they choose not to exploit the arbitrage opportunity
- Investors are increasingly choosing to hold derivatives contracts rooted in US sovereign debt rather than cash Treasuries, resulting in a big price difference between the two closely related products
- In theory institutional investors should seek to profit by selling futures and buying cash Treasuries. But the cost of such trades, stemming from constraints on balance sheets, has made the strategy less appealing
- Regulatory changes have made it harder to fund trades via the repurchase, or “repo” market, in which banks borrow cash to buy Treasuries with a fixed rate of interest and an agreed time to change the assets back

Answer: Hopkins: \$3.413bn (2015), Georgetown: \$1.529bn (2015), GW: \$1.616bn (2015), and American: \$0.600bn. By comparison Harvard’s \$37.6bn

10 March 2016

Question: What is the difference between insurance and a bet?

Senior bankers warn ECB over perils of negative interest rates – Pg. 1

- Commercial bank executives are alarmed by the crippling effect on profits of negative rates which they cannot pass on to customers, adding to the concerns about the fragility of financial stability in some parts of the Eurozone

Flight of the non-doms? – Pg. 7

- ...forecast that the price of new upmarket flats in the UK capital could fall by a fifth this year
- Experts cite several reasons – changes to stamp duty, concerns about a possible UK exit from the EU and suggestions that the housing market is overheating
- ...a looming change to a special tax status for residents known as non-doms
- ...for more than 200 years, individuals claiming non-dom status have been able to live and work in Britain without being subject to tax on gains and income earned and kept outside the country
- Asia has been a magnet for western wealth in part for tax reasons. Hong Kong levies a rate of about 15% and there is no tax on offshore earnings brought in to the territory. By contrast, the US taxes residents on global income
- Under Mr Osborne's proposals, foreign residents who have lived in the UK for more than 15 of the past 20 years will be deemed domiciled in the UK for the purposes of income tax, capital gains tax and inheritance tax from April 2017
- They will have to open their international business affairs to the scrutiny of HM Revenue & Customs, which could land many of them with a vast tax bill

Insurance bonds hit by negative rates – Pg. 20

- Insurance bonds have suffered the worst start to the year of any major corporate bond sector in Europe, highlighting fears over the impact of negative rates on the industry
- Insurance companies, like banks, issue bonds to fund their businesses and meet regulatory requirements. In February, bonds and equities in both sectors fell dramatically before recovering some of their losses
- The bonds have suffered from a high correlation with banks
- Low interest rates affect insurers in two ways
- Insurers know they will have to pay out money many years into the future, and must constantly estimate the value of those obligations today. A lower interest rate affects that calculation, making the size of the liabilities larger in today's money
- The other way that low rates hurt insurers is by limiting the returns on their investment books. Insurers hold large asset portfolios to back the guarantees they have made. Low rates mean that when assets mature, the proceeds have to be reinvested at lower yields

Answer: Insurance is to minimize loss while a bet is to maximize gain.

9 March 2016

Question: What is the current probability of a Fed Hike next week according to the CME Group FedWatch?

US banks strengthen global grip as profits dwarf European rivals – Pg. 1

- Europe's top five investment banks are now making less than half as much revenue as the top five US operators, who beat their European rivals on almost every financial measure last year
- The US authorities forced their banks to restructure faster in the wake of the financial crisis. In Europe, Credit Suisse, Deutsche Bank and Barclays are only now starting to catch up now

Japan's negative interest rates backfire amid union climbdown on pay claim – Pg. 1

- Trade Unions across Japan's financial sector are abandoning demands for wage rises this year in a sign that negative interest rates are having perverse and unintended consequences for the Bank of Japan
- With Japan's financial sector employing hundreds of thousands of workers, the union move is a blow to the BoJ, which is relying on higher wages to boost consumption and drive inflation towards its 2% goal
- The ECB is expected to cut its deposit rate from minus 0.3 to minus 0.4% tomorrow. It is considering a tiered system to shield banks from some of the costs, as in Japan, but this could blunt the effect of the policy

Debt markets pass milestone as bank issues first sub-zero non-state bond – Pg. 15

- A German bank has become the first non-state borrower to issue euro denominated debt as a negative yield, another milestone as the continent's financial system moves further into the world of sub-zero interest rates
- Covered bonds are viewed as one of the safest corners of debt markets because, in the event of default, buyers have recourse both to the issuing bank itself and a pool of underlying assets. The debt instruments date back to the 18th century and play a big role in bank funding across Europe

Answer: 96.1%

8 March 2016

Question: Where and how much is the most expensive gas, by country on the globe?

Oil price jumps as markets see beyond resources rout – Pg. 1

- Oil jumped back above \$40 a barrel yesterday for the first time this year and iron ore posted its biggest one-day gain on record as more traders bet that the worst of the 20-month commodity rout was over
- ...Brent crude rebounding 50% since mid-January

Fed official sees 'first stirrings' of inflation rise – Pg. 2

- The US may be seeing the “first stirrings” of a long-awaited increase in inflation as the impact of a strong jobs market works its way through the economy, ...
- While Mr Fischer defended the so-called Phillips Curve, which describes the link between employment and inflation, as a resilient element of economic theory, others on the committee have expressed greater skepticism
- The issue is critical because inflation has consistently been coming in below the Fed’s 2% rate even as the jobs market has recovered, although there have been signs of an acceleration

Wall Street bonuses see 9% drop – Pg. 15

- The average Wall Street bonus fell 9% last year to \$146,200, as banks hired more staff and tried to cap pay amid a surge in compliance costs and volatile trading
- Banks have been adapting to a mass of new regulations by hiring more staff in compliance, risk and technology, bringing the industry’s average bonus down for a second successive year
- Companies, including Bank of America, are cutting more than the usual bottom 5% of performers during their annual cull....

Inflation expectations gather pace in US – Pg. 26

- Inflation has begun to stir, according to some prices in US bond markets, which show investors anticipating a change in the economy that could give the Federal Reserve greater room to raise interest rates
- The five-year break-even rate, a widely watched market indicator of inflation expectations, has risen to its highest level since August
- Known as an imperfect gauge of real world activity, it is nonetheless the latest sign of a growing optimism ahead of an important Fed meeting this month
- Expectations for US rate rises dwindled as financial markets shuddered into the new year, with the chances of any increase in 2016 falling from 90% to 50%, as implied by short-term interest rate futures

Woman in Business – Special Supplement

Answer: Hong Kong and The Netherlands where it is \$6.68/gallon and \$6.31/gallon, respectively

7 March 2016

Retirement Note: Yesterday the U.S. nation lost Nancy Reagan, wife of former U.S. President Ronald Reagan. What struck me was her age, i.e. 94. If you could take a moment and think about your finances from 65 (assumed retirement age, i.e no active income), how would you finance yourself through age 94? It is better to consider and solve this issue now than at age 60.

Question: Where and how much is the cheapest gas, by country on the globe?

Economists fire warning shot on risks of negative interest rates – Pg. 1

- Negative interest rates risk backfiring the longer and more deeply central banks in Europe and Japan venture into this unconventional monetary policy, ...
- ..ECB...markets expect it to push its deposit rate deeper into negative territory by 10bps to minus 0.4% to help stave off the threat of deflation
- There are increasing doubts about whether negative rates work – the BoJ's move into negative territory halted the yen's appreciation only for days

Diller leads US rankings for personal corporate jet spend with \$4,500 a day – Pg. 1

- ...significant number of corporations are still footing the bill for executives to take personal flights on corporate jets, sometimes accompanied by family and friends
- The FT's findings show that a small group of companies, roughly 10% of the S&P 500, account for about two-thirds of total spending on personal use of corporate aircraft
- The biggest spenders are dominated by groups where the founder or a family exerts significant control
- Since 2006, US companies have been required to disclose the cost of personal flights as a form of remuneration

Concern grows over China's forex reserves – Pg. 7

- China's official foreign exchange reserves only include highly liquid assets, ...
- Investor sentiment towards China's currency has turned sharply negative since a surprise devaluation in August, amid unprecedented capital outflows and concern about the health of the economy. Concern over China's currency policy sparked a global market sell-off early this year
- ...China's official foreign exchange reserve data, which showed reserves at \$3.2tn at the end of January – still the world's largest despite declining for 19 months

Fears over US commercial property lending surge – Pg. 15

- A surge in commercial property lending has fueled the fastest annual expansion of US banks' loan books since 2007, a sign of greater confidence that also raises concerns banks are taking on too much risk
- Real estate loans held by the country's commercial banks – an area regulators are scrutinizing closely because of worries about risky lending practices – jumped a 10th last year
- Car loans, credit cards and residential mortgages also rose, helping the overall total increase 7.1% to \$8,172bn, ...
- For now...the quality of US credit is holding up. Overall loss rates are running at less than half the historical average. The recovery follows a sharp contraction after the crisis
- ...regulators have sounded the alarm about certain areas – including subprime car loans as well as commercial property

Answer: Venezuela and Kuwait where it is \$0.06/gallon and \$0.82/gallon, respectively

5 March 2016

Question: What is the spread between a primary mortgage and investment property on a 15-year fixed rate?

US jobs growth speeds up but wages stagnate – Pg. 4

- The US economy added significantly more jobs than expected in February but wages continued to stagnate, high-lighting the dilemma facing the Federal Reserve over when next to raise rates
- The unemployment rate remained at 4.9%
- But a 0.1% fall in average hourly earnings last month also highlighted a key issue: that many Americans are still failing to see the benefits of the recovery and are growing increasingly frustrated about it, a concern that is having an impact on the political debate and this year's presidential campaign
- Economists said the strong jobs growth meant any concerns of a US recession should be put to rest, and that the weak wages data meant fears about a bounce in inflation above the Fed's 2% target rate were premature
- ...the S&P500 rising 0.4% after initially declining at the open. Investors shifted out of haven Treasuries, with yields on shorter-dated notes and 10 and 30-year bonds rising. Yields climb when prices fall

Gold at 13-month high after 20% rise this year – Pg. 13

- Gold bugs have momentum on their side after a blistering start to the year – the best since 1980 - with the price up more than 20% and investor inflows reaching a seven-year high
- ...gold traded at \$1,271.76 a troy ounce, its highest level since February 2015

Answer: 65bps is what I was quoted today. I purchased my first real estate asset at age 35 and have never looked back. Wealth creation should be slow and steady. My point of the 65bps spread is that if young couples build their physical asset using their primary home as a leapfrog, i.e. only purchase rentable properties, the savings will be tremendous.

4 March 2016

Question: What is Jamaica's GDP?

Trump off to golf course as attacks mount – Pg. 1

- (Prof Note: I am amazed at the maturity level of the republican contenders. Both #2 and #3 are sparring with Trump who, regardless of the outcome, returns to his vast real estate empire. In my opinion, Trump's reputation will be unchanged, and probably elevated, and yet the negative marks on #2 and #3 for their juvenile behavior (I am not saying Trump's is not juvenile, only that it will be forgotten/forgiven) will be remembered forever. Freedom of speech is NOT "free" and it is proportional to one's balance sheet...just my opinion.)

China poised for subprime-type sale of packaged bad loans to global investors – Pg. 1

- It looks like subprime derivatives on steroids: China hopes to bundle together billions of dollars of non-performing loans and eventually sell them to global investors

- Such a massive securitization programme would represent the latest tactic in China's campaign to lift one of the biggest shadows cast over its slowing economy – a debt pile that is as big as 230% of GDP
- China's biggest banks will in the next few months begin issuing billions of renminbi of asset-backed securities with non-performing loans as the underlying asset in the latest attempt to tackle the problem

China comes full circle with talk of mass lay-offs – Pg. 2

- ...in the past few days the Communist party has openly started to discuss layoffs, up to 6m by some estimates
- In a sign lay-offs are no longer completely taboo, Beijing recently tweaked the way it measures unemployment

Dallas Fed president calls for patience over rates decision – Pg. 4

- The former Goldman Sachs executive said he expected the US economy to prove “resilient” in 2016, particularly as the lower oil price should benefit consumers, but that slowing global growth and unease in financial markets required “patience and further diligence” in assessing their impact

‘Marginally attached’ US jobs data signal recovery but tycoon's success reflects economic anger – Pg. 4

- The unemployment rate is forecast to remain at 4.9%
- Look at the broadest measure of unemployment and the recovery does not look as strong. AT 4.9% the national unemployment rate in January was well on its way to reaching the pre-crisis May 2007 low of 4.4%
- Why Donald Trump says “I love the poorly educated”
- In January the unemployment rate for people who had completed high school was 8.6%. For university graduates it was 2.6%
- The recovery of the long-term unemployed has stalled for the past seven months
- The median US household still looks like it has not had a pay rise in two decades
-

Answer: 14.36bn (2013)

3 March 2016

Question: What is annual GDP for Aruba?

US poised to power ahead, says Fed official – Pg. 2

- The US economy is set to “power ahead” and push inflation back to target despite hazards overseas, ...as he talked down recession fears and flagged up risks associated with leaving interest rates too low for too long
- A second rate move by the Fed as soon as its March meeting seems unlikely given the uncertainty about the impact of the tighter financial conditions on the US economy, but the prospects get cloudier thereafter

- With unemployment set to hit 4.5% by the end of the year and stay there, the US will see “domestic inflation pressures strengthen”, ...
- The US housing market required monitoring, however. Prices were at or above “equilibrium levels” even if this was not a stability hazard today. “There is a risk over the next few years that we allow this economy to run too hot for too long, we just know what happens. It always ends up ...[that] imbalances will form one place or another”

Moody’s shifts China outlook from stable to negative – Pg. 2

- Moody’s has warned it may downgrade China’s sovereign rating, a sign of increasing investor concern over the country’s rising debt and dwindling foreign exchange reserves
- The US rating agency revised its outlook on China from stable to negative, the first major change on the country by a rating agency since Fitch downgraded its rating three years ago, the first cut since 1999
- China’s top leaders are trying to steer growth away from heavy industry and debt-fuelled investment towards consumption and services
- The economy grew at 6.9% last year, the slowest full-year pace since 1990
- Moody’s estimates China’s explicit government debt at 41% of GDP at the end of 2015, up from 33% in 2012

Investors grab golden opportunity to plough funds into farmland – Pg. 5

- The asset class is attracting more attention as investors diversify away from stocks and bonds and bet that people will eat richer food on a more crowded planet. As populations and incomes grown in Asia, Africa and other developing regions, rising demand for meat, dairy and nuts is transforming farmland
- ..routinely racked up annual performance of more than 10% (Prof Note: Roughly 3.00% of my portfolio is farmland. This is largely a tax strategy as agricultural land is taxed a low amount.)
- Farmland investing entered the public consciousness after the 2007-08 food price crisis, when grain shortages led to panic buying and investors piled into agricultural enterprises

Call for probe into new credit risk rules – Pg. 20

- A senior US regulator has criticized incoming rules that will require managers of bonds backed by mortgages and loans to keep 5% of the credit risk of new deals,
- Securitization is a broad term for packaging loans and other collateral into bonds, where slices of the debt with varying degrees of risk are then sold to investors. The more risky “tranches” off the chance for higher returns
- The only exception to this rule is for bonds backed by so-called qualified residential mortgages, which have to meet higher lending standards introduced after 2008

Answer: \$2.6bn (2012)

2 March 2016

Question: What is the annual GDP for Bermuda?

Investors bet big in grab for rich farmland – Pg. 1

- Agriculture and farmland funds last year raised \$3.9bn, up eightfold from the \$500m raised in 2009, ...

Japan's in first negative-yield bond sale as Abe's growth push falters – Pg. 1

- The sale is the latest sign of a world-wide collapse in borrowing costs which has upended assumptions about the workings of financial markets, as policymakers take ever more drastic steps to stimulate economic growth
- The world's third-largest economy last month followed Switzerland, Sweden, Denmark and the ECB by cutting short-term interest rates below zero to prevent stagnation and deflation

Fed policymaker warns of rising risks to growth – Pg. 5

- One of the Federal Reserve's top policymakers has warned of increased risks to US growth and flagged up a troubling fall in inflation expectations, as caution continues to percolate through the central bank
- Since lifting rates in December for the first time since 2006, the Fed has seemed wary of following with another rise too soon, preferring to hold fire and assess what damage, if any, the tightening of financial conditions and China slowdown will do to US growth
- The Fed next meets from March 15 to 16...
- An important indicator will come this Friday, as the latest jobs figures for the US are released

Crunch fears arrive as unwelcome guest for top hotel groups – Pg. 16

- The resilience of the global hotel industry looks set to be tested again in the coming year – by its own success
- Across the US, revenues per available room and occupancy rates have surpassed previous peaks in both the dotcom boom and the subprime era. In the past few weeks, profits at the world's biggest hotel groups surpassed expectations but shares in Accor and Marriott barely moved
- Marriott bought Starwood for \$12.2bn, while Accor took over the owner of the Fairmont, Raffles and Swissotel hotel chains for \$2.9bn at the end of last year. Last week, Hilton announced it was to spit off much of its property into a real estate investment trust
- Corporate profits have slowed globally, resulting in companies starting to curtail travel late last year. The stronger dollar is also dissuading foreign travelers
- Many in the hotel industry say it is not a zero sum game, and play down the overlap between customers for Airbnb versus a traditional large hotel chain (Prof Note: Currently our strategy is to partner with hotels allowing our guests full use of the hotel facilities, e.g. restaurants, pool, etc, while enjoying a private cottage, fully staffed (extra, of course), at a fraction of the cost of a hotel and services not offered by traditional hotels)
- The biggest three hotel groups – Hilton, Marriott and IHG – are dispersed throughout the world, with 83%, 81% and 65% of their rooms in the Americas, respectively (Prof Note: We have built more hotel pro forma models in 2016 for clients than 2009 – 2015 combined!)

Answer: \$5.5bn (2012)

1 March 2016

Question: What is the annual GDP of Grenada (corrected answers units)?

Argentine debt blockade set to end after settlement with 'holdouts' – Pg. 1

- Argentina is poised to return to international capital markets after a 15-year ban as it finally reached an agreement with a group of creditors led by Paul Singer's Elliott Management
- The deal...is it pay \$4.653bn to settle all claims with four "holdouts" that refused to restructure debt after the country's 2001 default
- Argentina suffered a second technical default in 2014 after New York judge ...said it was forbidden from servicing its restructured debt abroad without paying the holdout creditors first
- To lift the financial blockade on Argentina, the country's congress must approve the deal and lift two laws that prevent the country from paying creditors who had rejected the 2005 and 2010 restructurings

China central bank unleashes \$106bn to boost growth despite G20 warning – Pg. 1

- The PBoC announced yesterday it would cut the share of customer deposits banks are required to hold in reserve, injecting a jolt of liquidity into its banking system
- China's foreign exchange reserves have been falling at a rate of \$100bn a month since December, as the PBoC attempts to cushion the renminbi's recent fall against the dollar

Eurozone slips back into deflation – Pg. 2

- Prices across the Eurozone fell back into deflation in February, an unwelcome development that analysts say will all but ensure further monetary stimulus from the ECB next week
- ...prices fell by 0.2% in the year to February, marking the first negative figure for prices since September
- Most of the drop was down to the renewed slide in the price of oil, which has fallen more than 40% in the past 12 months
- The central bank, which targets inflation of just under 2%, is expected to unveil a further round of stimulus. The package could include a cut to its deposit rate, now at minus 0.3%

Sweden's growth surge raises fears over negative rates policy – Pg. 2

- Sweden's economy grew at a much faster-than-expected 4.5% at the end of last year, intensifying concerns that its negative rates policy could be misguided
- The Nordic country has overtaken the US again and is well ahead of Germany and the UK in terms of the strength of its economic recovery since the global financial crisis of 2008, ...
- Sweden reported a rise in GDP of 1.3% in the fourth quarter from the pervious quarter, almost double economists' forecasts, and a gain of 4.5% compared with a year earlier. Growth for 2015 as a whole was 4.1%

- ...Sweden also has one of the lowest interest rates in the developed world at minus 0.5%, as its central bank struggles to boost stubbornly low inflation
- ...if you look at the Swedish numbers right now you could draw a false conclusions about how much negative rates have helped...
- Other central banks, such as the ECB and the BoJ, have used negative rates to try to boost sluggish economic growth
- But the Riksbank is faced with an entirely different problem: It has largely cut interest rates in order to weaken the Swedish krona to head off the threat of deflation

US credit derivatives attract investors – Pg. 22

- Investors facing difficulties in selling corporate bonds are increasingly relying on credit derivatives for their portfolios, a trend that has reinforced a severe dislocation within the market
- Credit derivatives track the likelihood of default of a company's debt and can either reference an individual entity or an index. Selling credit protection is a bet on the credit quality of a company improving, so provides an investor with an alternative to buying bonds

Answer: \$850.0m (correction....NOT billion)

29 February 2016

Question: What is the annual GDP for Grenada?

US Education – Pg. 8

- Americans had collectively built up \$1.2tn of student debt by the end of 2015, more than triple the amount from a decade earlier
- Some are now finding that the burdens outweigh the benefits. Student loans surpassed credit cards in 2012 as having the worst delinquency rates in consumer credit. More than one in 10 student loans were more than 90 days overdue as of November, ...
- Federal laws stop student debt from being discharged via bankruptcy in most cases, meaning the debts can drag on personal finances for years
-averaged just under \$29,000 per borrower in 2014, up from \$18,550 a decade earlier, will hold back many Americans' ability to start a business or buy a house
- Unlike other forms of consumer debt, student loans are not covered by comprehensive rules on issues such as payment processing, complaints handling and how to help struggling borrowers, ...
- Under the US system, the federal government and states provide grants and loans to students, but state governments have cut funding in recent years
- The unemployment rate of Americans with a bachelors degree or higher was 2.5% in January, as against 5.3% for high school graduates who missed college

Bill Gates cautions on unicorn valuations over short term – Pg. 19

- The Microsoft co-founder said he would bet on valuations of so-called "unicorns" – the 150 or so private companies that have been valued at more than \$1bn – falling over the next

two years, but that venture capital remained an attractive long-term asset class in an era of ultra-low interest rates

- Mr Gates's comments, ...come as he and fellow billionaires prepare to launch investments in energy start-ups, in an effort to find solutions to climate change

Appetite for luxury flats dwindles – Pg. 20

- JLL, the US-based property group, predicts that prices for new build homes in central London will fall 3% in 2016, and not rise again until 2018. Only three months ago it forecast a 1% increase this year (Prof Note: This is what infuriates me! Who at JLL lost their job for the poor forecast three months ago???)
- Falls in Asian currencies, the rouble and the oil price have cut deep into the purchasing power of overseas buyers
- (Prof Note: This will be particularly felt on Nevis where many of the new developments are financed using the Economic Citizenship structure.)

Answer: \$850.0bn (approximately)

Nevis News: I have had several people ask me about visiting and investing in Nevis and it has me pondering. I am most familiar with real estate on Nevis and Puerto Rico (only northeast PR, i.e. Fajardo) and, in my opinion, local knowledge and relationships are critical. Where you purchase is critical. On Nevis the best areas are closer to St. Kitts, opposite of Monserrat, and protected by Mt. Nevis for hurricanes. Surprisingly beach front is not ideal as it floods and the sea blast ruins cars and structures. Construction is critical, especially how the roof is attached as in high-winds it can be lifted from the house. Some neighbourhoods are more prone to thievery and pricing is a two-tiered system, i.e. local and expat. It comes down to local knowledge, something which I do not believe can be purchased, it must be gained through time and relationships. I keep thinking that old adages ring true, i.e. Invest in what you know!

27 February 2016

Question: What is the GDP for the Cayman Islands?

US growth revised up as inflation quickens – Pg. 2

- US inflation accelerated in January and the economy ended last year on a stronger footing than expected, suggesting America is continuing to shrug off a faltering outlook abroad
- The personal consumption expenditures measure of inflation, stripping out food and energy, accelerated to a year-on-year rate of 1.7% from 1.5% previously,...
- ...growth was unexpectedly revised up to a 1% annualized pace in the fourth quarter from 0.7%, ...
- The bulk of the surprise revision to GDP was down to companies accumulating stockpiles at a faster pace than estimated in the reading – a typically powerful variable in revisions

2016 Presidential Race

- His father [Trump] Fred had amassed a fortune worth hundreds of millions of dollars by building middle-class housing in the “outer boroughs” of Brooklyn and Queens
- (Prof Note: While some have asked me to comment on the 2016 U.S. Presidential race I have decided to simply not. I will say that I am embarrassed for the U.S. with the name calling and heckling. I am horrified that lying seems to now be accepted in every element of society from University Deans to Presidential hopefuls. There seems to be no accountability or consequences.)

Negative rates knock banking confidence – Pg. 16

- On February 16 – the day Japan’s newly unveiled negative interest rate policy came into force – volume in the overnight lending market collapsed by nearly two-thirds: a particularly disruptive newcomer on the growing list of unintended consequences of the Bank of Japan’s experiment
- ...negative yields on Japanese government bond yields out to nine years; the Ministry of Finance suspending all sales of such bonds to retail customers; several brokers suspending sales of money market funds, and life insurers suspending sales of some savings-type insurance products
- Banks themselves have been forced to slash their savings account rates by roughly 20bps to 0.001%
- The contribution of financial institutions to the size of the overall market has added to the level of fear. For instance, at the height of the pre-crisis boom in 2007, when bonuses and profits set records, European banks represented just over a fifth of the market
- In the US, meanwhile, the legacy of the oil boom looms large. JPMorgan this week said it expected to take a further r\$500m of losses on loans to energy companies that cannot survive with the price of crude at decade lows

Answer: \$3.5bn

26 February 2016

Question: What is the GDP for Cuba (2014)?

World trade back to crisis levels as EM demand slides – Pg. 1

- Weaker demand from emerging markets made 2015 the worst year for world trade since the aftermath of the global financial crisis, highlighting rising fears about the health of the global economy
- The value of goods that crossed international borders last year fell 13.8% in dollar terms – the first contraction since 2009 - ...
- The Baltic Dry index, a measure of the trade in bulk commodities, has been touching historic lows. China, which in 2014 overtook the US as the biggest trading nation, this month reported double-digit falls in both exports and imports in January
- In Brazil, which is experiencing its worst recession in more than a century, imports from China have collapsed

Flagging small-caps fuel US economy fears – Pg. 20

- Further pain for US small-cap stocks suggest investors are downgrading prospects for the economy this year
- The Russell 2000, a benchmark for the asset class, has fallen 10% in 2016, nearly double the drop in the S&P 500, the benchmark for large-cap companies
- The Russell also sits in a bear market, having declined 21.1% from the record high it notched last summer, and three quarters of the index's members have tumbled at least one-fifth from their recent peaks
- The reversal of fortune for small-caps, which have a market capitalization from roughly \$300m to \$2bn, runs counter to conventional Wall Street wisdom for today's environment
- Perhaps the biggest issue is that investors this year have been shunning stocks perceived as risky in favour of companies considered to be safer and better poised to weather market volatility and the US economic growth slowdown
- Adding to the anxiety has been a widening in credit spreads, an indication that investors are increasingly wary of holding US corporate debt
- The difference between the yield on US junk-rated bonds and safe-haven government debt, or risk premium, rose this month to the highest level since 2009,...

Low yields spur hunt for longer-dated debt – Pg. 22

- The three-and-a-half decade-long bull market in highly rated government debt shows no signs of flagging as investors adapt to negative interest rates by buying the longest-dated securities available
- ...the yield on Japan's 40-year government bonds dropped below 1% for the first time on record, as renewed fears for global growth and expectations of subdued inflation pressures buoyed demand

Answer: \$80.0bn

Nevis News: Another beautiful, albeit hot, day on Nevis. The island is "hot" over the Chinese development. The island is limited to two story structures but the new development is three stories. Personally, and I do not have all the facts, I think this is much ado about nothing. Nevis needs the investment, the structures are actually nice but on the windy side of the island, i.e. less desirable. Which brings up a very important point, when considering real estate abroad, there is so much to consider. So many expats are purchasing on the windy side in new developments. There is a reason these are affordable! Be careful as ignorance will cost. The beaches are basically unusable and the next hurricane will wipe out the structures (inside).

25 February 2016

Question: What is GDP for Trinidad and Tobago?

IMF urges top economies to join forces in growth push – Pg. 1

- The IMF has urged the world's leading economies to join forces and take bold action in a bid to boost growth, highlighting concerns that global market turbulence is starting to hurt the real economy
- Jack Lew, the Treasury secretary, played down the likelihood of an emergency response by the G20 even as he called for China to do more to boost domestic consumption and for surplus countries in Europe, such as Germany, to do more fiscal stimulus
- The IMF did not lower its global growth forecast of 3.4% for this year – which was revised downward in January – but warned that a downgrade was “likely” when it next publishes forecasts in April

S&P warns of Asia's corporate repayment risk – Pg. 20

- Asia-Pacific companies are on the hook to repay almost \$1tn of debt over the next four years – more than half of it priced in US dollars - ...
- The report covers the \$961.4bn of debt that is rated by S&P. More than two-fifths of it must be repaid in the next two years
- Bond issuance by Asia's emerging market companies halved last year. Slightly more than 80% of outstanding bonds from EM borrowers are denominated in dollars, while a further 6% are in euros
- By contrast just 58% of borrowing by developed-market groups that are based in Australia, New Zealand and Japan is denominated in US dollars or euros
- The biggest danger surrounds riskier junk-rated groups, for which repayments are scheduled to rise sharply
- More than 20% of non-financial institution debt is rated below investment grade, compared with just 4% of the debt of banks and other financial institutions
- Some \$8.6bn of repayments of junk bonds fall due in 2016, and that almost doubles next year – before doubling again to \$30.9bn by 2019

Answer: \$43.4 billion

24 February 2016

Question: What is Antigua/Barbuda GDP?

Saudis declare oil output cut 'is not going to happen' – Pg. 1

- Saudi Arabia has ruled out a deal by major producers to cut oil output and warned high cost operators such as US shale drillers to trim costs or go bust, ...
- Internationally traded Brent crude dropped \$1.33 a barrel to \$33.35 after ...remarks, while the US market slid \$1.54 a barrel to \$31.85
- ...denied Saudi Arabia was waging a war with US shale producers. But he said cutting volumes would only provide economic support for expensive oil, such as output from the US or oil sands of Canada

Dallas Fed chief urges caution on rate rises – Pg. 3

- Robert Kaplan argued the central bank in Washington should be open to leaving policy on hold for an extended period if necessary
- ...number of forces were influencing the US outlook, including high levels of debt relative to economic output in other parts of the world, slowing growth prospects, overcapacity, especially in China, and the ageing of American's population (Prof Note: Finally someone other than me concerned about the ageing of America! So much talent leaving the workforce!)

Hong Kong exchange to add renminbi futures – Pg. 20

- Hong Kong is poised to introduce a range of renminbi futures contracts as investors struggle with a fall in offshore liquidity for the Chinese currency following heavy central bank intervention this year
- Gold futures that can be settled in renminbi as well as dollars are also planned
- Investors are debating the future of China's offshore currency market after a turbulent start to the year, when international bets on a weaker renminbi triggered heavy intervention by the PBoC, draining renminbi from the market in the process

Answer: \$1.535 bn (2012)

Nevis News: Another beautiful day on Nevis. Whoa the expats are hot over the U.S. election. There is a meeting tonight to oppose the Chinese development occurring on the other side of Nisbets Plantation (away from the airport). Apparently the developer brought in Chinese labour and is using no local labour. This has captured Anne Bass's attention and Anne is leading the charge! I was asked to attend but, in reality, if Anne is against the development, it will fail. On Nevis when Anne speaks, people listen, i.e. Anne is the E.F. Hutton of Nevis.

23 February 2016

Question: What is annual GDP for Nevis/St. Kitts?

Sterling tumbles as Cameron takes on party rebels over Brexit – Pg. 1

- Rating agencies Moody's and Fitch fueled concerns, warning that a vote to leave the EU could have implications for Britain's credit ratings; bookmakers cut the odds of a British exit in the referendum to 2/1
- The vote will determine whether Britain will end four decades of commitment to the European project by pulling out of the 28-nation EU, an outcome Mr. Cameron insists would threaten the country's security and prosperity
- ...\$1.4058, its weakest level against the dollar since March 2009 (Prof Note: Hmmmm...Paris or London flat?! The do have direct flights to Nevis from London! Any weaker and why choose?!)

HSBC probed over Asian hiring – Pg. 13

- HSBC is being investigated by US authorities over its hiring of people linked to Asian governments, adding to the bank's litigation worries, which helped it to a fourth-quarter loss
- The bank said yesterday that it was one of "multiple financial institutions" being investigated by the US Securities and Exchange Commission over its Asian hiring practices, as issue that has also plagued US lenders such as JPMorgan Chase

US lenders blast proposed capital buffer rules – Pg. 14

- The top lobby groups for banks in the US have blasted proposals to make them build bigger capital buffers against losses, saying the "excessive" requirements could restrict the flow of credit to the world's biggest economy

Oil glut to be deeper in 5 years, says IEA – Pg. 20

- The global supply glut that has battered the budgets of big oil-producing nations and forced energy companies to cut billions dollars of investment will continue into 2017 as ballooning stocks prevent a recovery in prices, the world's leading energy forecaster has warned
- ...expects US output to hit a record 14.2m barrels a day by 2012 as operational efficiencies and cost-cutting allow production to resume its upward trajectory. This would make the US the largest contributor to supply growth
- Iran, which is trying to boost its output after the lifting of western sanctions against its oil industry, will lead supply growth from within the group of producer countries over the six-year forecast period

Answer: Approximately \$800.m, i.e. less than the net worth of Anne Bass (large property owner on Nevis who rebuffs my dinner invitations! The nerve! Is my 1992 Suzuki Samurai not good enough for a divorced billionaire???!?)

Nevis News: Two amazingly beautiful days on Nevis, i.e. more days on Nevis. Weekends are always interesting as they are transitional. The old tourists leave and the new tourists arrive. The course has tourists during the week, Saturday is a hodgepodge, and Sundays the Doctors from the Medical University play in the morning and locals play in the afternoon. What I love about Nevis is that Sunday nights you hit 'reset' and the week repeats only with different faces for the tourists. It is just like another episode of Love Boat only no Julie! ☺ I consider myself blessed to be part of the "crew". I mention this as earlier this year three cruise ships docked at St. Kitts. The population of the three ships was greater than Nevis. Aye Caramba!!!

22 February 2016

Question: What is the annual GDP for Barbados?

US banks face tougher stress tests – Pg. 15

- The biggest US banks are braced for a tougher round of stress tests from the Federal Reserve, which could crimp their plans for higher dividends and share buybacks

- The two-part exam, which became an annual event in 2011, is designed to assess whether banks have enough loss-absorbing capital to keep trading through a shock to the system similar to the collapse of investment bank Lehman Brothers in 2008
- The chief US bank regulator then said last week it would look more critically at operational risks, assuming bigger hits from events such as class-action lawsuits, a rogue trader or a major cyber security breach
- The stress tests have become the Fed's main tool for keeping the big banks in check, forcing them to put every part of their books through the same drill
- Last year every big US bank passed the Fed's stress test, but three – JPMorgan Chase, Morgan Stanley and Goldman – were cleared only after tapering their plans for dividends and buybacks.
- Payout ratios – the sum of dividends paid and dollars used for share buybacks, as a proportion of net income – ranged from 33% at Bank of America to 119% at Goldman...

HSBC slashes pension pay of senior staff by 40% - Pg. 15

- HSBC pays its top managers a cash allowance in lieu of pension, which last year amounted to half of their salaries. But after investors complained that this looked high compared with rivals, HSBC cut it to 30% of salaries in a move it will reveal with results today

Answer: \$4,250,000,000

Nevis News: Today there was an event at St. Thomas parish causing a major backup of traffic. The single road around the island was backed up 11 cars deep at one point. At one intersection, close to Cotton, traffic was held up for over two minutes. It was absolutely brutal. This afternoon was, by far, one of the clearest days on Nevis I have seen. There was a light to moderate breeze and I ended up napping on a swinging bench until it grew late and the breeze was cool enough to wake me.

20 February 2016

Question: What quantity of mortgages does Fannie Mae guarantee?

Fannie Mae's dwindling capital buffer sparks fears of bailout – Pg. 4

- Fannie Mae, the state-sponsored US mortgage backer, is at risk of needing a government bailout that could shake confidence in the housing finance market, ..
- Fannie Mae's chief executive and its regulator are sounding the alarm on a decline in the institutions capital cushion, which is on course to vanish in 2018, when it would have to ask the US Treasury for emergency funds
- Their warnings highlight Washington's inaction on housing policy and its failure to reform the institution, which guarantees nearly \$3tn of securities and enables 30-year fixed rate loans, following the last financial crisis
- ...capital buffer, which has dwindled from \$30bn before the crisis to \$1.2bn today, was on track to disappear by January 2018

- Despite an improving labour market, Mr Haines said the housing market was being held back by the absence of a new regime for housing finance, a “free-for-all” of mortgage litigation and regulatory constraints on credit supply

Price of breakfast hits a 6-year low – Pg. 13

- ...equal weighted average of six commodities – wheat, milk, coffee, orange juice, sugar and lean hogs – continues to fluctuate at low levels not seen since October 2009
- The ample supplies, coupled with relatively low demand growth in raw food materials, have meant that hedge funds and other speculative funds have bet heavily against agricultural crops

Answer: \$3tn

Nevis News: It was a bit cloudy today but no showers. The golfers have picked up, actually had two paying couples and one that came to walk the gardens and trails. One couple from Atlanta and the other from Chicago. Neither accepted my invitation to join me for a meal. People’s reaction is so interesting when invited into the house for a meal upon meeting them. A couple from Lancaster came to the house earlier this week and we had snapper. So few people take my sincere offer to have a traditional island meal with me. Of course back in the states it would be like me randomly meeting you on the sidewalk and saying, “hey, want to come inside for a meal?” It is just so culturally different here and I find I am different as well...different in a much more friendly way.

19 February 2016

Question: What does negative rates mean? (I have asked this prior but am receiving a lot of questions)

Draghi wins backing for tougher action amid OECD growth alert – Pg. 1

- The ECB is on course for more aggressive monetary easing to boost flagging growth and weak inflation, amid fresh warnings about the outlook for the global economy
- ...the OECD cut global growth forecast from 3.3% to 3%
- The People’s Bank of China, reluctant to cut interest rates further, said yesterday it would inject more cash into the economy through money supply operations, that will now be conducted daily instead of biweekly
- Markets are expecting the ECB’s deposit rate to be cut another 10bps to minus 0.4% next month, while the 60bn (euro) quantitative easing programme launched a year ago is likely to be increased in scope
- The ECB pushed rates below zero in June 2014

OECD calls for action to boost growth – Pg. 2

- Governments must act “urgently” and “collectively” to boost spending and combat flagging growth in all the world’s advanced economies, ...
- ...growth stagnating at the same rate as in 2015, itself the slowest pace in five years and well below long run averages

- The US is forecast to grow by 2% this year, a 0.5 point downgrade, the UK by 2.1%, a 0.3 point adjustment, and Germany by 1.3%, a 0.5 point reduction
- The biggest downgrade was for recession-mired Brazil, which is expected to contract by 4% this year. China's growth outlook was left unchanged at 6.5%

Indian banks' bad loans raise concerns – Pg. 6

- Stressed assets at India's more than two dozen state-backed banks, which are majority-state-owned but generally listed on stock exchanges, have risen sharply. Driven first by delays to investment projects at big industrial conglomerates, and then by collapsing global commodity prices, they have soared from 6% in 2011 to 14% in September, one of the worst levels in Asia

Walmart hit by worst sales performance since 1980 – Pg. 13

- Walmart reported its first annual sales decline since at least 1980, underlining the stiff challenges it faces competing against Amazon in ecommerce while coping with the impact of the strong dollar and a loss of share at its UK stores
- The company blamed the deceleration on its UK, Chinese and Brazilian markets. By contrast Amazon's quarterly growth was 26%
- While it remains dominant in the US, with 9.2% of all retail sales, that figure has slipped from 9.9% five years ago,...

Answer: It means that you do not receive 100.0% of your principal back. If the ECB lowers its rate (which would be short-term but I am going to use the example of an annual rate here) to minus 0.4% then \$100 would return only \$99.60 at the end of the year, i.e. a 40 cent loss.

Nevis News: A bit overcast today but still lovely. While I am not a beer drinker, the spread of local pricing v expat/tourist is about \$1.75 - \$11.00 USD.

18 February 2016

Question: Which central bank first introduced negative rates?

Fed frets over growing risks to US economy amid market turmoil – Pg. 1

- Many Federal Reserve policymakers said they saw increasing risks facing the US economy as they assessed the impact of the turmoil that has erupted in 2016 amid plunging commodity prices and confusion over China's currency policies
- If the slide in shares, strong dollar and tighter financing costs persisted, the effects "may be roughly equivalent to those from further firming in monetary policy," ...
- The mood within the central bank has shifted in the face of the stock market gyrations and commodity price falls that have struck global markets this year. Whereas Janet Yellen in December hailed the Fed's decision to lift rates by a quarter point as emblematic of the progress the US economy has made since the financial crisis, the central bank chair presented a more cautious picture to Congress last week
- ...market expectations that the Fed is set to do nothing with rates for many months to come

Negative thinking – Pg. 7

- With quantitative easing seemingly losing its power to dazzle markets, and many governments either unable or unwilling to countenance raising spending, central banks have felt compelled to try new tools
- Sweden, Switzerland, Denmark, the Eurozone and most recently Japan – adding up to almost a quarter of the global economy – have all introduced some form of negative interest rates policy in an attempt to fight deflationary forces, weaken their currencies and stimulate growth
- Sweden's Riksbank was the first central bank to experiment with NIRP, as it has been labelled, briefly moving deposits to minus 0.25% in 2009
- Broadly speaking, the economy theory is that negative rates encourage banks to lend money more cheaply and savers to spend more freely, while discouraging overseas money from flowing in and pushing currencies lower
- ...initial experiments have shown that banks are reluctant to actually impose negative rates on their depositors
- Japanese banking shares have crashed more than 20% since the BoJ introduced negative rate policies on January 29
- There is now more than \$5.7tn of sovereign debt with sub-zero yields,...
- Markets indicate that there is as much as a 30% probability of negative rates in the US by the end of 2017, ...

Transparency beckons for US Treasury trade – Pg. 20

- The \$13tn US Treasury market – which plays a pivotal role as a benchmark for financial assets – has long been closed off to those outside the big banks that dominate trading
- Primary dealers – charged with helping the Treasury underwrite the US's debt – have long dominated government bond trading. They benefit from private information about what investors want to buy and sell
- The dominance of primary dealers has been eroded in part by the rise of proprietary high-frequency trading groups, which are vocal proponents of more price transparency
- The Treasury market can be divided into two sectors.

Answer: Sweden's Riksbank

Nevis News: The 25th anniversary of the Four Seasons Nevis is this week. I will have to pull up on my 21-speed again and feign being a guest. I will simply sign "Fletch Underhill" to the bill. ☺

17 February 2016

Question: What is the duty charged on goods entering Nevis?

Chinese bank loans hit record \$390bn as Beijing seeks to energise economy – Pg. 1

- China's banks granted new loans at the fastest pace on record in January, a sign that Beijing is loosening monetary policy more aggressively in an attempt to bolster the slowing economy
- China grew at its slowest pace since 1990 last year, dragged down by a severe downturn in manufacturing and construction, once the main growth drivers
- Loan demand from corporate borrowers has also been tepid, as factor owners delay investments amid severe overcapacity in many sectors
- Residential mortgages helped drive January's strong lending figure, the latest sign that China's housing market is gradually recovering from a downturn that began in 2014
- Renminbi depreciation might also have boosted demand for loans. In the years when the renminbi was viewed as a one-way bet to appreciate, Chinese companies were eager to borrow in dollars, since the debt burden was expected to be lighter in renminbi terms when the loan came due

Fed official proposes bank break-ups – Pg. 2

- The biggest US banks pose a potentially devastating threat to the economy can regulators should consider breaking them up, ...
- "A very crude analogy is that of a nuclear reactor," he said. "The cost to society of letting a reactor melt down is astronomical. Given the cost, governments will do whatever they can to stabilize the reactor before loss of control."

Money market funds reinstate fees – Pg. 20

- Money market funds have reinstated fees for investors after the end of a zero interest-rate policy in the US led to increasing yields and better returns
- As interest rates fell to near zero in the US, money market funds, which invest in short-dated debt securities such as Treasury bills, began reducing fees to avoid negative net returns
- ..."T-bills" trading at 28bp yesterday morning, after peaking this year at 34bp
- An average of fees charged by money market funds, ...dropped to a low of 11bp back in November 2014
- New regulations for prime funds, which invest in a broad array of short-dated securities, are expected to push some investors into funds that invest solely in government assets

Answer: Duty is roughly 80.0% I was thinking of how fortunate those of us in the U.S. truly are. The nicest car on Nevis, in my opinion, is a Porsche Cayenne. Of course there is someone with a Hummer Golf Cart at the four seasons (yes, I have golf cart envy!)

Nevis News: Very little to report. The island had returned to its sleepy state. If you truly enjoy island culture now is the time to visit. Almost no tourists in town and while it is hot at mid-day, still bearable. At the market there is plenty of fish which tells me the hotels are not near full occupancy.

16 February 2016

Question: What is critical to understand when quantifying Debt Service Coverage Ratio (DSCR)?

Abe dealt further blow as economy shrinks – Pg. 4

- Japan's economy shrank at an annualized rate of 1.4% in the fourth quarter of 2015 in a further blow...
- Economists had forecast a fall of 1.2% but the figure came in worse than expected because of a sharp decline in consumption
- There is no sign of a downward spiral in the economy but with the yen rising to trade at Y113.8 to the dollar in recent weeks, the figures put pressure on the Bank of Japan for even more monetary stimulus to encourage a strong round of wage rises this spring
- ...growth for the full year of 2015 was 0.4%, following a year of zero growth in 2014
- Consumption in the fourth quarter fell at an annualized rate of 3.3% in the quarter

Chinese trade much weaker than expected amid falling global demand – Pg. 4

- China's trade contracted significantly more than economists had expected in January, as the country's economy continued to suffer from weak global demand and a slowdown at home
- Exports fell 11.2% year-on-year in dollar terms, compared with forecasts for a decrease of 3.6%...

Negative rates lose their potency – Pg. 20

- A negative interest rates policy, or NIRP, is a bit like a best-kept secret: fine if it remains under wraps, less potent when it becomes more commonly known
- Pioneers of the unconventional policy can be found in Europe, where Switzerland, Sweden and Denmark have in recent years used it to tackle a combination of interrelated concerns: unwanted rising currencies, weak growth, low inflation and capital inflows
- As a central bank instrument, it comes from the same part of the toolbox as quantitative easing, designed to loosen monetary conditions without having to fork out for asset purchases
- NIRP looks like a deliberate attempt to manage exchange rates, but is it merely exposing the lack of options available to central banks?
- NIRP was introduced by the ECB in June 2014 when the euro was worth about \$1.37, and contributed to the euro weakening to as low as \$1.05 in March 2015
- Every time a risk event comes along, such as the Greek crisis or China's exchange rate shocks in August and January, the market turns to haven currencies such as the euro and the yen

Answer: DSCR is defined as NOI/DP (Net Operating Income divided by Debt Payments). Debt payments are traditionally modelled as being both principal and interest. The loan documents will state the definition of a debt payment which may be the interest portion only.

Nevis News: The weather is wet, Wet, WET. The ground is wet and the temperature is relatively cool. Ever since a tourist was robbed in their room the police have been setting up random checkpoints. Apparently profiling is allowed or at least done here. There has only been one murder on island and that was in January (5 on St. Kitts). However, the murder was allegedly retaliatory. The tourists are much more relaxed now. Unlike December/January, lobster is plentiful as the hotels are not purchasing it all...lobster stir-fry was Saturday dinner.

15 February 2016

Question: What percentage of price will the Bank of Nevis provide a creditworthy borrower for a land purchase?

Scalia death sets off fierce political battle – Pg. 2

- The choice to replace Scalia – and any other justices who die or retire during the next administration – is hugely consequential, particularly since judges on the high court are appointed for life
- ...the Supreme Court has streamed ahead with big changes on issues as diverse as same-sex marriage and healthcare policy
- ...Mr Obama has a potentially legacy-defining chance to shift the ideological balance of the high court by installing a justice who is liberal or, at a minimum, far less conservative than Scalia

Antonin Scalia – Pg. 2

- In the legal community, however, he will be remembered as one of the driving forces behind the judicial philosophy of “originalism”, which holds that judges should interpret the constitution according to the meaning of its language at the time it was written
- ...went to Harvard Law School, where he was editor of the Law Review
- His nomination passed 98-0
- One of his greatest achievements came in writing the majority position in District of Columbia v Heller in 2008, which ruled that the second amendment right to bear arms included all citizens, not just members of state militias such as the National Guard

MBA by numbers Inside the \$200,000 cost – Pg. 9

- When it comes to value for money, European MBA programmes outperform their North American counterparts
- Nine out of 10 of the best value-for-money programmes in the Financial Times Global MBA ranking 2016 are in Europe, while 44 of the North American ones are in the bottom 50
- At the top 100 school expect to pay on average just under \$200,000 ...
- This includes tuition, accommodation and day-to-day costs totaling \$112,000, and an opportunity cost of \$106,000
- ...average fees ranging from less than \$30,000 for Birmingham Business School to around \$135,000 for the top four US programmes: Harvard, Stanford, Wharton, and Columbia
- Part of Europe’s value-for-money appeal boils down to course length. Full-time MBA programmes last about 18 months, but in Europe they are typically a year, or 10 months at Insead
- ...more than half (52%) of students received some financial help
- If an MBA is an investment, the return is an average salary of \$135,000 three years after graduation, just about double pre-MBA salary

Answer: 100.0%

Nevis News: This was/is surprising popular so it will be offered when possible. Another beautiful day on Nevis. Lesson from last night, when a bat is trapped in the house do NOT use a broom. Yes, you will be successful in hitting the bat but not killing it. **The result:** One pissed off bat! **Solution:** Cower in another room watching the bat. When it finally settles throw something over it and drag outside. In closed quarters combat that bat has the odds. Stealth!!!

13 February 2016

Question: How do you make \$\$\$ on negative yields?

Banks fight to regain confidence – Pg. 1

- Big banks battled to regain investor confidence yesterday after a tumultuous week in which many suffered double-digit share price falls amid doubts about their ability to weather weakening growth and ultra-low interest rates
- ...sector that has shed about a fifth of its market value since the beginning of the year
- Banks have been laid low all year through a combination of fears over falling oil prices, slowing growth, market turbulence in China and the fading power of central banks to support markets
- The pace of the sell-off picked up this week, as Janet Yellen, chair of the Federal Reserve, kept open the option of the US joining Japan and Europe in pushing interest rates below zero

Banking turmoil – Pg. 5

- On January 22, analyst at Berenberg produced a report titled “Free Falling”, noting that European banks were trading at “all-time lows” relative to broad market index. Low interest rates and the poor economic outlook were identified as the key factors that led Berenberg to conclude “European banks are turning Japanese”. In the US, banks have been underperforming the broader stock market since the turn of the year
- The banks are also involved in fewer risky activities: they no longer trade on their own account because of rules limiting proprietary trading, nor can they hold big positions. Even the inventories they hold for “market making” have shrunk as regulation made it less attractive

US and European junk bonds slide in value – Pg. 11

- US and European junk debt has tumbled in value since the year began as investors switch into government bonds, with US high-yield issues out-pacing losses sustained at the start of 2008 as the financial crisis beckoned
- High-yield US debt – those bonds rated double B plus or lower by one of the major rating agencies – have lost more than 5% since the year began, with total returns over the past 12 months falling below minus 10% on Thursday....
- ...US Treasury funds recording more than \$15bn of inflows since the middle of November

Answer: laughing...yesterday I sent an email to my bank stating, "I am now ready to discuss my required fees and yields for "borrowing" your capital". I did not receive a response!

12 February 2016

Question: What is the first "App" that I have now downloaded, i.e. my first ever "App"?

Day of turmoil as negative rates strike fear into global markets – Pg. 1

- Global financial markets endured a day of turmoil yesterday as investor fears rose over the cost to banks of negative borrowing rates imposed by central banks desperate to stimulate flagging economies
- Equity markets sold off sharply, with the FTSE All-world stock index entering bear market territory after falling 20% from last year's peak
- Investors are worried that policymakers' adoption of negative borrowing rates will become prolonged, further distorting the financial system and limiting the ability of banks to extend loans to the broad economy profitably
- Both the BoJ and the ECB are expected to cut rates further into negative territory this year as they seek higher inflation, an objective compromised by their stronger currencies

Below zero – Pg. 3

- The Swedish central bank's decision to delve deeper into negative territory and chop another 15bps off its benchmark main repo rate yesterday is part of the global trend
- The Riksbank was the first to cut rates below zero when it did so last February
- How are negative rates imposed?
- The Riksbank imposes the negative rates through its main auctions of central bank cash to the Swedish banking system. Lenders are required to pay what amounts to an annual tax of 0.5% on the funds that they borrow from the central bank through these "repo" auctions
- ...negative rates is that they have proved quite an effective way to weaken currencies. Why hold euros if the central bank is sending out a message that it wants to punish you for saving in its currency?
- A weaker currency helps central banks to meet their inflation targets by raising the cost of imported goods
- But negative nominal rates have never been tried before, and the policy now seems to have some side-effects...like the falls in banks' shares? Exactly
- So far banks have taken the hit for negative rates and have not passed on most of the cost of the cuts to their customers. That has eroded their interest rate margins
- Why buy a negative-yielding bond? Call it the "greater fool" theory of investing. Buying negative-yielding bonds entails a loss if held to maturity, but a trader can still profit by selling at a higher price and a lower yield. As long as someone else thinks central banks will keep pushing further below zero

Yellen keeps options open on changing Fed course – Pg. 3

- Janet Yellen said the US Federal Reserve was keeping open the option of taking interest rates negative as headwinds grow in the global economy but played down the likelihood of such a move
- The market-implied probability of negative rates by the end of next year has risen sharply to about 17% in the past month,...
- The Fed has limited options at its disposal if the US economy were to hit the buffers. These include reversing its December rate increase, reinstating forward guidance to assure markets that rates would stay low, considering a relaunch of quantitative easing and venturing into negative territory

China's world of debt – Pg. 7

- ...increasingly the issue for Chinese deals is debt

Gold price climbs to 12-month high – Pg. 20

- Gold rose to \$1,260 a troy ounce yesterday, on course for its biggest one-day gain since the financial crisis, as investors sought havens from broad financial turmoil
- A growing universe of government bonds with negative yields has bolstered gold while a lower US dollar has made it cheaper for buyers in other currencies
- The Fed would raise rates by 25bps three times this year, to 1.3%...

Answer: Skype!!! I did a two-hour webinar last month from Nevis and forgot that only the computer portion was via internet. At the last minute I had to call the U.S. from Nevis Command via AT&T roaming. \$750 later and all profit for the webinar lost...I realized I had to join the 21st century!

11 February 2016

Question: What is total size of global sovereign wealth funds (SWFs)?

Yellen's economy warning dims prospects of near-term rate rise – Pg. 1

- Persistent global market turbulence could set back US growth and slow the pace of corporate hiring, ...underlining suggestions that a second interest-rate increase by the central bank has become less likely in the near term
- ...US economy had made continued progress but she pointed to higher risks from China and said financial conditions had become "less supportive" of US growth, citing the recent slide in equity prices, higher credit costs for riskier borrowers and the dollar's rise
- Ms Yellen defended the December rate increase, saying the FOMC believed that if it had delayed the beginning of normalization too long it might have had to tighten abruptly, which could push the economy into a recession
- The "yield curve" of US Treasury bonds, which has been a regular market indicator of recessions, has flattened sharply lately, with the difference between two and 10-year Treasury yields slipping just below 1% for the first time since January 2008 yesterday

US regulator removes significant roadblock to Google's driverless car – Pg. 18

- ...US transport regulator indicated that a robot could meet the legal definition of a driver

- Google maintains that cars will be safer when humans have no control or ability to intervene in driving at all, instead relying solely on an artificial intelligence system that makes potential life-and-death decisions based on data from sensors, maps and cameras

EM recovery continues after Yellen testimony – Pg. 22

- Emerging market currencies held firm yesterday after Janet Yellen,...warned that further market turbulence could damage growth and reaffirmed her plan to increase rates gradually
- The South African rand, Malaysian ringgit and Russian rouble are among EM currencies that have recovered after a prolonged period of weakness
- With further Fed interest rate rises this year looking increasingly unlikely, the greenback's long bull run seems to have lost steam
- A depreciating dollar and reduced expectations of further rate rises will be welcomed by developing countries, many of which have dollar-denominated debts

Grinding sell-off keeps US volatility in check – Pg. 22

- Persistent selling of US equities this year has been marked by an absence of the surging volatility that normally defines notable market declines
- With the S&P 500 having fallen nearly 10%....
- US stocks have slumped below those summer lows, led by a sell-off in financials, healthcare, consumer discretionary and technology sectors, with broad sentiment rattled by slowing emerging markets, collapsing oil prices and lack-lustre company earnings

Mideast SWFs blamed for Japanese sell-off – Pg. 24

- Heavy selling of Japanese shares this week has ranked alongside some of the worst days of the 2008 global financial crisis
- Japan's rate cut has rippled across the globe, fueling expectations that other policymakers – particularly the ECB – will follow suit

Answer: \$7.1569 tn (Norway is the largest at roughly 11.5% of global total)

10 February 2016

Question: Compared with one year today, how has the shape of the yield curve changed, i.e. short-, medium- and long-term?

Deutsche eyes emergency debt buyback as bank rout deepens – Pg. 1

- Deutsche Bank is considering buying back several billion euros of its debt, as Germany's biggest bank steps up efforts to shore up the tumbling value of its securities against the backdrop of a broader rout of financial stocks
- The move was unlikely to involve so-called contingent convertible bonds which, with the bank's shares, have been the butt of a brutal investor sell-off in recent days,...
- Investors have been rattled by the prospect of negative interest rates spreading across the developed world. Japan yesterday became the first major economy with a sub-zero

borrowing rate for 10-year debt as the total of government bonds trading with negative yields climbed to a new peak of \$6tn

US justice department urged to act against senior bankers – Pg. 4

- Phil Angelides uncovered evidence of widespread fraud and corruption in the US mortgage market as chairman of the commission that produced the government report on the global financial crisis. Five years on, he (Prof Note: and ME) is asking the department of Justice why it has yet to call any senior bank executives to account
- Since his report appeared in February 2011, American's biggest banks have paid tens of billions of dollars in fines for misconduct in the packaging and sale of mortgage-backed securities, while the DoJ has gone after thousands of borrowers, brokers and appraisers for lying on mortgage applications. But no senior bank executive has been charged with wrongdoing

Rates concerns and echoes of Lehman fuel brutal start to year for US lenders – Pg. 15

- Two of the biggest losers, BofA and Morgan Stanley, are down 27% and 28%, respectively
- Analysts offer a lot of different reasons for the big sell-off, but on this they agree. "Lift-off" in December was supposed to usher in an era of higher interest rates – which are always good news for the banks. In previous rate-raising cycles, asset have always re-priced faster than liabilities, earning banks a bigger spread between the yields on their loans and the cost of their funds
- ...worsening data since then from big economies, notably China, have investors worried that the world economy is sicker than they had assumed. Expectations of another three rate rises from the Fed this year have collapsed. Talk of rate cut, or even a move to negative rates, is entering the picture
- Perhaps more worrying are the second-round effects: if weakness in oil-dependent communities begins to spill into commercial real estate loan books, or if consumers find they cannot afford repayments on loans for their new gas-guzzling cars

Dollar under pressure before Yellen's outlook – Pg. 20

- A jittery currency market is braced for further volatility today when Janet Yellen, the Federal Reserve chair, delivers her semi-annual testimony on the outlook for the economy and policy before Congress
- The dollar has come under growing pressure against its main peers, led by the yen, euro and swiss franc, as the bond market has priced out the prospect of further increases in overnight borrowing costs set by the central bank
- The prospect of Fed rate hikes has receded against a backdrop of mixed US economic data, a gloomy global economic outlook, recent stock market turmoil and concerns about credit losses from the indebted energy sector

Answer: Short- and long-term rates are up 25bps and medium-term rates are unchanged.

9 February 2016

Question: How do you hedge real estate prices financially?

Investors punish global banks as fears focus on financial system – Pg. 1

- The Stoxx 600 index of European financial institutions fell 5.6% - its second-worst one-day loss since the Eurozone crisis – to take its loss this year to over 24%
- In the US, the S&P's financial institutions index slid 3% by midday in New York with Morgan Stanley and Goldman Sachs each falling more than 6%
- The US 10-year Treasury yield, which moves inversely to price, fell 7bps to a one-year low of 1.76%, ...

Brazil braced for further currency slide – Pg. 4

- But with Brazil last year reporting the biggest budget deficit among emerging economies except for Saudi Arabia at over 10%, unpopular measures are needed to save the country from a deepening fiscal hole,...
- A central bank survey of economists shows most predicting GDP will contract by more than 3% this year, compounding what is expected to have been a more than 3% fall in 2015. They are also forecasting inflation of 7.3%, above the central bank's target range of 4.5% plus or minus 2% and carrying on from last year's blowout rise in prices of 10.7%
- On a real effective exchange rate basis, the real today is trading at about 15-25% below its historical average while in 2002 it fell as much as 50% below its average. Indeed, the currency's "equilibrium" – the level at which it would represent fair value in real terms – would be R\$5.45 if it were allowed to float without intervention,...

Dutch banks lose new mortgage share – Pg. 20

- The biggest Dutch banks' share of the market for new mortgages has fallen to its lowest level yet, as regulatory pressures create an opening for competitors acting on behalf of pension funds and insurance companies
- Nearly a quarter of new mortgage issuance over the period was provided by so-called regiepartijen, rapidly growing non-bank lending platforms that use brokers or websites to sell home loans on behalf of institutional investors
- Dutch non-bank mortgage growth is a striking embodiment of a global trend.
- A lot of bank mortgages were due to have rate resets over the next two years, which could encourage borrowers to switch lenders....
- Banks fund loans partly through deposits. For non-bank platforms, securitization – where loans are packaged up and sold as bonds – is a potential source of funding

Falling bond yields reflect flight to safety – Pg. 22

- Benchmark 10-year yields in Germany, the UK and the US fell as bond prices rose on heavy demand, while the cost of Italian, Spanish and Portuguese debt climbed back towards their highest levels this year

Answer: Case-Shiller index Futures/Options

8 February 2016

Question: How do you hedge heat/cool?

China's forex reserves fall to three-year low – Pg. 4

- China's foreign exchange reserves dropped by nearly \$100bn last month to its lowest level since May 2012, as Beijing continued to sell dollars to support its currency and stem capital outflows
- Fears about the slowing economy and falling asset prices have prompted investors to shift capital out of the renminbi to by buying dollar-denominated assets, both at home and overseas
- Foreign exchange reserves dropped \$99.5bn to \$3.23tn in January...
- With China's economy growing at its slowest pace since 1990, and investors worried about a possible hard landing, Beijing faces a dilemma. If it eases monetary policy to boost activity it risks undermining its recent efforts to support the currency, further undermining investors confidence
- Beijing wants to reshape the economy by reducing its reliance on debt-fuelled investment in heavy industries, while boosting consumption, the services sector and high-tech industries
- ...annual expansion of GDP, which was 6.9% last year....

Scholarships up the ante in the fight for top students - Pg. 8

- Scholarships have traditionally been seen as a way of enabling those who would otherwise struggle to get a post-graduate education to achieve a dream. It is why alumni are often more willing to give to support financial aid rather than a new campus building
- However, business school endowment strategies are increasingly being driven by the use of financial aid as a carrot to lure the most promising students rather than to enable access to education for the most needy
- A quarter of the students coming to MIT Sloan School of management receive some form of financial aid at present...
- Financial aid at Yale SOM can range from \$10,000 to full tuition. The average is about \$20,000. A third of the incoming class has some sort of support, double the percentage five years ago
- Schools often employ scholarships to get someone unique or to round out their class with a certain type of applicant,...

Answer: Heating Degree Day/Cooling Degree Day sold on the CME Group

6 February 2016

Question: How do you hedge against rain?

US jobs market firm amid gloom – Pg. 1

- The US unemployment rate dropped below 5% last month and wage growth accelerated despite slower hiring, suggesting American's jobs market is holding its ground in the face of mounting concern about the world economy

- Employers added 151,000 jobs in January, a weaker outcome than economists had expected, but enough to pull the jobless rate down to 4.9%, the lowest reading since February 2008
- Wages rose much more rapidly than expected, with average hourly earnings increasing by 12 cents, bringing the year-on-year gain to 2.5%
- ...20% risk of recession
- The Fed has been surprised by the failure of wage growth to pick up despite anecdotal evidence of higher payments, so yesterday's earnings data, well above the 2.2% growth predicted, will be welcome by central bank officials

Global financial stocks slide to new lows – Pg. 11

- Financial stocks had some respite yesterday from a torrid week in which leading institutions plumbed their lowest levels in a generation on worries about the sector's exposure to slowing economic growth
- Bank weakness is truly global. US banks were downbeat on fourth-quarter earnings and the S&P financials are down by 12.1% in 2016
- Ultra-loose monetary policy, including the adoption of negative rate policy in Japan and expectations of further easing in Europe, has heightened fears for global economic growth
- Lower long-term interest rates also reduce the earning power of banks

US unemployment is down but Americans are still angry – Pg. 16

- Nobody is happy about the US economy
- Bond markets show the depth of concern. Bond yields are sliding down, suggesting no great optimism for growth, implicit inflation forecasts from the bond market suggest the most deflationary outlook since the crisis, and the extra yield that junk-calibre companies must pay has risen to levels that suggest stress is coming
- The Fed Funds futures market, in which investors hedge against changes in rates, says it is roughly a 50-50 shot whether the Federal Reserve raises rates even once this year
- (Prof Note: I had lunch with a former graduate student that just entered "upper class" for the first time in 2015. He drives a 10 year old car and has a one-bedroom condo and does not feel "upper class")

Answer: Weather derivative

5 February 2016

Question: What is the current unemployment rate for the U.S.?

Investors punish Credit Suisse as losses highlight bank sector pain – Pg. 1

- Credit Suisse shares tumbled to a 24-year low yesterday as the Swiss bank's first full-year loss since 2008 underscored the pain that market conditions are inflicting on the financial industry

- Investors have sent US financial stocks down more than 11% this year and European bank equities nearly 20%. Globally, the financial sector is the worst performing in the MSCI World Index in 2016
- Bank shares have been hit by worries over exposure to the US energy sector, market turmoil and mounting expectations that the Federal Reserve will delay rate rises and other central banks will ease monetary policy further
- About \$330bn has been wiped off the value of the largest 90 US financial stocks since the start of the year

Lagarde urges reform of crises response – Pg. 4

- The global economy's system for coping with financial shocks needs to be over-hauled to prepare for looming crises in emerging economies, ...
- Oil-dependent countries like Nigeria were facing a potent mix of rising budget deficits, increasing foreign exchange pressures and slowing growth and needed to accept that commodity prices were likely to stay low for some time
- The US approval in December of a package of IMF reforms had given the fund greater resources to respond to economic emergencies and also given emerging economies like China a bigger voice...

Japan birth rate blip masks long-term decline – Pg. 6

- Although Japan's total fertility rate is up from a trough of 1.26 children per woman in 2005 to 1.42 in 2014, that mainly reflects the expiry of a "tempo effect" and not deeper social change, ...
- ...PM Abe, how has pledged to raise the birth rate to 1.8 children per woman as part of his revamped "three arrows" economic status. Decades of low birth rates mean that Japan's population is expected to fall from 127m to 92m over the next 40 years
- The total fertility rate is the average number of children a woman will have in her lifetime, based on current fertility rates by age
- That means Japan's annual birth rate is likely to keep rising, but without big social changes, it will stop far short of the 2.1 children per woman needed to stabilize the population

Yields on lowest-rated US junk bonds hit 20% - Pg. 24

- An investor exodus from the lowest-quality US corporate bonds has sent yields to their highest levels since the world's largest economy emerged from recession in 2009
- Yields which move inversely to prices, on debt issued by US companies that carry a rating of triple C or lower hit 20% for the first time in more than six years this week
- Investors have instead turned to US government paper, with funds invested in Treasuries counting more than \$9bn of inflows over the past eight weeks

Answer: 4.9%

4 February 2016

Question: How many jobs were added in January 2016 in the U.S.?

Turkey central bank under fire as lira weakens – Pg. 2

- After flirting with parity against the dollar in 2008, the lira now trades at almost three to one against the US currency. It lost 20% of its value last year alone
- The government has made clear its economic priority is growth of more than 4% this year. In the run-up to last November's election, it also increased the minimum wage by 30%, which the central bank warns will push prices further upwards
- Meanwhile, the cheaper currency has not boosted exports: much of what Turkey sells abroad is lower-value consumer goods such as air conditions and refrigerators, or foodstuff
- The country's net foreign exchange reserves, which exclude commercial banks' holdings at the central bank, have fallen below \$30bn, leaving the central bank relatively little firepower to defend the lira

Wells settles reckless lending claim – Pg. 13

- Wells Fargo said yesterday it had agreed to pay \$1.2bn to US authorities to settle claims that the country's biggest mortgage lender had engaged in "reckless" practices for about a decade before leaving the taxpayer to deal with the fallout
- The lawsuit alleged Wells misrepresented the standard of thousands of loans made mainly to first-time buyers and those on low incomes. Authorities also contend the bank should not have received insurance payouts when borrowers defaulted.

Dollar falls as weak US services data add to signs of 'spillover' – Pg. 21

- The dollar took a hammering and shorter-dated Treasury yields hit three-month lows as a weak report on US service sector activity heightened expectations that the Federal Reserve would be in no rush to raise interest rates again
- Uncertainty about the pace of further US rate rises was also fueled by comments from William Dudley, president of the New York Fed, who expressed concern that financial conditions had tightened "considerably" since the central bank raised borrowing costs in December
- The euro was up 1.3% at \$1.1052....

Non-banks rebuild UK home loan landscape – Pg. 22

- The biggest securitiser of mortgages in the UK in 2015 was not the now-defunct Northern Rock. It was not even a bank. The title goes to Kensington Mortgages, a private equity-owned lender to customers who do not meet criteria set by the high street banks
- The rise in securitization from the sector echoes developments in the US, where non-banks have ramped up lending. As issuance has trickled towards non-banks, people have gone in the same direction

Answer: 151,000

3 February 2016

Question: The economist provided a reason or lack of wage growth in 2015...what was it?

Alphabet: comes before Apple – Pg. 12

- The real re-rating occurred last year with Google's addition of a new chief financial officer. Hopes for cost control and transparency (under the new brand of Alphabet) followed Ruth Porat's arrival
- Operating expenses dipped to 36% of revenues in fourth quarter results
- The vaunted segment reporting only provides two parts: Google and a division known wincingly as "other bets", which lumps together self-driving cars, smart home device maker Nest, fast internet provider Fiber and anti-ageing division Calico. Apple, known as a fortress of secrecy, provides five reporting lines
- The big fear for Google was that it would struggle with the transition to the mobile internet: would users neglect to type search queries into a small screen and would they spend their time in apps which are hard for Google to monetize? The evidence is reassuring. Paid clicks increased at an accelerating rate of 31% year on year. Revenue from product listing ads was greater on mobile than desktop in the main US shopping period
- Alphabet still makes less profit in a year than Apple does in a quarter. The market cap milestone can only be justified if Apple deteriorates more than forecast

US mortgage provider to launch fast consumer loans service – Pg. 17

- ...parent company of Quicken Loans, you can get approved for a personal loan of up to \$35,000
- The company, one of the most aggressive mortgage lenders in the US, is on the cusp of announcing a push into consumer lending, offering loans of three to five years at annual interest rates ranging from 5 – 25% (Prof Note: Where are loans taught in the public school system? These products only continue the financial servitude that most are captured within. Let's compare this to Indentured Servitude: this was a contract for a period of years which provided release and a ticket to the new world. Consumer loans between 5 – 25% provide no release other than a deeper financial hole and no ticket to the "new world" at the end as the product purchased has probably exhausted its useful life. Hope and Dreams are some of the best things in life...these onerous loan terms are the death of Hope and Dreams!)
- Traditionally, applicants at banks need to consult over the phone or in person, presenting pay stubs, account statements and other documentation (Prof Note: YES...presumably with a professional!)

Stocks retreat sharply in tandem with sliding crude oil prices – Pg. 21

- The risk-averse price action left US Treasury yields hovering at multi-month lows while the dollar lost further ground against the yen following its big jump on Friday after the Bank of Japan's policy easing move
- April Brent was down 2.9% at \$33.26 a barrel - ...
- ...the euro edged up 0.2% against the dollar to \$1.0905, while the US currency fell 0.6% against the yen to Y120.22
- Gold retreated to \$5 to \$1,123 an ounce...

Answer: “America’s sickly labour market.” “The number of workers who work part-time but would rather be full-time is still much higher than before the recession hit.”

2 February 2016

Question: How many hours does it take Roger to purchase a lightbulb?

South Africa finance minister vows to protect credit rating – Pg. 3

- A downgrade would raise the cost of borrowing for the government, trigger outflows of funds from its bond markets, weaken the rand and lead to the downgrading of the country’s banks at a time many consider to be South Africa’s toughest economic period since its transition to democracy 22 years ago
- Government debt has increased from 20% of GDP in 2008, to 47%, while the Treasury is battling twin fiscal and current account deficits
- The central bank, meanwhile, raises interest rates by 50bps last week as it sought to stem inflation, fueled largely by the dramatic fall in the value of the rand over the past year, as well as by a serious drought that had pushed up food prices

Millennials’ home ownership hopes fade – Pg. 4

- The US home ownership rate among those aged 18-34 – who represent the population’s biggest age group – is at its lowest since 1982
- Nearly a third of “millennials” live with their parents, a higher rate than in the depths of the economic recession seven years ago, and the most since the US Census began tracking it in 1968
- The unemployment rate for US millennials has fallen by nearly 5%, about the same improvement as that of the broader population, to 7.7% last year
- Surveys have described them as entitled and glued to their smartphones, but also health-conscious, vulnerable and optimistic
- First, the recovery has been uneven, with robust hiring and a stock market rally mired by record inequality and a shrinking middle class
- Many millennials are saddled with student debt, with sizeable monthly payments making it difficult to save for a home or build credit
- About seven in 10 new university graduates had student loan debt last year, averaging more than \$30,000 per borrower
- (Prof Note: The death of the American Dream is troubling to me. I question millennials attraction to the DC area. DC is, in my opinion, unaffordable and disallows for young people to own a home with a yard. It really troubles me and I do not have a solution...)

Malaysia funds sell London property stakes – Pg. 6

- Malaysian state investment funds are cashing out of lofty positions in the London property market, in a sign of the country’s growing financial woes as it grapples with claims of multibillion-dollar corruption involving government companies
- The London property investors are also taking the chance to bank big gains, as evidence mounts that prices for commercial buildings are coming off highs

Puerto Rico proposes debt swap deal – Pg. 20

- Puerto Rico is seeking to cut nearly \$23bn from its debt burden as the cash-strapped US territory flirts with insolvency, a proposal under which creditors would take a 46% haircut
- The commonwealth is offering creditors invested in \$49.2bn of some of its most senior securities a swap for new debt worth \$26.5bn
- The island has defaulted on several debts that lack certain legal guarantees and faces a fresh round of payments this year that it says it will be unable to make
- The rest of the debt would be placed in a so-called growth bond, with payouts dependent on economic growth

Answer: Too many...it took close to four hours! Uggghhhhhh....ok...I need new lighting fixtures for a wooden house. Well, all the nice lighting fixtures limit one to 40W, 60W max! However, I love light...I want the SUN, i.e. 100W bulbs for me! Full disclosure, I was once an Electrical Engineer who learned NOTHING about electricity only microchip design (this goes to my issue with real estate programmes not teaching single-family residential purchase and rent but I digress...). Soooo...how does one get 100W without pulling too many amps which will burn the house down?! LEDs!!! Then, which LED, 18,000 hours of life or 23,000 hours of life? Dimmable? Finally, after creating a lumens, wattage, life expectancy, and cost matrix, I made my decision. I miss the old days of purchasing bulbs at the supermarket and pulling them from the soft cardboard containers!

1 February 2016

Question: What is the definition of “Middle Class”?

Experts less upbeat on US outlook – Pg. 2

- Leading global economists see a 20% chance of the US falling into recession this year, and a diminishing likelihood of the Federal Reserve raising rates as previously thought
- The fear that the world’s largest economy, considered the lone engine of global growth, is on the verge of recession has intensified
- A slowdown in China has renewed fears that the US economy is vulnerable, with investors pointing to dislocations in credit markets and a spate of expected defaults in the energy sector
- Global stock markets have slid 6% this year, including a 5% drop in the US, while worldwide highyield credit has declined nearly 2%

Graduates’ love affair with consultancy endures – Pg. 10

- ...consulting firms are still snapping up the most students at top business schools as they remain the largest recruiters,
- ...consulting’s enduring appeal – particularly that of McKinsey, Boston Consulting and Bain, or the “big three” – comes at the expense of finance and banking, which are still recovering from recession
- ...MBA students continue to find attractive the high starting salaries – up to \$145,000 a year...

- Throughout the financial crisis, Harvard Business School has placed a steady quarter of its MBAs in consulting
- ...bulk of recruits comes from elite schools: Harvard, Yale, Kellogg, Duke, Wharton, Chicago Booth, Michigan Ross, MIT Sloan, Tuck, Darden, London and Insead
- (Prof Note: I am beginning to wonder the benefit of a business education from anything but the top 10 schools. These schools place the candidates in the top jobs. I continue to believe business schools have lost their way! I would like to see EVERY University Administrator and professor in business disciplines post their personal balance sheets...lets see how smart they are! Administrators are grossly overpaid and I question their business experience. How are the graduates being prepared to work for themselves? Personally, I am leaning in the direction that business schools should be trade schools for business. Ph.D. programmes are full of smart people, MBA/MS/MA should be full of wealthy people (or those seeking wealth in business disciplines). Let us teach individuals have to build wealth and stop talking about it!)

Answer: 2/3 median income – 2X median income, i.e. \$40,000 - \$100,000.

30 January 2016

Question: What does a negative rate mean?

Japan joins the negative rates club – Pg. 1

- The BoJ has but interest rates to minus 0.1%, stunning analysts and sparking a surge in equity and bonds markets, as policymakers around the world respond to mounting worries about the outlook in China and the risks of a global slowdown
- The BoJ's move comes as many of the world's central banks have signaled they stand ready to counter the slowdown in emerging markets and slumping oil prices. These hints helped shore up equity markets that began the year with sharp falls
- GDP growth in the US slowed sharply in the fourth quarter to just 0.7% as low oil prices and sagging exports held back the recovery
- The ECB became the first large central bank to venture below zero in June 2014 and now charges banks 0.3% to hold their cash overnight
- The ECB and the BoE have also signaled they are willing to shift their policy stances, and the Federal Reserve this week said it was watching the global turbulence for potential implications for the US

Slow US growth underlines choppy recovery – Pg. 2

- The US economy barely grew in the final three months of 2015 as a strong dollar sapped exports, manufacturing sputtered and consumer spending cooled
- Expansion in the world's most important economy slowed to an annualized pace of 0.7% in the fourth quarter, sharply down from 2% in the previous period
- For 2015, the economy expanded 2.4%, matching the pace from 2014

- Consumer spending, which makes up about two-thirds of GDP and has been a bright spot for the US economy, rose 2.2%, marking a slowdown from the 3% pace logged in the third quarter
- Investment fell 2.5% as energy companies pared back spending in light of the rout in the price of crude oil
- However, the central bank alluded this week to economic struggles in a policy statement, noting “economic growth slowed late last year” even as labour market conditions “improved further”

White House renews crackdown on workplace inequality – Pg. 2

- The Obama administration will require companies to disclose what they pay employees by gender, race and ethnicity in a push to crack down on workplace inequality (Prof Note: My vote is public posting of ALL incomes! My two top employees, one male/one female, both earn the same hourly rate)
- ...the age gap between US men and women is 2.5% bigger than the average for rich countries
- ...typical full-time female worker earns 79% for every dollar a man makes, with black women earning just 60 cents and Hispanic women 55 cents
- The disclosure requirement, which was unveiled as a proposal, would apply to businesses with 100 or more employees and cover 63m people – or about 40% of the US civilian workforce
- The biggest gender pay gap among OECD countries is Japan, where it is about 9% wider than in the US

US Federal Reserve – Pg. 5

- The torrid opening to 2016, however, has thrown Ms Yellen and colleagues on to the defensive, coming so soon after they gambled on the rate increase
- A host of central banks, including the ECB, the BoJ and the Swedish Riksbank, have tightened policy only to reverse the decision
- Market expectations that rates could rise again as early as March have sunk, with September now seen as the earliest date

Answer: It means that you return less than you invested, i.e. lose money!

29 January 2016

Question: What are several considerations for Capital Structure?

Spanish unemployment reaches 5-year low – Pg. 2

- The Spanish economy created 525,000 jobs last year, helping to lower the unemployment rate to 20.9% - still one of the highest in Europe but the lowest in Spain for almost half a decade

- The number of unemployed fell 12.4% to 4.78m, highlighting that the overall workforce continues to shrink because of migration and long-term unemployed workers giving up the search for work

Blackstone feels the pain but keeps powder dry – Pg. 14

- Blackstone, the world's biggest manager of alternative assets from private equity to real estate, has revealed that its profits were hit hard by turmoil in the equity and credit markets at the end of last year
- Shares in hotel group Hilton – Blackstone's single largest holding – have fallen a fifth since the end of September. Blackstone's own stock is down 20% over the same period. Buyouts and real estate are just over half of Blackstone's total assets, when increased 16% year-on-year to a record \$336bn

Stocks lack direction as crude benchmarks continue to recover – Pg. 19

- US and European stocks lacked a clear trend, in spite of another strong rise for oil prices, as participants weighed the outlook for Federal Reserve monetary policy and digested the latest data and earnings reports on both sides of the Atlantic
- The yield on the 10-year US Treasury was up 1bps at 2.01%...
- The euro was 0.5% higher at \$1.0949,...
- Gold was down \$10 at \$1,115 an ounce...

Answer: Sales Stability, Asset Structure, Operating Leverage, Growth Rate, Profitability, Taxes, Control, Management Attitudes, Rating Agency Attitudes, Market Conditions, Firm's Internal Condition, and Financial Flexibility

28 January 2016

Question: What does the Hamada equation demonstrate?

World Bank and IMF move to avert oil-led defaults – Pg. 1

- The fund and the bank have also been monitoring developments in other oil-producing countries such as Brazil, which is now mired in its worst recession in more than a century, and Ecuador
- Azerbaijan depends on oil and gas for 95% of its exports and the fallout of its currency weakness has sparked a series of protests across the country, ...

Five acquitted in Libor fixing case – Pg. 13

- Mr Hayes, the first person to stand trial in the global investigation, was sentenced to 14 years in prison, but that was reduced to 11 years by an appeal court in December

Fears fanned as US industrials decline – Pg. 22

- The collapse in oil prices and capital spending by the energy sector is weighing heavily on US industrial companies, fanning fears at a broader slide for the world's largest economy

- A slowing global growth outlook, led by emerging market economies, and a strengthening dollar also pose a significant challenge to industrials
- GE, the largest US industrial group, last week warned of intensifying pressure from falling crude prices, which hit its division serving the oil and gas industry
- Another factor is the rising dollar. While falling prices for commodities, including oil, reduce demand, a higher dollar makes products sold by industrials more expensive globally

Answer: Demonstrates how leverage increases a firm's beta and therefore overall risk

27 January 2016

Question: What equation allows the corporate CFO to balance leverage to achieve the optimal capital mix?

Beijing warns Soros against declaring 'war on renminbi' – Pg. 1

- George Soros, the man who famously broke the pound, has been warned off going to "war on the renminbi" by Beijing...
- The warning,...comes as Beijing struggles to stem capital outflows and support its currency. China's policy response – through intervention to prop up the renminbi – has already scythed its foreign reserves by about \$700bn over the past 18 months to \$3.3tn
- Chinese equities sank to a 13-month low after the Shanghai Composite tumbled 6.4% yesterday
- The Chinese currency has fallen 5.7% against the US dollar since policymakers shocked global markets in August when they granted the renminbi more flexibility to depreciate (Prof Note: This means Hopkins tuition for Chinese Nationals was raised 5.7% on currency depreciation alone.)
- Mr Soros has been blamed for speculative attacks against currencies during the 1997 Asian financial crisis and the British pound in 1992

Invoice inflation adds to China capital flight – Pg. 2

- Inflating the value of imports from Hong Kong to China is commonly used to move cash out of the country and the method has come back into favour as authorities in China clamp down on official channels of taking cash abroad

Rates Fed risks looking more out of step with counterparts – Pg. 2

- US Federal Reserve officials will hold their first meeting of 2016 against tumultuous backdrop of an oil price slump, sliding equities, a strengthening dollar and renewed questions about the stability of the Chinese economy
- Further complicating the picture are murkier signs about the domestic US growth, as labour market resilience is set against disappointing retail sales, falling inflation expectations and a probable slowdown in GDP expansion in the fourth quarter of last year
- The ECB, BoJ and BoE have all sent out dovish signals, meaning the Fed risks looking ever more out of step with its counterparts
- A follow-on move in March looks less likely than it did at the end of December, ...

- Market pricing suggests only one move will happen this year, possibly as late as September – in the face of Fed forecasts for four increases
- The principal reason for delay is the market turmoil that has ushered in 2016

World Bank cuts its oil price forecast to \$37 – Pg. 20

- ...predicting an average of just \$37 a barrel this year,...
- Its new average – down from \$52 forecast three months ago ...
- Its growth forecast for emerging and developing economies this year was revised down from 4.6 to 4%

Answer: Hamada Equation

26 January 2016

Question: What does a flat yield curve mean?

Hong Kong remains the least affordable city on the planet in which to buy a home – Pg. 4

- Hong Kong's dizzying property prices may finally be falling but they are still notching up records, with a survey released yesterday showing the Chinese territory has consolidated its status as the world's least affordable housing market
- Median prices in the third quarter of last year were 19 times the median annual pre-tax household income – the highest in the 12 years of Demographia's International Housing Affordability Study. That compares with second-ranking Sydney, with a median multiple of 12.2, seventh-placed San Francisco on 9.4 and London, eighth, at 8.5
- It is common for entire families to live in spaces of less than 50 square metres and some poorer citizens occupy "cage homes" – tiny bunks stacked on top of each other, enclosed by metal grating
- ...the median monthly wages at less than \$1,900, buying a home remains a distant prospect for many

Charts that can withstand the data deluge – Pg. 10

- Data are an unavoidable part of modern business life, and our capacity to produce them in increasing volume shows no signs of abating
- The challenge for businesses is to find ways to unlock the information hidden within this ever increasing store of data, while being acutely aware that not all of it is use (Prof Note: Have I not been ranting about visualization of quantitative data? Do I not visualize the real estate pro forma graphically?!)
 - In 2003, a UK government survey estimated that 47% of working age adults in England lacked basic numeracy skills
 - Collectively, humans are or intuitive statisticians – many of our notions of quantity are based on individual experience rather than an appreciation of the aggregate, leading to frequent misconceptions (Prof Note: We value projects incorrectly!!! We need to use P(Loss) rather than IRR. Further note, IRR is wrong 100.0% of the time!!! No one understands this!)

- Visualizing data in charts and maps remains the most powerful way of communicating them to a wide audience
- Don't accept default scales generated by chart software
- Carefully choose scales to focus on what matters most in the data
- Add relevant data and concise annotations
- Connect multiple charts to show the bigger picture
- (Prof Note: This is EXACTLY what was lectured in the Statistics and Modeling class that Dean Otter cancelled that had 20+ students signed up. Again, Dean Otter at Georgetown harmed the students by denying them this education. Go Dean Otter...let Georgetown, at best, offer a mediocre education!)

Investors fret over withdrawal of safety net – Pg. 20

- Perhaps most of all investors fret that they are operating without a safety net to which they had grown attached during the post-financial crisis era
- The Bank of Japan has not expanded its quantitative easing programme as expected; the ECB dashed unrealistically high hopes of more Eurozone QE in December; the People's Bank of China has failed to calm concerns through aggressive action; and the Fed has started tightening monetary policy
- Most economists say the risk of a US recession this year are slim, but markets are pricing roughly even odds, and that has consequences
- The interest rate futures market indicates that the Fed may raise rates only once this year, and not until well into the second half. The "yield curve" – the slope derived from various bond maturities – has flattened sharply this year as the likelihood of tighter monetary policy has receded (Prof Immature Note: I told you so!!! This was completely predictable!!!)
- But investors should be careful not to throw in the towel and plough their money into guns, gold and agrarian land, assuming that the era of the central bank put is dead (Prof Note: Hmmm...so much to say on this one but nervous about saying it...not certain I agree or follow this "advice")

Answer: Banks cannot make money as there is no spread, i.e. things are not good!

25 January 2016

Question: What are the top five global MBA programmes and which is the only one-year programme?

Insead's one-year course tops MBA rankings – Pg. 6

- Insead, the business school with campuses in France, Singapore and Abu Dhabi, has topped the Financial Times' Global MBA rankings for the first time since they were introduced in 1999
- This is the first time that an MBA programme with a substantial Asian presence has been ranked number one by the FT, and marks a growing interest from elite students in Asian business and business schools

- Insead is still the only top-ranked business school to teach its full-time MBA on multiple campuses, with 75% of the 1,000 students studying in Singapore or in Fontainebleau, just outside Paris
- It is also the first time a one-year MBA programme has been ranked in the top spot
- Insead's rise to the top of the business school world has been steady. Today, more Insead graduates are chief executives of FT 500 companies than those from any other business school in the FT rankings, other than Harvard
- While US business schools still dominate the ranking with 47 schools listed, it is the first time that they account for less than half of all ranked schools

Investors rush online to ditch stakes in China rural lenders – Pg. 13

- Shareholders in China's rural commercial banks have been offloading their stakes on Taobao, the biggest online Chinese auction site, in a sign of the increasingly desperate steps being taken by cash-strapped investors
- Until this month, an official freeze on initial public offerings in Shanghai and Shenzhen has trapped shareholders from divesting as valuations fall
- The backdoor way for cashing out of the banks reflects a new urgency among shareholders to leave the sector amid dwindling returns and mounting bad debt

EM stressed debt higher than in 2008 crisis – Pg. 16

- The level of stressed debt in emerging markets has hit a new high, passing the previous peak reached at the height of the global financial crisis, in the latest sign of trouble for developing countries
- Yields are rising across emerging markets as investors withdraw their money in a tide of outflows,...
- Stressed bonds are those trading at yields of 700 to 999 points over the yields on comparable US Treasury bonds. Distressed bonds trade at 1,000 bps or more over Treasuries and as market conditions fall, a rise in the former is often followed by a rise in the latter

Answer: Harvard, Stanford, Insead, Wharton, London Business School, and Insead (one-year)

23 January 2016

Question: The Fed just raised rates last month but mortgage rates have actually gone lower, why?

Oil majors among 175 resource groups in danger of rating cuts – Pg. 8

- Several of the world's biggest oil and gas groups – including Royal Dutch Shell, Total and Chesapeake Energy – are among 175 energy and mining companies at risk of rating downgrades following a collapse in crude and other commodities markets,...
- Downgrades that could increase financing costs are seen as most likely for exploration and production companies in North America, where the sharp fall in oil prices is putting pressure on groups that led the US shale boom

- Moody's has blamed China's economic slowdown for its gloomy outlook and pointed to a "substantial risk" that oil prices will recover only slowly from 12-year lows this week of less than \$30 a barrel
- Moody's notice for 120 energy companies and 55 miners is its largest single warning of potential corporate downgrades since the financial crisis
- Brent crude has fallen as much as 75% from its summer 2014 peak of \$115 a barrel amid weaker Chinese demand, robust US production and the decision of Opec, the oil producers' cartel, not to cut output

Rebound sounds a lot like a dead-cat bounce – Pg. 11

- Some market participants have made up their minds. Falling prices for stocks and commodities such as crude oil are confirmation of long-held views about the true strength of China's economy (low) and the ability of its authorities to manage the slowdown (overstated)
- The rest of the world, meanwhile, has become too used to central bank buying of assets and faces a reckoning
- Others see opportunities, citing the maxim of one of the world's most successful investors, Warren Buffett: "Be greedy when others are fearful"

Extractive downgrades: pulling teeth – Pg. 16

- Yesterday, Moody's announced what everyone knew: commodity prices have fallen so much that 175 indebted natural resource companies face imminent risk of a credit downgrade. Two-thirds are from the oil and gas sector, the rest miners

Answer: the Fed raised short-term rates. Segmentation theory states that short-, medium- and long-term rates move independently. The concern in global markets has created a flight to safety and increased demand for longer-term and safer instruments. Therefore, with demand up, price goes up which pushes yield down.

22 January 2016

Home Mortgage: A few individuals called me out that I was considering a mortgage on my home. I have been vocal and adamant that primary homes should not be mortgaged and you should work with haste to pay off your primary home. I need to qualify my statement, which I still believe. I will continue to chant this in Wealth Management classes and to graduate students however, as always, there is more to the story. The lowest cost of fixed debt is one's home mortgage as it is subsidized through interest rate deductions and advantageous rate, i.e. Freddie/Fannie. Therefore if purchasing an investment property one can either: (1) Take a note out for the investment property at 100bps higher (minimum) or (2) purchase investment property all cash using monies from a cash-out refi on one's primary home. This strategy provides a \$40,000 (approximate) saving in interest over 15 years. I intend to write-up a case study on this later in 2016. Also, the LtV I am considering is 75.00%. Please note I am ONLY considering this after having a primary home with no mortgage. I think paying off one's mortgage is an important financial milestone and should be accomplished prior to optimizing one's cost of capital (which is what is really happening above).

Question: How does one know that an entities value has been maximized?

US and European stocks rebound after Draghi signals fresh stimulus – Pg. 1

- Mario Draghi signaled that the ECB was prepared to launch a fresh round of monetary stimulus as soon as March, bolstering a recovery in US and European equities in the wake of heavy losses this year
- His comments spurred a rebound in US and Eurozone equities, sending the S&500 up 1.4% as it rallied after the worst start to a year in two decades

Pearson warns on profit and plans 4,000 job cuts – Pg. 14

- Shares in Pearson, the world's largest education company, rebounded more than 17%, after it laid out plans to cut a tenth of its workforce and said the number of US students going to college would "stabilize" next year
- It has seen virtually no growth in revenues since 2010, and has lost school-testing contracts in the US
- The company believes that a new range of products – including personalized digital course materials, for example in science and maths – would allow it to increase its market share

Russia and Brazil lead fresh EM sell-off – Pg. 20

- Russia and Brazil led a renewed sell-off in commodity currencies, as investors took their cue from oil's plunging value to turn their faces against emerging markets
- The rouble at one stage dropped more than 5%, while the real fell as much as 1.85%, further underlining their sensitivity to Brent crude

Saudi Arabia describes \$30 oil as 'irrational' – Pg. 20

- A surge in US shale output over the past five years has contributed to a global supply glut that has pushed oil prices down 75% in 18 months. The sell-off has accelerated this year, with crude dropping 30% as Iran prepares to re-enter the market

Answer: It is the point at which the cost of capital has been minimized.

21 January 2016

Question: What are the current rates I am receiving for 15- and 30-year money on primary residence cash-out refi, i.e. trying to increase liquidity going into this opportunistic market!

Stock exchanges across the world plunge into bear market territory – Pg. 1

- The global equity rout accelerated yesterday, sending the FTSE All-World index into bear market territory as oil prices slid to new lows and investors fled for the safety of high-rated government bonds
- Fear rippled through global markets, taking the UK, French and Japanese stocks to more than 20% below their 2015 highs – the common definition of a bear market – and compounding equities' worst start to a year on record

- Equities have been dragged down by rising concerns over China, global economic growth prospects, sliding commodity prices and questions over whether central banks remain willing to act as a backstop

Russia recession fears mount after rouble tumbles – Pg. 2

- The rouble fell to a record low of more than 81 per US dollar yesterday, surpassing the level reached in December 2014 in a brief panic that almost triggered a bank run
- ...Brent crude falling back to \$28 a barrel, the rouble fell 2.5% ...
- The IMF this week lowered its forecast for the Russian economy in 2016 to a 1% GDP contraction on the back of low oil prices. Oil and gas account for about half of Russian government revenues

Canada slashes 2-year growth forecast – Pg. 4

- The central bank projects the economy to grow 1.4% this year, down from its previous expectation of 2%, adding that the fallout from oil makes the outlook “highly uncertain”. The bank left its key interest rate unchanged at 0.5% in what was viewed as a close call...

US oil below \$27 for the first time since 2003 – Pg. 20

- The oil market rout continued yesterday as another burst of selling brought losses for 2016 close to 30%
- As US oil prices dropped below \$27 for the first time since 2003, financial markets fell sharply as worries about a deflationary spiral took hold

Answer: 3.25% (15-year); 4.00% (30-year) and 3.875% with 10pts (30-year)

20 January 2016

Question: At its peak, how much oil was supplied via the Alaskan pipeline?

Global economy hangs in delicate balance – Pg. 2

- The world economy is precariously balanced between continued recovery and a third leg of the global financial crisis, ...
- The two sharply-contrasting outcomes highlight the uncertainties surrounding the global outlook in 2016 amid fears of a slowdown in China, plunging commodity prices and high levels of corporate US dollar denominated debt in emerging economies
- ...”the third left of the debt supercycle does seem to be upon us” ...
- High levels of corporate US dollar denominated debt in emerging economies, such as Brazil, ...are adding to uncertainty surrounding the global economic outlook in 2016

Alarm bells ring louder over US inflation – Pg. 2

- Even as the Federal Reserve was lifting short-term interest rates last month, several policymakers were expressing misgivings about tightening in the absence of inflation
- The five-year break-even rate is just 1.11%, and the two-year is 0.45%. The so-called five-year, five-year break-even rate – a popular measure with officials because of its long-term

nature – gauges market pricing of five-year inflation starting in five years. It has slipped to 1.95%, which is close to the record 1.92% touched last year. The long-term average is 2.84%

IEA issues stark 'oversupply' warning – Pg. 20

- The oil market “could drown in over supply” as a rise in Iranian output offsets production cuts elsewhere, threatening a further price collapse, ...
- If Iran – a powerful member of the producers’ group – moved quickly to offer its oil under attractive terms and its OPEC peers such as Saudi Arabia refused to “stay on the sidelines”, prices could lurch lower,...
- OPEC production – led by Saudi Arabia and Iraq – averaged 32m b/d in 2015, some 1m b/d more than 2014

Answer: Approximately 2.2m b/d. Also, Aleyska was my first job after college. I was a Corrosion Engineer. Basically I analyzed pitting data. In 1992 I had a skill few engineers had in Anchorage, I understood both MAC and PC operating systems!

19 January 2016

Question: How much was Brent Crude January 2006 v January 2016?

Opec fires warning as Iran surges back into the world’s oil markets – Pg. 1

- Brent crude, the international benchmark, fell below \$28 a barrel for the first time since 2003, as Iranian tankers loaded with 50m barrels of crude prepared to set sail following the lifting of US and EU sanctions
- ...increase in output of around 500,000 barrels a day, further straining relations with its regional rival Saudi Arabia, the biggest oil exporter
- Prices have tumbled by almost 75% in the past 18 months as the largest producers have refused to give ground, with supplies and inventories ballooning to near-record levels
- The Russia rouble has slumped close to a record low against the dollar while even the wealthiest Middle Eastern Gulf states have started to enact painful cost-saving measures, including reducing subsidies on fuel
- Sanctions on Iran cut its exports from 2.5m barrels a day in 2011 to a little over 1m b/d...

Brazil central bank juggles tough options on inflation – Pg. 4

- Figures this month showed prices of staple surged 61% last year following a poor harvest, adding to pressure on Brazil’s annual inflation rate that ended 2015 at 10.7% - the highest level since 2002
- If Brazil’s central bank raises the country’s benchmark Selic rate beyond the current 14.25% tomorrow, it will increase the already hefty interest payments the government owes on its own debt. As the theory goes, this may raise fears of a default – a prospect that would cause currency depreciation, make imports more expensive, and so actually fuel inflation
- It is a bleak scenario, particularly for older Brazilians who are still haunted by the hyperinflation of the 1980s and early 1990s that wiped out savings and destroyed livelihoods

- Brazil's budget deficit is running at just under 10% with public debt close to 70% of GDP and rising fast. While inflation is far from the highs of the 1990s, the economy expected contraction of 3.7% last year and 3% this year rank as the deepest recession since records began in 1901 and the first back-to-back years of contraction since the Great Depression of the 1930s

High anxiety – Pg. 7

- Global stock markets have lost over \$4tn of value already this year.
- The challenge facing policymakers is that investors continue their exit from commodities, shares and corporate bonds, spurring a stampede that hurts confidence among companies and consumers. After the financial crisis, central banks took exceptional measures to stimulate their economies, but growth has been disappointing
- ...S&P's counted 112 corporate bond defaults last year, the most since 2009. Stress at indebted companies also rose significantly in the past six months, with the biggest increase in the proportion of companies judged to be at risk of a downgrade to their credit rating in six years

S&P credit downgrade sparks Poland sell-off – Pg. 22

- Poland's surprise credit downgrade has resulted in a sell-off across the country's equities, bonds and currency markets as foreign investors grow increasingly skeptical of the new populist rightwing government
- ..cutting Poland's credit rating one notch from A- to BBB+ and assigning a negative outlook, after interference in legal and economic governance by Poland's newly installed Law and Justice administration

Answer: January 06': 65.99, January 16' 29.35

16 January 2016

Question: What is the median upper-income household net worth in 2007 and 2013?

Falls in stocks and oil cap bad week for markets as Fink predicts more misery – Pg. 1

- US stocks yesterday fell below their August lows and Brent crude oil prices sank below \$29 as further disappointment over economic data reinforced a spiral of investor pessimism about the outlook for the world economy
- Equity indices in Japan and Europe have lost a 10th of their value this year, with the US close behind
- Larry Fink, BlackRock's chief executive, reflected the market's bearish mood yesterday when he forecast that stocks may drop another 10%
- The latest market declines came after the release of economic figures showing retail sales fell in December, even as tumbling prices for fuel boosted consumer spending power. The 10-year US government bond yield at one point fell below 2% for the first time since October while riskier junk bonds took another hammering. The S&P 500 was down 3% at midday, making a loss of 8.8% this year

Dip in retail sales raises doubts over US economy – Pg. 3

- US retail sales dipped in the final months of 2015, triggering fresh doubts about the momentum of the economy and helping prompt a rally in government bond prices
- The Federal Reserve raised interest rates by a quarter point in December, citing factors including “solid” gains in household spending. However, a number of recent indicators have suggested the US economy lost momentum in the final months of 2015, raising question marks over when the Fed will be in a position to move again
- By contrast the domestic economic picture in the US has been encouraging, principally because of steady hiring by employers, which pints to confidence among US businesses
- Inflation measured by the personal consumption expenditures deflator has been running below the Fed’s target since May 2012

Risk appetite plummets amid oil collapse and US growth concerns – Pg. 12

- A renewed wave of selling swept global markets at the end of another turbulent week, as a fresh collapse for oil prices, and concerns about Chinese and US growth triggered a sharp deterioration in risk appetite
- The gloomy tone prompted an increase in flows to the perceived safety of US and German sovereign bonds and gold, while the dollar came under pressure – most noticeably against the “haven” yen – as the markets pushed back expectations for further US interest rate rises

Answer: 2007: \$718,000; 2013: \$639,400

15 January 2016

Question: The richest 20.0% of American families own what percentage of total U.S. familial wealth?

Fed Rate setter expresses concern as markets lower inflation expectations – Pg. 1

- Tumbling inflation expectations in financial markets are becoming “worrisome”, ...
- While central bankers should normally look through changes in energy prices to gauge the underlying trend in inflation, it would become more problematic if people’s expectations for inflation began to fall...

China income gap among world’s widest – Pg. 5

- Communist China has one of the world’s highest levels of income inequality, with the richest 1% of households owning a third of the country’s wealth,...
- The poorest 25% of Chinese households own just 1% of the country’s total wealth, ...
- China’s Gini coefficient for income, a widely used measure of inequality, was 0.49 in 2012, ...
- The World Bank considers a coefficient above 0.40 to represent severe income inequality.
- While China’s income inequality is more severe than other large countries, wealth inequality is worse in the US. The wealthiest 1% of Us households owned 42% of all US wealth in 2012, ...

Basel Committee softens capital rules – Pg. 14

- Global banking supervisors have softened new rules forcing investment banks to hold more capital against their trading books, ...
- The rules are designed to discourage investment banks from taking too much risk on to their books as they buy and sell securities from clients, with the ultimate aim of reducing the chances of a bank collapsing
- The Basel Committee on Banking Supervision said yesterday that the amount of capital banks had to maintain for their trading books would be on average 40% higher than they hold now
- A previous draft of the rules – much bemoaned by banks – would have increased the demand by a weighted average of 74%, ...

Rating agencies warn over bank bail-in rules – Pg. 20

- Investors will not be treated equally under new rules designed to impose losses on bonds when banks fail in Europe,...
- New bank bail-in regulations, forcing banks to issue loss-absorbing bonds to save taxpayers from bailing institutions out, are causing other complications because the rules seem to be taking different forms across the EU

Answer: Approximately 90%

14 January 2016

Question: What is the cutoff of the top global billionaires, starting at #1, whose net worth is equal to the bottom 50% of the globe?

Now it's personal – employers given right to check emails are work-related – Pg. 1

- Workers of Europe beware: your employer may have the right to read those personal emails and instant messages you send from the office (Prof Note: Purchase your own device and access NOTHING personal from work devices...the solution is simple!)
- Workplace privacy is an increasingly vexed topic as technology blurs the lines between work and personal life. (Prof Note: About 10 years ago I was sitting next to IBM's CIO on a plane. He asked why I had two blackberry devices. I told him that I believe the only way to separate work and personal was to keep them physically separated. He looked at me and said, "That is what I thought. You are absolutely correct." He then introduced himself to me.

China warns of weaker trade in 2016 as foreign demand falls – Pg. 4

- China, the world's biggest exporter, delivered a gloomy prognosis for the global economy, warning that falling foreign demand would result in weaker trade at home this year
- China's exports, measured in US dollars, declined 1.4% in December month-to-month, narrowing, the 6.8% fall seen in November, ...
- Imports fell 7.6% during December, compared with November's 8.7% drop, as falling commodity prices continued to take a toll

Japan – Pg. 5

- This generation of 20-year-olds celebrating their coming of age across the country is the first to have lived its entire life with the economy in a broad state of deflation
- Economic factors have stripped away the incentives for young, Japanese people to leave home, buy cars, marry, have children, take risks and generally grow up...
- The seijin shiki is a celebration for those Japanese youngsters who, over the past 12 months, have turned 20 – the age at which they gain the right to vote, smoke and drink. Thanks to falling birth rates, there are fewer of them each year and an ever-greater population of retirees for them to support
- Prices in Japan began falling at the time that the 20-year-olds of 2016 were born, and the fruitless attempts to drag Japan from deflation has seeped into their psyche, ...
- Deflation's clearest crime has been to squeeze company profits. As well as suppressing wages, it is blamed, at least in part, for the steady disintegration of the once-comforting job-for-life corporate culture
- Falling prices gave civil servants and those with stable jobs in large corporations a sense of rising wealth but for everyone else – 99% of Japanese companies are small and medium-sized – it has produced a demoralizing sense of insecurity

Renminbi borrowing rate plunges to 8% in HK – Pg. 18

- China eased its purchases of offshore renminbi yesterday after succeeding in eliminating the gap between onshore and offshore exchange rates
- Hibor plummeted to 8.3% yesterday as liquidity returned to the market after the PBoC stepped back and the Hong Kong Monetary Authority, the de facto central bank, continued injecting support to banks
- Globally markets have suffered a poor start to the year, largely triggered by fears over the speed of China's economic slowdown – reflected in a weaker currency – which has depressed prices of assets including oil and US stocks

Investors braced for decline in US earnings – Pg. 20

- Equity investors are braced for the worst earnings season since 2009, with a host of large US companies hit hard by the combination of a stronger dollar and sliding commodity prices
- The S&P 500's drop of more than 5% this year and a \$1tn erosion of market value –
- In 2015 the combination of a rising dollar – fueled by the Federal Reserve finally tightening in December – and a one-third drop in oil prices weighted heavily on company results

Answer: 62

Nevis News: Last installment for January. I ended up racing a donkey on my bike. It is unclear who was faster as I was nervous that if I overtook (s)he would turn into me. Regardless, at a minimum, I am at least as fast as a Nevisian donkey!

13 January 2016

Question: What is the difference between Arbitrage Pricing Theory (APT) and CAPM?

Russia to slash budget after oil price fall – Pg. 4

- Russia is slashing budget expenditure by 10% as it moves to cope with lower revenues following the latest drastic drop in oil prices
- The amendments mark the second straight year that sliding crude prices have forced Russia to redraft its budget, underscoring the country's dependency on commodity exports to keep its economy afloat
- Despite long-running pledges by the government to diversify the economy, oil revenues continue to account for more than half of Russian budget revenues. The current budget for 2016 is laid out for a 3% deficit based on the assumption of an average crude price of \$50

Emerging economies urged to confront 'new reality' – Pg. 4

- Emerging economies are facing a "new reality" that is significantly slowing the pace of economic convergence with the rich world and risks leading to further financial market volatility, ...
- "On current forecasts, the emerging world will converge to advanced economy income levels at less than two-thirds the pace we had predicted just a decade ago. This is cause for concern"

The turmoil is the result of the Fed's blunder – Pg. 9

- Standard & Poor's composite index of the US market has in effect marked time since June 2014
- ...a portfolio rebalancing is under way. The most important shift is in the perceived economic and financial prospects for emerging economies. As a result, capital is now flowing out of emerging economies. These outflows are driving the strong dollar. Given that, the US Federal Reserve's decision to tighten monetary policy looks like an important blunder
- What lies behind this? The pull from the expected tightening of US monetary policy is one reason. Another is the impact of falling commodity prices on a number of emerging economies, including Russia, Brazil and South Africa. Yet another factor is geopolitical instability, notably in the Middle East.
- Worse, on average, about a third of the slowdown among the 24 largest economies between 2010 and 2014 was structural. A particular concern is the decline in the rate of growth of "total factor productivity" – a broad measure of efficiency. Also worrying is the slowing growth of trade, itself partly a result and partly a cause of weaker growth. Globalisation is losing dynamism
- A natural way to solve this problem might be to allow capital outflows, a big depreciation of the renminbi and so a re-emergence of large current account surpluses. But such a "solution" would threaten the stability of the rest of the world economy, particularly since the Eurozone and Japan have already chosen much of the same option

Onshore and offshore rates return to parity – Pg. 24

- China's two renminbi rates returned to parity for the first time in two months, less than a week after a record gap between them threatened to derail the country's currency reforms

Answer: APT uses multiple macroeconomic variables as risk indicators while CAPM uses only one, i.e. beta.

12 January 2016

Question: What are the three types of Derivative contracts?

Stop the carnival Worst recession in decades rains on Brazil's parades – Pg. 4

- Towns and cities across Brazil are being forced to scrap the sacrosanct annual carnival parade as the country is braced for what is expected to be the worst recession since at least the 1930s
- The hedonistic carnival celebration is considered the most important holiday across Brazil, with Rio de Janeiro's spectacular parades attracting close to 1m tourists last year
- Brazil's economy contracted 3.7% in 2015...they predict it will shrink by a further 2.99% this year
- Fitch last month became the second credit rating agency to cut Brazil's debt to junk status amid concerns over its growing fiscal deficit

Warnings mount of \$20 a barrel crude – Pg. 18

- Brent, the global oil marker, fell by more than \$2, or 6%, to \$31.48 a barrel in late trading
- Across the Atlantic, WTI, the US benchmark, dropped more than 6% to \$30.97 a barrel, a fresh 12-year low
- The falls extended to 16% a rout that had seen more than 10% knocked off both benchmarks in the first trading week of 2016
- A slowdown in China, whose growth led the rise in global oil demand over the past decade, in recent weeks has added fears of slowing consumption to massive oversupply, even after a 70% price drop over the past 18 months
- Prices averaged almost \$100 a barrel between 2008 and 2014, fueling a supply boom that the Opec producers' group has countered by not cutting output, sparking a war of attrition

Answer: Futures, Forwards, and Options

11 January 2016

Nevis News: No news...just beautiful days on Nevis (come visit!)

Question: What is the CAPM?

Financial system largely stable, says Beijing – Pg. 2

- The renminbi fell 1.5% against the dollar in onshore trading last week to Rmb6.59 – a sharp move for the carefully managed currency
- Traders have largely ignored the central bank's guidance that they should focus on the renminbi's stability against a basket of 13 currencies rather than volatility against the dollar

- The IMF identified the rising spread between the onshore and offshore RMB rates as an “operational challenge” when it decided in November to include the currency in the basket used to value its SDR from October 1 this year

Courses build on the appeal of bricks and mortar – Pg. 10

- Investment yields and asset values for commercial property have surpassed 2007 levels, helped by years of ultra low interest rates and tight supply. Real estate investment trust, or Reit, priced climbed 80% between 2010 and 2014, thanks to strong demand for offices and urban apartments, and higher returns when compared with bonds
- Only 10.6% of graduates from the world’s top 10 business schools are choosing a career in banking compared with 17.4% in 2008
- The 6.8% drop translates into a 40% difference in banking’s popularity...
- Technology companies such as Google and Facebook have usurped Goldman Sachs as a dream employer, but real estate has also emerged as an alternate path for a simple reason: there are jobs
- Job prospects are often a determining factor for MBAs, many of whom shell out tens of thousands of dollars and forego full-time work to complete the degree
- What was seen in 2006 as clunky and illiquid, riskier than stocks or bonds, is now a “primary asset class”, ...
- (Prof Note: Do you see the constant focus with MBAs and higher-education in general, i.e. they focus on working for others. Where is the focus on working for yourself? Note that Microsoft and Facebook were both started by college dropouts!)
- Georgetown in April put \$10m into a new real estate centre at its business school...(Prof Note: Hence why Dean Kelly Otter of MPS Georgetown (not the business school) has been lying to students, pulling resources and pushing the MPS Real Estate online. The focus seems to be on the business school at the expense of the MPS students. I lost all respect for Dean Kelly Otter at Georgetown when she pulled full classes (20 students) a week prior to the semester starting without alternatives, lied to students about fiscal issues, and chooses to pay some professors, seemingly at random, \$28,000/class. Then when the issues are address to the Asst. Provost, Cindy Chance, by the students, Cindy’s focus is on additional Adult Education rather than fixing the broken MPS Real Estate. Great job and focus Cindy! (I have documentation and transcripts to substantiate all of the Georgetown statements!))

Answer: Capital Asset Pricing Model (CAPM). It is used to quantify equity returns, generally of public companies.

9 January 2016

Nevis News: The island is so very quiet. I cannot describe any better than the island is quiet again. Yes, there are a few tourists lurking about town but otherwise the normal Nevis. It is such a throwback in some ways. Today I had to talk to someone at Mt. Nevis. I did not even think of calling or emailing, I actually went over and saw them in person. So much different than the U.S. where Email and text are so prevalent. Another beautiful day on Nevis.

Question: What are the two leading oil indices?

Markets suffer worst start to year in decades – Pg. 1

- More than \$2.3tn was wiped off global stocks this week as China's slowing economy and currency depreciations spooked investors around the world, leading to the worst start to a year for markets in at least two decades
- A robust US jobs report, which added a stronger-than-expected 292,000 extra jobs in December, allayed some concerns over the US's economic growth yesterday but failed to rescue the grim week for financial markets
- ...the S&P 500 sagged to take its loss for the week to 4.8% - its second-worst start to a year since at least 1929
- Some fund managers argue that the developing world could be the final stage of a three-part rolling global crisis that began in the US in 2008 and moved to the Eurozone in 2010

US jobs market growth surpasses expectations – Pg. 2

- The dollar surged after non-farm payrolls increased by a seasonally adjusted 292,000 in December – well ahead of expectations for a 200,000 increase
- The unemployment rate remained at 5%, ...
- The US Federal Reserve's decision to lift interest rates in December was anchored on expectations that a further tightening in the labour market will start to deliver higher wages and inflation
- The median prediction in the central bank's December projections was for the jobless rate to stabilize at 4.7%. some officials think it could fall to as little as 4.3%
- The participation rate, which has been driven lower by forces such as an ageing population, ticked up to 62.6% from 62.5%, as people were pulled back into work

Brazil crisis deepens as inflation rate misses target – Pg. 2

- Brazil's inflation rate shot above 10% in 2015, missing the central bank's target for the first time since 2003 as the country struggles to emerge from one of its worst political and economic crises in a century
- The IPCA consumer prices index finished last year at 10.67% - more than 4% higher than the 6.5% upper limit of the central bank's target range and the highest year-end rate since 2002

Oil slide spurs fears of further price plunge – Pg. 11

- Oil prices fell more than 10% this week to mark one of the worst starts a year on record, with traders increasingly betting that prices could drop below \$30 a barrel with oversupply showing little sign of easing
- Brent Crude oil...hit a low of \$32.16 on Thursday...

Answer: West Texas Intermediate and Brent (this is arguable as there as many indicators)

8 January 2016

Nevis News: While it only rained in short bursts, the skies were heavy today. It was a cooler day though not approaching the need to button my shirt!

Question: How does China's total equity market compare with the NYSE?

Global markets in fresh turmoil after Beijing fails to halt sell-off – Pg. 1

- The Shanghai stock market was frozen for the second time in four days – just after 30 minutes of trading - ...
- Stock markets and commodity prices dropped around the globe, while leading government bonds and “haven” currencies rallied in a replay of the August market turmoil prompted by an unexpected currency devaluation
- China's forex reserves fell \$108bn in December to \$3.33tn...Reserved peaked at \$3.99tn in June 2014 but have fallen for 13 of the past 15 months
- ...oil priced falling to a fresh 11-year low beneath \$44 a barrel for Brent crude

China's central bank changes the terms of renminbi engagement – Pg. 3

- In another reversal, the regulator yesterday confirmed that it would extend a ban on share sales by large shareholders that had been set to expire today
- Rather than shifting its goal of currency stability, analysts say the PBoC has changed the metrics for measuring that goal
- In contrast to the renminbi's more than 4% fall against the dollar since November 1, it has broadly tracked the larger basket

Answer: NYSE \$19.7tn, China \$14.2tn

7 January 2016

Nevis News: Very odd occurrence. This is my third year managing the course. We had no golfers Christmas to New Years Day but now we are attracting several per day. All are repeat customers that I met in previous years. Oh...we did have a bachelor party of eight this morning. The groom was married this afternoon at Nisbetts. No invitation was not extended to me. I think they were worried I would come as dressed, i.e. pajama pants and unbuttoned beer shirt. They were probably right!

Question: What are the two dominant global accounting standards?

Concerns over China's economy after currency nears 5-year low – Pg. 1

- The pace of China's falling currency, now at its lowest level in nearly five years, has raised the prospect of renewed intervention by the country's central bank as Beijing seeks to control its fragile exchange rate policy
- The sharp decline in the renminbi has put investors on notice that the Chinese economy, a key engine of global growth, may be slowing at a faster rate than previously forecast
- China won reserve currency status in late November from the IMF. The widening gap between the onshore and offshore rates suggests, however, the renminbi is in fact not “freely usable” as the IMF requires

Oil below \$35 for first time in 12 years – Pg. 1

- Oil sank below \$35 a barrel for the first time since 2004 yesterday as a relentless rise in global output overshadowed geopolitical upheavals that had led to a shortlived rally earlier in the week
- Souring relations between Saudi Arabia and Iran have dashed any hopes the cartel can agree to a production cut to support prices

Netflix launches in 130 countries amid online streaming battle with Amazon – Pg. 1

- This latest new media challenge to traditional broadcasters triples the number of markets where Netflix operates (Prof Note: Netflix is all I watch on Nevis. Well, that and YouTube)

Grim year forecast for developing nations – Pg. 2

- Developing economies last year recorded their slowest growth since the immediate aftermath of the 2008 financial crisis and are facing the prospect of an equally grim 2016, ...
- ...global economy would grow 2.9% this year, up slightly from 2.4% in 2015
- Developing economies as a group grew at a rate of 4.3% in 2015, the slowest pace since 2009, and the bank predicted they would grow 4.8% this year
- After suffering through slumps caused by the US subprime and Eurozone crises, the global economy was in the middle of a “third dip” brought about by the slowing of big emerging economies like China and Brazil that was likely to persist for some time, ...
- Besides 2009, when developing economies grew just 3.7%, last year’s growth was the slowest in developing economies since 2001

Panic selling fears prompt extension to sock sale ban – Pg. 3

- China is to extend a ban on stock sales by large shareholders until permanent rules to restrict such sales take effect, as authorities seek to calm market fears over the lock-up that was due to expire tomorrow
- The extension of the ban is likely to reassure markets in the short term, but will raise fresh doubts about government’s willingness to liberalize its capital markets and reduce moral hazard

Mayer under pressure – Pg. 11

- (Prof Note: Oh puuullleezzzz...Mayer is laughing herself to the bank! What a joke! Heads she wins, tails Yahoo! Shareholders lose)

US accounting standard setter drops mark-to-market rule for bank debt – Pg. 11

- Under the rule, banks were allowed to use market prices when valuing their own debt, meaning they could book profits when their debt fell in value and losses when it rose
- The closer a bank was seen to be to default, the cheaper its debt traded – and the greater the profit the bank could book
- Banks and investors lobbied for the rule’s remove and the FASB threw in the towel

- It said it would allow banks to move the gains and losses – known as debt valuation adjustments or DVAs – from the income statement to the balance sheet, buried in a ragbag of non-operational items known as “other comprehensive income”
- The move brings the US in line with the London-based IASB, which changed its rules in July 2014

Answer: FASB and IASB

6 January 2016

Nevis News: The island is soooo quiet. Saw two tourists in town. Looks like they walked there from the Four Seasons. The largest issue is a stray dog that no one seems to own. Nevis 5-0 is tracking down the owner or will capture and release on the other side of the island. Another beautiful day on Nevis!

Question: What is a swap?

Alarm raised over \$800bn of camouflaged sovereign debt – Pg. 1

- More than \$800bn of emerging market sovereign debt is being camouflaged by the growing use of bonds that offer implicit state backing without always appearing on government balance sheets...
- The growing use of such bonds suggests that developing countries are increasingly transferring debt obligations to third parties that have taken advantage of historically low interest rates to load up with cheap debt
- Emerging markets are already under strain as the US dollar strengthens against the renminbi and other emerging market currencies, making the cost of servicing debt denominated in dollars harder to bear

Sluggish Eurozone inflation puts ECB under pressure – Pg. 2

- Inflation in the euro area missed expectations in December and failed to rise, highlighting the scale of the task facing the ECB as it tries to restore an important measure of economic health
- Headline inflation remained stable at 0.2% in the year to December,...
- The core measure, which strips out price changes for more volatile items such as food and energy, stayed at 0.9%,...
- The ECB’s latest staff forecasts, released last month, show inflation of 1% in 2016 and 1.6% in 2017

Beijing steps in to calm fears over stock market losses – Pg. 11

- In an effort to calm nerves, the securities regulator said in a statement before trading began that it may extend a lock-up period for investors holding more than 5% of a listed stock. The selling ban – imposed in July amid the devastating equity rout that wiped 45% off the main index at one point – is due to expire on Friday

Mood remains unsettled after S&P500’s worst start for 15 years – Pg. 19

- The sell-off on Monday – in which the US S&P 500 index suffered its worst start to a year since 2001 – was triggered by a slide of nearly 7% for the Shanghai composite index, which evoked memories of the global stock market turmoil late last summer
- Gold was up \$5 at \$1,079 an ounce...
- The euro...one month low at \$1.0735

Answer: It is simply an exchange. Generally when used in the context of interest rates it is a transaction similar to 'swapping' a fixed rate for a variable rate or vice versa. One may have a fee, another may receive a fee.

5 January 2016

Nevis News: It is official, the tourists have all left. Another beautiful day on Nevis!

Question: What is the difference between nominal and real when discussing return?

China leads world stocks down amid fresh fears over economy – Pg. 1

- The FTSE All-World index slid as much as 2.7%, the most since the height of the August market turmoil, with the Eurofirst 300 and S&P 500 equity gauges falling 2.5% and 2.3%, respectively
- Last year's stock market darlings – the so-called Fangs, Facebook, Amazon, Netflix and Google – were among the biggest losers in the US equity market
- China's blue-chip CSI 300 stock market index dropped 7%, the most in nine years, triggering newly minted circuit-breakers

Strong dollar and fall in oil hit US industry – Pg. 4

- US manufacturers last month recorded their largest contraction in demand in more than six years as the strong dollar and low oil prices continued to drag on the economy
- Manufacturing represents only about 13% of US GDP, so weakness in the sector is not always a sign of a broader malaise in the consumer-driven US economy

Bank Rescues – Pg. 6

- The US alone spent an initial \$430bn on its troubled asset relief programme (Tarp) rescuing Citigroup among others, while the UK laid out 133bn (sterling) to save the likes of RBS and Lloyds (Prof Note: It is still unclear to me who went to jail or was banned from the financial industry for their roles)
- Europe's new system, which puts bank bondholders rather than taxpayers on the hook for losses, has been cemented with the creation of the Single Resolution Board
- A gold rule is that 8% of a stricken bank's liabilities must be wiped out before any public money can be injected
- If any big bank did get into trouble, however, some sceptics doubt that regulators and politicians would have the courage to impose significant losses, either because of the probable political fallout or worries over contagion

Hopes for European rebound dashed – Pg. 22

- Heading into 2016, selling US and buying European shares was a popular call among strategists betting on equity performance in 2016

Long-term forecasts offer rewards and pitfalls – Pg. 22

- ...the outlook for US stock and bond markets is poor,....
- It forecasts a 2.1% annual real loss in the equity of larger US companies and negative 0.9% returns annually for US bonds
- ...long-term (nominal) returns of US large capitalization equities would be 7%, near the long-term average, and 6.75% for US high-yield bonds

Answer: Real is inflation adjusted, nominal is not.

4 January 2016

Nevis News: Ok, new and better Four Seasons Data...the minimum room during the period Christmas to New Years was \$1,500.00/night. It is unclear to me if this covers taxes or not (my guess is no). The cheapest you can get a room at the Four Seasons is during low season, i.e. summer. It is \$175/night (I am fairly certain this does not include taxes so it is roughly \$250). Nevis 5-0 got the scoop on Four Seasons For Sale Villas: \$1.0 - \$1.5m lot cost, approximately 0.8 acres. Build cost: \$1,000/SF.

Question: Who were the top five and worst five Asset Attraction companies in 2015?

Economists say remaining in the EU is vital for UK's future prosperity – Pg. 1

- David Cameron's claim that British membership of a reformed EU is vital to its economic security is today backed by an overwhelming majority of economists...
- The economists' warnings back recent claims from the US that trade with Britain would be damaged if it left the EU

And then there were nine – Pg. 5

- ...stocks were almost exactly flat, as were bonds and cash, meaning that US bonds and equities had their second-worst collective 12 months since 1995 – outstripped only by a disaster year of 2008
- Yet there were some very high numbers for a group of four companies that have come to be known as the “Fangs” – Facebook, Amazon, Netflix and Google – and for a slightly wider group that added Microsoft, Salesforce, eBay, Starbucks and Priceline to create the “Nifty Nine”. Both groups gained more than 60% for the year
- The S&P 500 equal-weighted index, where each of the 500 companies receives 0.2% of the index, was down, and underperformed the S&P weighted by market capitalization
- Such a “narrowing” of the market is a classic symptom of a lengthy rally – this one has lasted almost uninterrupted since 2009 – that is coming to an end
- The dominance of the Nifty Nine recalls the late 1960s and early 1970s, when a long bull market petered out into a period dominated by a “Nifty Fifty” of companies such as Xerox

- Part of the reason is that profits are in decline, mainly due to the problems falling oil prices have created for energy companies
- Writing before the US Federal Reserve decided to raise rates last month, he pointed out that for 2015, “the top 10 stocks in the S&P 500 are up 13.9% while the other 490 are down 5.8% - the largest spread since the late 1990s!”
- The two critical measures that should set the market’s direction are earnings and interest rates
- As for rates, the Fed has told market to brace for four more rate rises this year, while the Fed funds futures market is implicitly only pricing in two

Insurers enter new era of Solvency II – 3,200 pages of 13 years in the making – Pg. 13

- Experts say that life insurance companies face greater challenges than property and casualty insurers, and that some may change their business models as a consequence
- Solvency II rewards well-diversified insurers with lower capital requirements. So the sector is expected to consolidate as larger insurers look to diversify further and smaller insurers with specialized businesses (and less capacity to handle all the new analysis and reporting that Solvency II requires) seek to combine

New entrant Edward Jones shakes up US mutual fund industry with \$15bn initial inflow – Pg. 16

- A new entrant to the US mutual fund industry pulled in more money in 2015 than such powerhouse brands as Fidelity, BlackRock and American Funds
- Vanguard continues to dominate the mutual fund landscape, with net inflows of \$139bn in the first 11 months of 2015,....
- Baby-boomers were set to transfer \$30tn to their offspring in the coming decades, ...

Answer: Best: Vanguard (223bn), BlackRock (124bn), Fidelity (41bn), Amundi (40bn), Nomura (25bn). Worst: Pimco (-79bn), Franklin Templeton (-42bn), Dreyfus (-17bn), M&G (-16bn), Aberdeen (-16bn)

2 January 2016

Nevis News: The Drone took a second spill. You heard it here first: Drunk Droning will soon be outlawed in the states! Holy cow!!! Biked to Four Seasons today and it is like a Miami Vice episode! Every person is handsome and beautiful. They only let me on the grounds as biked past the guard at high speed (“high” is relative, i.e. they thought I was a guest). For some reasons the ladies did not swoon when I pulled up on my 21 speed with front basket. Occupancy was in the 90s with 196 rooms and 46 villas. Soooo...On rooms alone the Four Seasons is printing close to \$300,000/day (minimum). Add in F&B and we are well over \$500,000/day.

Question: What is the per capita gun count in the U.S., i.e. how many guns does the U.S. have per 100 people?

Obama prepares to impose controls on gun sales in efforts to tackle violence – Pg. 1

- Mr Obama has repeatedly called for laws to mandate background checks on gun buyers and he described the lack of action as a vital piece of “unfinished business” from his presidency

- ...86% of Americans support universal background checks

China PMI shrinks for fifth straight month – Pg. 2

- China's economy started the year with more bad news as official data showed the manufacturing sector shrank for a fifth straight month in December
- With China poised to post its slowest annual economic growth rate in 25 years, the country's planners promised more "proactive" and "flexible" fiscal and monetary policies...
- Beijing recently urged state-owned enterprises to employ some of the 300,000 soldiers it is laying off, ...

Global listings drop as tech groups stay private – Pg. 9

- Total proceeds from new listings fell nearly 30% from \$264bn in 2014 to \$194bn, as strong first half fizzled in the second half of 2015 amid fears about ripple effects of a slowdown in China
- A bright spot came from privatization of state-owned companies, as the triple offering of Japan's Post's bank, insurance and holding companies helped propel the Asia-Pacific region to a 43% share of global floats
- All told, US-listed IPO issuance was the weakest it has been since 2009
- With reduced activity in the tech sector, financial companies dominated global fundraising in 2015, accounting for more than 21% of IPOs, the sector's highest share since 2008

Answer: 112 (approximately). The U.S. close to doubles its closest "rival", Serbia.