

>: Can you still profit from the Microsoft / Yahoo deal?

Thursday, February 7, 2008 / Jason Jovine

Before I touch on what relates to your pocketbook, I want to say that a Tycoon reader of ours is going through a very challenging time. His name is George S. He is 79 years old and will be 80 in April. He is having heart surgery this month and is very concerned about the surgery.

If I heard you correctly George, I believe that your doctor told you that there was a one in seventeen chance of survival. George is a retired military man who is staying strong through this difficult time. On behalf of all of us here at Tycoon, we want to wish you the best of luck. We will be praying for you. God Bless!!

Economic Breakdown?

MONETARY POLICY:

On January 22, 2008, the Federal Reserve unexpectedly cut the federal funds rate (interest rates) by 75 basis points; from 4.25% to 3.5%. This move was unprecedented. On January 30, 2008, they cut by another 50 basis points bringing the target federal funds rate down to 3%.

More specifically the key points of the Fed's statement at their January 30th meeting were that:

- 1) The housing and job markets are still weakening**
- 2) The Fed will continue to cut interest rates as needed.**
- 3) Inflation is still an issue but no longer the primary concern for the moment.**
- 4) The credit crunch is still in effect.**

Based on the actions, more than the words, of the fed, they are very concerned about the economy.

The fed's job is to keep the economy growing at the right pace and to stop inflation from getting out of control. When Bernanke first took over, he was more concerned with inflation and less concerned about the economy; now it's the other way around.

Obviously, the negligence of regulators with respect to the mortgage industry coupled with the greed of lenders are the leading reasons that we are in this mess.

FISCAL POLICY:

On the fiscal policy front, Congress is grappling with the economic stimulus package. The key questions are:

- 1) How much should be given out to people?
?and-
- 2) To whom should it be given?

As usual, members of congress are trying to slip in spending that has more to do with their own greed than with stimulating the economy.

In the short term, if they want to stimulate the economy then they should send checks to lower income people. Lower income people are more likely to spend their checks quickly relative to higher income people.

It's kind of like giving a steak to a starving homeless person versus giving it to someone who is already full. This isn't rocket science.

Some may argue that there should be tax cuts given to business. I would generally agree, but the Bush administration has already bent over backwards for business. In other words, tax policies are already super friendly to business relative to the ?Average Joe?.

It is already a ?Capitalism Gone Wild? atmosphere out there. What's next? Will we have to give our blood to business? They already are getting their cake and eating it too. ENOUGH IS ENOUGH!!!!

NOTABLE EVENTS THIS WEEK:

The race to become leader of the free world:

their policies will impact your pocketbook.

As the months continue to pass, and we become clearer as to whom the next president will be, I will certainly discuss that person's policies as they relate to the economy and your wallet. I will do this in a non-partisan way using standard business principles.

(As a side note, after I wrote this article that you are currently reading, I used spell check and guess what happened. Where I wrote "Obama" above, spell check asked me if I meant to s

Microsoft & Yahoo!:

Yahoo's stock shot up over 60% wh



Microsoft, of course, wants to buy Yahoo because they are getting their butts kicked by Google. I think that overall this is good news. It is good news not only because competition in business ends up being good for consumers, but because it will force other players in this field, such as AOL, to take some action. Stay tuned.

About 60% of searches go through Google. About 14% go through Yahoo, and only about 3% go through Microsoft. Moreover, Google has about 590 million unique visitors per month, compared to Microsoft's 540 million and Yahoo's 485 million.

Microsoft does almost \$60 billion a year in revenue, which is much more than Google's 17 billion or Yahoo's 7 billion. The bottom line is that Microsoft has the cash, Yahoo has the name and the visitors, and the two together will definitely create a strong competitor against Google.

If things go poorly between these two lovebirds, Yahoo's stock could fall right back down, so be careful! If you are thinking about playing this deal at all, consider doing a straddle (it's an options strategy). A straddle involves buying a call and a put, or selling a call and a put, with the same underlying security, the same exercise price, and the same expiration date. If the investor buys both options, it is a long straddle. If the investor writes (sells) both options, it is a short straddle.

The purpose of buying or writing a straddle is to speculate on the volatility of the underlying security. The buyer of a straddle expects the price of the underlying stock to be volatile. The seller of a straddle expects price stability (no volatility).

In the case of Yahoo, we expect the price to be volatile. If you choose to play the deal, you, of course, would be buying a straddle. Make sure that whatever you do, that the options on the straddle are long term and preferably in the money.

The Service Sector

The market was down almost 400 points on Tuesday because of the disappointing news coming out of the service sector. The Institute for Supply Management (ISM) came out with their Non-Manufacturing Business survey from January, and the number came in at 44.6. Anything below 50 indicates that there is a contraction.

The prior month (December) had a number of 53.2. That is a huge drop!!

This renewed fears of a recession and increases the odds that the fed will cut rates again! Remember, consumers account for about 2/3rds of GDP (Gross Domestic Product). Out of their spending, about 60% of it goes for services rather than goods.

This is the reason why this statistic had such an effect on the market. This is why economics are so important and so underrated among traders. If

you understand economics, and the impact economic data could have on your portfolio, it could save you an enormous amount of cash!!!

Until the next time folks, spend your hard earned money wisely and please send in words of encouragement to George S.



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