

>: Another One Bites the ARM

Wednesday, December 12, 2007 / Dylan Jovine

WE'VE SPENT THE LAST MONTH DISCUSSING THE GREAT CREDIT PANIC OF 2007.

We started by talking about the "casualties" on Wall Street with "[The Most Dangerous Three Letter Word on Wall Street](#)", an article about Wall St. EGOS that made this disaster possible.

First, Bear Stearns (SYM: BSC) caught the Street by surprise when it announced that two of its "hedge-funds" that invest in subprime mortgage funds lost 90% of their value seemingly overnight.

Then the baton-of-stupidity was passed to Merrill Lynch (SYM: MER) boss Stan O'Neil who announced a 10 billion dollar loss that was double what he estimated just four weeks earlier.

And finally, Citigroup (SYM: C) head Chuck Prince took the baton and ran with it all the way to the finish line. Subprime losses are said to be so big at America's largest bank that the only people who'll even go near it (and take his job) are the kind who usually walk into banks with ski masks and shotguns.

Two weeks ago, we shifted gears and talked about the "casualties" on the consumer side with "[Mortgage Idiocracy](#)", an article about the embarrassing lack of personal responsibility among people who borrowed money to buy their homes.

And in "[The Stock Market Panic of 1907 vs. the Mortgage Panic of 2007](#)" last week, we discussed the parallels between today and 1907 to see, among other things, whether the U.S. government even had historical precedence to intervene in the capital markets, given the circumstances.

Throughout the process, you've written interesting, funny and often thought-provoking responses in the comment section of our website.

And if I don't say this enough, let me stress how much of an honor it is to read your posts. I read each one of them every week, not out of a sense of obligation but because I enjoy them immensely. *******Life in 1907 America*******

If you get half as much pleasure from reading my writing as I get from reading yours, then I know for a fact that *The Tycoon Report* is the best investment newsletter published on earth!

So, in honor of you, I'd like to share several of your comments with the rest of the family:

*I think the fatcats started this housing mess [and] want the "dumbies" (taxpayers) to pay for it. Maybe we should let the system destroy itself and start over with an honest money system. I do not think the subprime bailout will be of much help. What about all the countries, funds, people etc. that bought that subprime paper? They are holding the bag, and it does not look like a petty picture.***AI**

Right on. Greed and deceit always get us in trouble, but the greed always trumps the lessons of history. Buyers are responsible for what they sign. On the other hand, what is the moral and fiduciary responsibility of the lenders? We should put those folks in jail and send a message to the greedy jerks. **Rich**

Sometimes I think the system needs to crash and burn. From its ashes maybe the phoenix of a better system will rise!? Cheers **Matthew McCreery**

*Agree, but government should not make taxpayers liable for this. Freeze the rates or raise only gradually, and let the mortgage banks, hedge funds, mortgage investors, et al suffer the losses. Let them go bankrupt, if necessary. They made more than enough profits, and their CEO's are even now sitting on their mega yachts. Take money out of their pockets. If some of them go under, so be it; new ones will start, hopefully on a more solid basis.***Jae**

*I could not agree more with you. The bailout only delays the inevitable, though; it does not save the system from itself. You will have to pay more than true fair market value for that home that you want, and the rest of us will have to bear the cost of mortgage brokers and banks and greedy individuals laughing all the way to their near bankrupt banks. Ron Paul tells it like it is and probably has no chance of changing the corrupt system that we seem to have. We have nobody to blame but ourselves, pity us. In addition, history always repeats itself so either you will buy an overpriced house or you will be paying rent for the foreseeable future. Either way, it is what it is.***Barry P**

It has always been about saving the system. No matter how much you want to be a bear, short the mortgage industry and the banks, the government needs to bail out the little guy in this case, because otherwise, you don't have a recession, you have a depression. In 1989, the government bailed out the S&L industry to clean up the mess that the crooks made. A few years ago, we bailed out Mexico. Can't we bail out the average Joe, who, even if he read the loan documents, didn't know what they meant? That doesn't mean that he doesn't deserve to own a home. It means that, much like Livermore forewent the profits that were rightfully his, the holders of the mortgages should forgo the uptick on mortgages so as to avoid throwing the entire system into a panic. Since, like Livermore, the mortgage holders did not seem to grasp this concept on their own because of the focus on profits, Paulson is playing the role of J.P. Morgan and convincing (arm-twisting) the banks to fix the rates for the sake of the entire

Pennsylvania. In the 1910 census, there were 9,113,614 residents of New York and 7,665,111 residents of Pennsylvania.)

UNITED STATES HISTORY

Theodore Roosevelt was the President of the United States; his vice president was Charles W. Fairbanks.

A fall of the stock market sparked a financial panic across the country in October. J.P. Morgan, E.H. Harriman, James Stillman, Henry Clay Frick and other financiers created a \$25 million pool and invested in shares on the New York Stock Exchange to avert a major financial crisis.

The ?Indian Territory? and ?Oklahoma Territory? became the 46th state, Oklahoma, on November 16.

Pennsylvania adopted its state flag.

WORLD HISTORY

The Second Hague Peace Conference, comprised of 46 nations, adopted 10 conventions on the rules of war.

Ernesto T. Moneta of Italy and Louis Renault of France won the Nobel Peace Prize.

Korea became a protectorate of Japan.

New Zealand and Newfoundland became dominions.

FABULOUS FIRSTS AND FOUNDINGS

The first helicopter flew.

The famous ?ball? dropped in Times Square to signal the New Year on December 31.

James Murray Spangler invented the first electric vacuum for Hoover.

The first cabs with meters began operating in London.

Robert Baden-Powell founded scouting in the United Kingdom.

Jim Casey founded the United Parcel Service in Seattle.

Pike Place Market in Seattle opened for business.

SCIENCE, TECHNOLOGY AND INVENTIONS

Scientists used radiometric dating to determine that the earth was 2.2 billion years old.

Albert Einstein introduced the principle of $E=mc^2$.

Ivan Pavlov demonstrated conditioned responses with salivating dogs.

Lee DeForest invented the triode thermionic amplifier.

The Autochrome Lumiere was the first color photography process to be marketed.

MEDICINE

The average life expectancy in the United States was 45.6 years for men and 49.9 years for women.

Pneumonia and influenza were the leading causes of death in the United States.

A Bubonic plague outbreak began in San Francisco on May 27.

ART AND LITERATURE

The first ?Cubist? exhibition was held in Paris.

Rudyard Kipling won the Nobel Prize for Literature.



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