

>: 5 Bank Panic Mega-Trends

Wednesday, November 12, 2008 / Teeka Tiwari

[Editor's Note: Teeka is appearing on Fox Business News today, but will return to his regular schedule next week. This article first appeared in the Oct. 8 issue of The Tycoon Report, but with the market resuming its downtrend and more bailout plans on the way, it is as relevant today as it was a month ago.]

It's currently Monday night and I am in Las Vegas after attending a speaking engagement this weekend. Normally I write my articles on Tuesday for publication on Wednesday, but this Tuesday I will be on a plane for most of the day.

So much can change between now and then that what I wanted to do with this article was begin to take you beyond the current cycle and offer you an alternative future other than the fire and brimstone hell that is currently being offered to you by the financial media.

In a bull market, stocks go up on good news AND bad news. In a bear market, stocks go down on bad news AND good news. That is exactly why I think the markets went down last Friday and continue to go down even in the face of the bank bailout bill. Make no mistake, the bank bailout bill is very bullish news.

Negative sentiment is fast approaching "end of the world" proportions. I believe that we are very, very close to a bottom in the stock market. But you must remember that while bull markets end in spectacular blow off market tops, bear markets typically end with climactic selling.

This occurs when the market goes down with sudden and sickening fury and just as the brokers are about to jump off the ledge, the market roars back in a stunning intraday reversal to close higher for the day.

That's the prototypical action one sees when a market bottoms.

The Bull Case

Let me lay out the bull case for you:

1. We've seen the CRB Index, which is an index made up of 19 different commodities, fall 30%. This is a broad-based index that touches every person on the planet. A 30% reduction in the cost of "daily use" commodities is like a tax rebate check for the entire planet.
2. Oil prices are down near 40% from their highs. This is the equivalent of a global tax cut. Those saved dollars flow right to the bottom line of corporations and consumers alike.
3. Lower commodity prices will translate into beefed up corporate earnings surprises (to the upside).
4. \$700 billion in bad bank debt is about to be wiped clean of America's banking balance sheets. This will allow the banks to re-liquify, re-leverage and re-loan, which will stimulate economic growth.
5. The credit markets will become unstuck and short-term credit, which is the life blood of all major corporations, will begin to flow again.
6. There is a strong possibility that we will see coordinated global interest rate cuts.

Every policy move that I am seeing shows me that the macro drivers of this economy are being aligned to one end, and that end is global growth.

It's impossible for me to predict how far we are from the turn. All I can say is that we are bloody close.

The charts are a mess BUT we are very close to putting in a near-term bottom in the stock market. Right now, margin calls, cash calls and company liquidations are battering the market. Margin selling has a life all its own; margin selling begets more margin selling until, like a wildfire that runs out of fuel, it burns itself out.

It's important that we don't get caught up in the media driven death spiral that would have us believe that America is on the verge of becoming one giant dust bowl "hooverville".

Like a pendulum that swings too far we are now into excessive pessimism and excessive pessimism never lasts.

The global economy has been under assault by a dramatic credit crunch and skyrocketing commodity prices, which has led to a sharp rise in the rate of inflation and a near freezing of short-term credit markets. I believe that we are on the other side of the curve of both of these issues.

to-one in the stock market through margin loans.

It was a different real estate crisis that precipitated the 1907 money panic. In 1906, a devastating earthquake destroyed San Francisco. The massive rebuilding effort sucked money out of the system at such a rate that it ignited money-raising panic stock sales. As stock prices got lower and lower, the banks and brokers were forced to put up more and more cash as collateral to maintain their leveraged stock holdings.

Much like the credit default swap problem of today, the banks and brokers were faced with cash calls that they could not meet. It took massive intervention by JP Morgan to restore calm and confidence back to the credit markets.

Fast forward to today and we can see many similarities. Two financial products crushed Wall Street and the banks: sub-prime mortgage bond exposure and credit default swaps.

As the mortgages started to reset interest payments from their low introductory rates, more sub-prime mortgage borrowers started defaulting and defaulting in size.

The delinquency rate on sub-prime loans in 2005 was about 5%, last year it rose to 13% and this year it's at 24%!! That's a 24% delinquency rate on over 2 trillion dollars of sub-prime paper!

What made this worse was the reckless use of credit default swaps or CDSs. A CDS is an insurance policy. The seller says "buy my policy and I will insure you against default risk on your sub-prime bonds."

That's great in a low default environment, but when delinquencies skyrocket from 5% to 24%, that's a nightmare and that is the exact position that AIG found itself in.

5 Mega-Trends Open the Door to Profits

There will be some new mega-trends that emerge as a result of this bank panic. But you are not going to hear any of this from the media all you will hear is fear, panic and despair.

You must look out beyond the current portion of the cycle that we are in. This portion of the economic cycle just does not last that long. Looking ahead there are some sectors that look to be very good places to make money.

1. There is going to be a huge boom in financial regulation.

This will trigger massive investment by the banks into their compliance and risk management departments. Companies that serve these niche areas will do very well indeed.

2. We are about to witness the largest disposal of hard assets in human history.

The U.S. government, along with global banks, will be seeking to sell more than 1 trillion dollars worth of troubled assets. This isn't just residential mortgages, included in that is commercial real estate and business investments of all types. Lehman Brothers alone has \$30 billion in real estate investments that need to be liquidated.

3. It will be a bonanza for private equity firms.

You are going to see enormous sums of money flow into private equity buyout firms. For long-term investors there is huge opportunity to acquire hard assets for pennies on the dollar.

4. If we get a Democratic White House we are going to see vast slabs of money go into green technology.

This is no longer a fringe area of science; some serious players are bucking up huge sums of money in green venture capital deals.

5. On a McCain win we will see massive investments made in oil exploration infrastructure as domestic oil exploration efforts boom.

Another area you may want to place some long-term bets on is in the Stem Cell and DNA sciences area. As the baby boomers age they will spend with wild abandon to preserve and enhance their own quality of life.

Let me be clear, I am not minimizing the very real devastation taking place right now. It's ugly. We know it's ugly. But we also know that the wheels of global commerce are not going to come to a screeching halt. The sun will shine again, consumers will spend again, banks will loan again, companies will hire again and those souls brave enough to imagine a future brighter than what the media tells them will get seriously rich from this

turmoil.

[**Editor's Note:** What mega-trends do you see coming after the bank crisis is over? Leave your comments by clicking below.]

A handwritten signature in black ink, appearing to read 'Teeka Tiwari', with a stylized flourish at the end.

Teeka Tiwari
Chief Investment Officer

[>](#)