

ANNEX BULLETIN

Annex Bulletin 2007-41

November 8, 2007

An OPEN CLIENT edition

EDITORIAL on GLOBAL AFFAIRS

Updated 11/08/07, 8:30PM PDT

The Elusive "Free Lunch" Eludes Greedy Bankers Once Again

Miss Temperance Takes on Old Man Greed

Generational Gap Creates Short Memories: Why We Never Seem to Learn

SCOTTSDALE, Nov 8 – If the Dow were in ancient Babylon (that invented the 360-degree circle over 5,000 years ago), it would have gone the full circle yesterday. It would have plunged 360 degrees and still ended up right where it started. Unfortunately, this Dow resides in a modern Gotham City on a street called Wall. And when it dropped 360 points yesterday, wiping out billions of dollars of paper equities from investors' balance sheets, it stayed down, like a knocked-down boxer.

Worse, just as the groggy prizefighter struggled to pull himself up off the mat this morning, it got knocked down again by the Big Ben (Fed chairman Ben Bernanke), who set him back another 200 or so points (by mid-day's trading, when this editorial is being written).

So what's up? (I know, it might have been better to have asked 'what went down' today?).

Well, Miss Temperance has returned to her walled abode, looking for her due from the Old Man Greed, a delinquent tenant. Her presence is reminding the "subprime" freeloaders that it is time to pay the piper again. So the greedy bankers are scampering like mice looking for the nearest hole in the Wall to hide. Alas, most of them are already jam-packed with earlier arrivals. Which means there are a lot of naked butts sticking out in the Street.

Morgan Stanley, for example, said after the markets closed yesterday that it had suffered \$3.7 billion in losses over the last two months on its portfolio of mortgage-related investments. Worse yet, the brokerage said its losses may balloon to \$6 billion if the markets continue to sour. Shares of Morgan Stanley plunged 6.1%, or \$3.32, to close at \$51.19.

Recent...

HEADLINE

[Miss Temperance Takes on Old Man Greed](#) (An editorial on global financial trends)

[Growth Continues](#) (Analysis of Capgemini's 3Q07 business results)

Q

Also check out...



[An Enchanted Quarter](#) (Analysis of EDS' 3Q07 business results)

[Globalization Pandemic Catches Fire](#) - Analysis of global investments base on 2007 UN report

[Googling to Top of IT World](#) (Analysis of Google's ascent to Top 2)

[On the Button Again](#) - Analysis of IBM 3Q07 results [Annex clients click here]

[An Apple a Day Keeps Bear Away](#) (Analysis of Top 20 IT companies' market, business performances)

[Seedlings Sprouting Stronger Limbs](#) - Update to "IBM State of the Union" [Annex clients click here]

[Strong Finish to Great Year](#) - Analysis of Accenture's 4Q results [Annex clients click here]

[zAAP-ed by IBM!](#) (Analysis: Mainframe demand benefiting from specialty engines, Java)

[Profitable Growth Continues](#) - Analysis of

Merrill Lynch also disclosed yesterday that the Securities and Exchange Commission is investigating matters related to its subprime portfolio. Last month, the company said it would write off \$8.4 billion in assets related to subprime losses, which led to the ouster of its CEO.



Over the weekend, Citigroup also announced that its losses may be as large as \$11 billion in the current quarter.

In short, there is a lots red ink, if not a real blood bath, streaming down the Street from those big banker butts stuck in the holes in the Wall.

Closer to home in the IT industry, after the markets closed yesterday, shares of [Cisco Systems](#) dropped more than 9% in after-hours trading. John Chambers, chief executive, said the technology bellwether had "experienced some softness" in orders from big U.S. customers. Chambers said the world's biggest maker of switches and routers that direct internet traffic, had suffered "dramatic year-on-year decreases in orders" from big US banks, many of which have been left reeling by the subprime woes.

"We continue to expect US enterprise growth to be very lumpy," Chambers said. Dennis Powell, Cisco's chief financial officer, added: "Issues with financial services are directly related to what we are seeing with subprime. It's going to take some time for that to work through..."

And today, the Fed chairman Ben Bernanke sounded like the Big Ben tolling out an alarm when he "painted a perilous economic outlook, and as retailers -- including blue chip Wal-Mart Inc. -- reported disappointing sales," [CNN Money](#) reported today.

So that's what's up. And that's also what went down on the Street called Wall in the last two days. A river of red ink irrigating a swamp of tears, giving a new meaning to the old saw, "I am up to my ... in alligators."

* * *

"I hate this market; there's no inventory left," a real estate agent told me two years ago.

"I hate this market; there is too much inventory," the same real estate agent told me a few days ago.

Markets... how quickly they can go from feast to famine. Climbing back up from famine to feast, however, usually takes much longer. That's what history teaches us anyway. And natural laws. For, that's trip against gravity.

The real estate market slowed down in late 2005, teeter-tottered on the precipice during 2006, and crashed this year. Its undertow is now also pulling down the principal beneficiaries of the real estate bubble who lighted the incendiaries that inflamed the market two to three years ago -- the bankers. They are the ones who lowered the interest rates down to zero in some cases, and lent billions of dollars in mortgages to borrowers whose credit would not have rated a used car loan, let alone a house.

Yes, these were the very same bankers who have always preached to their clients that there is no such thing as a free lunch. Yet here they were, serving it to themselves like a Thanksgiving feast. And these seasoned veterans of past banker follies didn't think the day of reckoning would eventually come? That Miss Temperance would knock on their doors again?

[HP's 3Q business results](#)
[\[Annex clients click here\]](#)

[Sun's Solaris to Shine on IBM's Polarix](#) (IBM to off Suns OS on its hardware)

[The Greening of Big Blue Part 2](#) (IBM to save \$250M in mainframe consolidation)

[IBM Beats the Street](#) (Analysis of IBM 2Q07 business results)

[Adios, Microsoft Vista!](#) (How I Failed Twice in Trying to Scale Mt. Vista)

[Burning the Track - Firin on all cylinders, Accentu raises forecast](#) [\[Annex clients click here\]](#)

[New Broom Sweeps Cle: - Analysis of CSC's 4Q07 business results](#) [\[Annex clients click here\]](#)

[The Last of the \(PC\) Mohicans](#) - Analysis of Dell's strategy changes: Linux, Wal-Mart

[BRIC by BRIC... to Top Li Growth](#) - Echoes from IE meeting for fin analysts [\[Annex clients click here\]](#)

[Per Ardua Ad Astra](#) - Analysis of HP's 2Q07 business results [\[Annex clients click here\]](#)

[The Greening of Big Blue](#) IBM to spend \$1 billion to "going green"

[Are We in "Buyback Bubble?"](#) - Analysis of corporate stock buyback trends

[IBM: Lowering Center of Gravity](#) - Highlights of Partnerworld 2007, with [Detailed Reports for clients](#)

[Growth Accelerating](#) -

Like Love or Hate or any form of Passion, the Old Man Greed has a knack for blinding even people with a 20/20 vision, and obliterating memories even of the smartest gray cells. That's why every now and then, Miss Temperance has to come in, restore law and order, and return the people to their old sensibilities. This is such a time. She is having to scratch an old banker itch again. Just like she did 20 years ago when the S&L crisis erupted, or 7.5 years ago, when the dot.com bubble burst.

And it could be a pretty big itch...

"At this juncture, economists say the troubles in the mortgage market could, all told, cost financial firms and investors up to \$400 billion," the [New York Times wrote on Oct 25](#). "That is far more than the roughly \$240 billion cost of the savings and loan crisis" (adjusted for inflation).

The loss in total real estate wealth alone could be in the \$2 trillion to \$4 trillion range, depending on how far the home prices fall, according to several economists. Still, that would be "significantly less" than the losses suffered by investors in the dot.com collapse on March 2000 that erased more than \$7 trillion, or about 40%, of market value, the Times said.

"Significantly less?" And that's supposed to reassure us when we are facing losses in the trillions of dollars?

"What's a trillion here, a trillion there..." has been typically the way our federal government bureaucrats and politicians think. Now we see that some of the major media suffer the same mentality.

As if anticipating such a reaction, the New York Times added a caveat.

"Experts caution that these estimates are preliminary and the total costs could get bigger still," it said. "They also note that the loss of real estate wealth could prove more damaging for the general public than falling stock values because more American families own homes than own stock."

No kidding. And that's why yesterday's 360-point stock market plunge may be just a drop in a bucket compared to the financial tsunami that may be looming ahead. So batten down the hatches and hold your applause until Miss Temperance has finished cleaning up the mess the Old Man Greed has made again.

Meanwhile, as you wait for the financial blues to blow over and the blue skies to return, you may wish to play the "Stop This World" Diana Krall song to pass the time ([see the lyrics below](#)). "There's just too many pigs in the same trough," indeed, "too many buzzards sitting on the fence."

Nothing new there. That's the Wall Street Casino for you, as this writer put it a decade ago when the Southeast Asian crisis hit (see "[When Will the Wall Street Bubble Burst?](#)", Washington Times, Aug 1998).

"The more things change, the more they remain the same." [Plus ça change, plus c'est la même chose.] (Alphonse Karr, 1808-1890).



Analysis of Cpgemini's 1Q07 business results
[\[Annex clients click here\]](#)

[To Buy \(back shares\) or Not to Buy? - Analysis of stock buybacks in corporate America](#)

[No Surprises in Good Opening Quarter - Analysis of IBM 1Q business results \[Annex clients click here\]](#)

[IBM Stock Still Grossly Undervalued \(A preview of IBM first quarter business results\]](#)

[Accenture Beats Forecasts, Again \(Analysis of Accenture's 2QFY07 results\)](#)

[HPS, Cpgemini Tie for "Gold" - Results of Octathlon 2007 \[Annex clients click here\]](#)

[The Value of pi \(p\) - Analysis of IBM System i and System i market and product strategies](#)

[IBM Profit to Grow Faster Than Revenue - Update 5-yr IBM forecast \[Annex clients click here\]](#)

[The \(T\)ides of March Sink Markets Again - Analysis of global economic & investment trends](#)

[IGS: Growth Slows, Prof Surges - Analysis of IGS 2006 business results \[Annex clients click here\]](#)

[HP: Toward New Highs? \(Excerpts from analysis of HP's 1Q07 business results\) \[Annex clients click here\]](#)

[Cpgemini Caps Great Year, Saves Best for Last \(Analysis of Cpgemini's fourth quarter business results\)](#)

So why don't we learn from history? That's a good question. Wish I knew the answer. Maybe each generation cherishes the right to make its own mistakes, thinking they are being original? So the best wise people can do at a time like this is let them... and get out of their way. For, "where ignorance is bliss, 'tis folly to be wise" (Thomas Gray).

Happy bargain hunting!

Bob Djurdjevic



[Click here for PDF \(print\) version](#)

"Stop This World" Lyrics
Artist (Band): Diana Krall

(Lyrics by Mose Allison)

Stop this world, let me off
There's just too many pigs in the same trough
There's too many buzzards sitting on the fence
Stop this world, it's not making sense

Stop this show, hold the phone
Better days this girl has known
Better days so long ago
Hold the phone, won't you stop the show

Well, it seems my little playhouse has fallen down
I think my little ship has run aground
I feel like I'm in the wrong place
My state of mind is a disgrace

Won't you stop this game, deal me out
I know too well what it's all about
I know too well that it had to be
Stop this game well it's ruining me

Well I got too smart for my own good
I just don't do the things I know I should
There's bound to be some better way
I just got one thing more to say

And that is...
Stop this game, deal me out
I know too well what it's all about
I know too well that it had to be
Stop this game well it's wrecking me

For additional Annex Research reports, check out... [Annex Bulletin Index 2007](#) (including all prior years' indexes)



Or just click on [SEARCH](#) and use "company or topic name" keywords.

Volume XXIII, Annex Bulletin 2007-41
November 8, 2007

[EDS: On Sunny Side of Street](#) (Analysis of EDS' fourth quarter business results)

[CSC: Where Less Seems More](#) (Analysis of CSC's third quarter fiscal 2007 business results)

[Fujitsu: Sales Up, Profit Down](#) (Analysis of Fujitsu third quarter fiscal 2007 business results)

[IBM Shatters Records](#) (Analysis of IBM's fourth quarter business results,

[IBM Stock Passes Century Mark](#) (Analysis of Big Blue's Stock Performanc

[Happy Days Are Here Again](#) (Analysis of Top 2 IT leaders' latest stock market and business performances)

["Excellenture" Excels Again](#) (Analysis of Accenture's first quarter fiscal 2007 business results) [\[Annex clients click here\]](#)

[Hedging the Bets](#) (Analy of latest institutional shareholdings of leading IT companies: IBM, HP, Accenture, EDS, CSC, BearingPoint, ACS, Pero [\[Annex clients click here\]](#)

[Globalization Accelerate](#) (Analysis of United Nation's annual survey of global investments)

[IBM: A \\$125-Stock?](#) (An update to "From Small Acorns Mighty Oaks Grow")

[Capgemini: Longest Sustained Stock Price Rise](#) (An update to "By Leaps and Bounds")

[HP: New King of the Hill](#) (Analysis of HP's fourth quarter business results,

Bob Djurdjevic, Editor
(c) Copyright 2007 by Annex Research, Inc. All rights reserved.
e-mail: annex@djurdjevic.com

8183 E Mountain Spring Rd, Scottsdale, Arizona 85255
Tel/Fax: +1-602-532-7789

The copyright-protected information contained in the ANNEX BULLETINS is part of the Comprehensive Market Service (CMS). It is intended for the exclusive use by those who have contracted for the entire CMS service.

[Home](#) | [Headlines](#) | [Annex Bulletins](#) | [Index 1993-2007](#) | [Special Reports](#) | [About Founder](#) | [Search](#)
| [Feedback](#) | [Clips](#) | [Activism](#) | [Client quotes](#) | [Speeches](#) | [Columns](#) | [Subscribe](#)

[IBM: From Little Acorns Mighty Oaks Grow](#)
(Analysis of IBM's "State of the Union")

[Capgemini: By Leaps and Bounds](#) *(Analysis of Capgemini's preliminary third quarter business results)*

[Fujitsu: Good Performance Gets Bette More Global](#) *(Analysis of Fujitsu's first half FY200 business results)*

[IBM: A Slam Dunk Quart](#) *(Analysis of IBM third quarter business results,*

[Accenture's Emphatic Year-end Accents](#) *(Analysis of Accenture's fourth quarter results)*
[Annex clients click here

[IBM: Services in a Box](#) *(Analysis of IBM Global Services' Ground-shifting Announcements)*

[Strong Comeback by IT Stocks in Third Quarter](#) *(Analysis of top 20 IT companies' market and business trends)*

[Stock Buybacks: A Fadin Fad](#) *(Dell, erstwhile "King of Fluff," suspends its stock buybacks)*

[Capgemini: Growth Continues](#) *(Revenues, net profit up in double digits; margins also improve)*

[HP Firing on All Cylinder](#) *(Stock sets new multi-year record following excellent third fiscal quarter results)*
[Annex clients click here

[Power of Manpower](#) *(While others move to India, Russia... AMD invests in New York, hailing "phenomenal" quality of its labor force,*

[Ebb Tide Lowers Most Boats](#) *(Analysis of EDS'*