

# ANNEX BULLETIN

Annex Bulletin 2008-08

March 7, 2008

*A partially OPEN CLIENT edition*

Recent...

## HEADLINES

[Just Say NO to Greed - Killer of Dreams!](#) (An editorial comment about subprime financial crisis)

[The z10 Lifts "Big Green"](#) (Analysis of IBM's new mainframe announcement)

## EDITORIAL COMMENT

Updated 3/07/08, 2:00PM MST

*There Is No Such Thing As a "Free Lunch" in Truly Free Markets*

### Just Say NO to Greed - Killer of Dreams!

*We Must Stop Rescuing the Gullible and the Greedy and Put Them into Financial Rehab*

SCOTTSDALE, Mar 7 – Do you believe that there is a "free lunch," that you can get something for nothing? Or conversely, that you can get something OUT OF nothing?

If you believe the former, then you are a typical American consumer who took out a subprime mortgage when the rates were low (circa 2004-2005). If you believe the latter, you are a typical U.S. banker or a mortgage broker who created this financial out of thin air and greed.

Now, do you believe that greed can kill dreams? If not, you're an ostrich. Take your head out of sand and look around. All those thousands of foreclosures around the country are thousands of shattered dreams. One out of five of the subprime loans were past due in the fourth quarter, while an additional 13% were in foreclosure. It's the highest rate of foreclosures since 1985 (see the chart).



Now, what's are some COMMON elements in the above examples? First, both consumers and bankers had CHOICES.

Each could have chosen NOT to take the road to doom and disappointment. But they didn't. Driven by greed and plied with a "free lunch" gullibility, they took the low road to gloom.

The second is that each of them was motivated by SELFISH goals. Consumers thought they could save money. Or buy things they could not afford. Bankers and mortgage brokers thought they could make money off of people whom they lured into debt they could not carry.

And now, both sets of culprits are turning to other people, like you and I, expecting us to bail them out. Do you think that's fair? More importantly, do you think that rescuing

Also check out...

**Index 1993-2008**



[HP Beats the Street Again](#) (Analysis of HP's 1Q08 business results)

[Cappgemini's Great Valentine's Day Gift](#) (Analysis of Cappgemini's 4Q07 and FY07 results)

[Profit Drops, Stock Follows](#) (Analysis of EDS's 4Q07 results)

[Profit, Revenue Surge, Lifting Stock, Too](#) (Analysis of CSC's 3Q08 results)

[Services, Emerging Markets Boost IBM](#) (Analysis of IBM's full 4Q07 results)

[Big Blue Shines in 4Q](#) (Analysis of IBM's preliminary 4Q07 results)

[Microsoft Still Wall Street Darling](#) (Analysis of institutional holdings of Top 10 IT Cos)

people like that from financial disaster will help them?

It will not. Not anymore than it would "help" to give alcoholic smaller shots of wine, or treat a drug addict with less cocaine than before. What greedy and indulgent people need to do is change their lifestyle and outlook on life. If we are to stay healthy as a society, we need to put people like that in financial rehab, not give them money so their problems would continue to fester. What we need to do is wean them off these bad habits and the sense of "entitlement" that they have built up. And we need to do that with some "tough love" methods, like those practiced in alcohol or drug-addiction rehabs.

As for the "dealers," like the "get rich quick"-type bankers and mortgage brokers, let them bleed or go bankrupt. And put their CEOs' faces on billboards around the country for ridicule as examples of shysters who got ruined by Greed - their own.

Yet the President and the Congress and the Federal Reserve all feel the need "to do something." And they already squandered more than \$100 billion of our own untainted money to try to help the "addicts" and the "dealers" continue with their bad habits.

Just yesterday, the government took a major step aimed at jump-starting the housing market by raising the cap on the size of mortgages that can be bought by government-sponsored mortgage giants Fannie Mae and Freddie Mac or insured by the Federal Housing Administration. The move was mandated by the recently enacted economic-stimulus law - read a Big Bailout.

Have we learned nothing from the "junk bonds" or the "S&L crises?"

Rescuing people who believe in a "free lunch" will only ensure that they try it again. It is time we, the American taxpayers, "Just say NO!" to both our government officials and the financial wizards who have cooked up this financial mess (as Nancy Reagan advocated for drug abusers back in 1986). Let them stew in their own stew. Once we have cleansed our economy of bad debt, more sound business practices will ensue.

### The Latest Bad News

Well, that process seems to be under way. Home values declining rapidly. Last year marked the first time American homeowners in the aggregate owned less than half the value of their houses. Their share of home equity -- the market value of a home minus the size of its mortgage -- dropped to 47.9% in the fourth quarter of 2007, down one percentage point from the third quarter, the Fed said in a just-released quarterly report.

Equity as a percentage of home values has been falling from a high of more than 80% since 1945, when the data started being recorded, but that decline generally has been a result of mortgage debt rising faster than home prices.

Lately, the downturn in homeowners' equity has accelerated, and it is being driven by falling home prices, which is more ominous both for consumers' net worth and for the loans collateralized by those homes. The decline could portend an increase in the delinquencies and foreclosures that have roiled global credit markets. And the banks are now collecting less than 50% of their mortgage value through foreclosures.

"There are more homeowners who are getting pushed to the limit, where they have little equity left in their homes," J.P. Morgan Chase economist Michael Feroli told the Wall Street Journal. "That makes it difficult to refinance."

### The Good News

The good news in all this bad news is that the universe is unfolding as it should. Free

markets are doing what they are supposed to - punish the "get rich quick" schemes and reward virtue. The Gullible and the Greedy are being punished. The Patient and the Prudent are sitting on the sidelines, cash in hand, waiting for the right time to jump back in.

Our government leaders should practice what they preach, and STAY OUT of free markets. Free markets only remain free without government interference. So they should lead by example and "Just Say NO to Greed!"

I know, I know... That's a tall order in this Land of the Entitled that was once a Land of the Free. Still, I felt it needed to be said. So I'll say it again: "Just Say NO to Greed!" Lest you want your dreams to turn into nightmares.

*Happy bargain hunting!*

*Bob Djurdjevic*

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



For additional Annex Research reports, check out... [Annex Bulletin Index 2008](#) (including all prior years' indexes)



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

<p style="text-align: center;">Volume XXIII, Annex Bulletin 2008-08 March 7, 2008</p> <p style="text-align: center;">Bob Djurdjevic, Editor e-mail: <a href="mailto:annex@djurdjevic.com">annex@djurdjevic.com</a></p> <p style="text-align: center;">8183 E Mountain Spring Rd, Scottsdale, Arizona 85255 Tel/Fax: +1-602-532-7789</p> <p style="text-align: center;">(c) Copyright 2008 by Annex Research, Inc. All rights reserved. <i>The copyright-protected information contained in the ANNEX BULLETINS is part of the Comprehensive Market Service (CMS). Any reproduction is prohibited..</i></p>
--

[Home](#) | [Headlines](#) | [Annex Bulletins](#) | [Index 1993-2008](#) | [Special Reports](#) | [About Founder](#) | [Search](#)  
| [Feedback](#) | [Clips](#) | [Activism](#) | [Client quotes](#) | [Speeches](#) | [Columns](#) | [Subscribe](#)