

Guess the next big bank going bankrupt

Just a primary exercise in arithmetics and statistics. Why most economists, (payroll) observers and WSJ can't do it? Bank watching might be more risky than bird watching - **de(e)pr(ec)ession**



Table 1. SECURITISATION RESIDUALS: top 5 US investment banks, 2004- mid 2007

	2004	2005	2006	1H 07	2004-07	1H 07	1H 07
	residual r, \$ blns	residual r, \$ blns	residual r, \$ blns	residual r, \$ blns	increase 2004-07	tangible K, \$ blns	residual r \ tangible K
BSC	4400	5500	5600	7200	+ 45%	13200	54.50%
LEH	900	500	7300	10800	+ 1443%	20250	53.30%
GS	4330	6070	7080	7700	+ 48%	36650	21%
MER *	1288	2933	5101	7258	+ 244%	40775	17.80%
MS	1721	2384	2863	3247	+ 58%	39100	8.30%
top 5	12579	17387	27944	36205	+142%	149975	24.14%

Bear Stearns, Lehman Brothers, Goldman Sachs, Merrill Lynch, Morgan Stanley

Notes

* 1Q07 for MER, Merrill Lynch

Sources: COMPANY FILLINGS, FITCH ANALYSIS; our elaboration (1H07 tangible K is approximated) from http://www.rgemonitor.com/images/blog/editorial/image002_11.gif

“Residual r” or interests = highly toxic interests, retained by underwriting securities issued by Variable Interest Entities (VIEs)

“Tangible K” or equity = Fitch’s adjusted equity:

3Q06 and later = common shareholders’ equity, less goodwill and all other intangibles, less ineligible deferred tax assets, plus hybrid equity credit (0% to 100%).

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2Q06 and earlier = shareholders' equity, less goodwill and all other intangibles, plus trust preferred.

2004-07 increase: from 2004-05 average to 1H07, residual r total % change

ANALYSIS

1. On subprime crisis verge, the big 5 financial US operators (apex of the widest and most profitable criminal organisation ever invented by the Sapiens) were receiving together **\$36.2 trillions of dirty and toxic interests - gained by chains of extortion, beggar-your-client and securitisation**. This equalled a quarter of their **\$150 trillions tangible capital, on average**
2. Now that things inevitably went wrong, everyone, even at the periphery of the financial **capitalisMafia**, is begging charity and banks nationalisation - i.e. losses socialisation; comrade Gordon Brown already started this well known cycle. If you are not ready to take conscience, and eventually to join revolution and socialism if you'll agree, you might keep paying forever, for them to return back to their robbery golden age.
3. If it'll be depression, not recession - then your children too will have to carry on your charity to multi-trillion Merrill Lynch (I personally prefer David Lynch), Morgan Stanley and Goldman Sachs; some of them will die in war for the **left 3 of the big 5**, and receive gold medals. Gold by then will be back as global money standard.
4. Observe Table 1: there is a strong inverse rank correlation, between big and insecure, among top 5. A minor exception: no. 2 MS is definitely more cautious (lowest absolute level of residuals, and % of equity as well of course, being no.2) than no. 1 MER (2nd % increase, i.e. gradually relaxing precautions)
5. **Lehman Brothers 1443% increase is not a mistake**: their toxic interests increased 15 times in the observed period, that is 10 times industry average % increase. This happened because of **high profits temptation, BSC imitation, and consequent late entry strategy in 2006**: until before, it was the more virtuous bank of the big 5.

Table 2. Tangible K: top 5 US financial banks, 2002-07. \$ blns

	2002	2003	2004	2005	2006	1H '07	g
BSC	6945	8033	9253	11054	11597	13200	13.68
LEH	9439	10923	12636	15564	17100	20250	16.02
GS	14164	16650	22958	25549	32163	36650	22.76
MER *	21087	25507	28300	32657	39127	40775	16.71
MS	21646	26154	28904	29446	35677	39100	13.31

g = %, average Yearly exp. growth, 2002 to 2006, of Tangible Equity (our elab.)

Source: **FitchRatings**, Special Report. **Securities Firms: YE06 Peer Data**. Copyright © 2007 by Fitch

Table 3. Toxic interests as % of tangible K: top 5 US financial banks, 2004-07

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%	2004	2005	2006	1H '07
BSC	47.55	49.76	48.29	54.5
LEH	7.12	3.21	42.69	53.3
GS	18.86	23.76	22.01	21
MER *	4.55	8.98	13.04	17.8
MS	5.95	8.1	8.02	8.3

As Table 3 shows, Bear Stearns was the first to adopt a risky path, suicidal strategy along all the 2003-07 bubble !!!

The Table resumes the exact strategies differentiation among the big securities firms.

A GUIDE TO TEACHERS.

At different school levels, from primary to university, you can easily build from here a role - playing and/or a forecasting game. Once you explain well games rules, they'll soon forecast correctly which bank will go bankrupt, before they fail in the parallel adults game: they'll forecast **better than Barry Riholtz at (*nomen-omen*) Calculated Risk**.

A QUESTION TO PUPILS.

If you guessed since from early game start, that your fellows playing Lehman Brothers and Bearn Stearns were walking deads, now the multi-trillion dollars question comes:

FAQ. Guess why hardly any single adult in the world could do the same as you did, during their own planetary-scale role game?

A key to an answer is a chronicle from Wall Street, the day after Bear Stern cheap sellout, and Fed decision to restart direct lending to securities firms for the first time in 50 years:

Mr. Stern said he was encouraged by the Fed's response to the problems at Bear Stearns.

(...) "They stand committed to protect the system" said [Richard S. Fuld Jr.](#), the chairman and chief executive of Lehman Brothers. Mr. Fuld said the Fed had eliminated the liquidity concerns that had cast a pall over brokerage firms like his. He also said his firm, the biggest underwriter of mortgage securities on Wall Street during the housing boom, had plenty of cash and access to safe securities it could sell if it needed to raise money.

Investors, however, did not see it that way. Shares of Lehman fell \$7.51, or 19 percent

http://www.nytimes.com/2008/03/18/business/18street.html?_r=1&hp&oref=slogin

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