

Hedge Your Risks in Uncertain Times

投資前景未明、
如何沉著面對？

(Presentation Version)

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Anatomy of a meltdown

- 1) Housing Frenzy
- 2) Run of CDOs
- 3) Use of excessive leverage by financial institutions
- 4) Mortgage collapse
- 5) Financial institutions take a huge write down
- 6) A bailout plan, does it work?



US real estate bubble fed a global demand for CDOs that couldn't fail, until they did

Weapons of financial mass destruction
– Warren Buffet

What is a few hundred billion in crummy mortgage loans compared with a \$13 trillion US economy or a US 56 trillion world economy?



US 20 Trillion in residential real estate*

Collectively, homeowners have US 10 trillion of mortgage debt

Average homeowner's equity was US 75,000

More than $\frac{3}{4}$ of homeowners had equity worth more than US 30,000

Monterey Peninsula in California, US 400,000 in equity

Indianapolis, US 25,000 in equity



* Federal reserve board flow of funds 2006

Mortgage Collapse

Consumers who were given big mortgages with little documentation and sometimes no money down begin to default on loans that should never have been given in the first place



Collateralized Debt Obligations (CDOs)

Wall Street Greed –

Folks in the world of finance, created, bought, sold and traded securities that were too complex for layman to fully understand!!



Run of CDOs

Investors, particularly foreign investors seeking higher yields, demand more Collateralized Debt Obligations, which are complicated securities based on pools of other mortgages

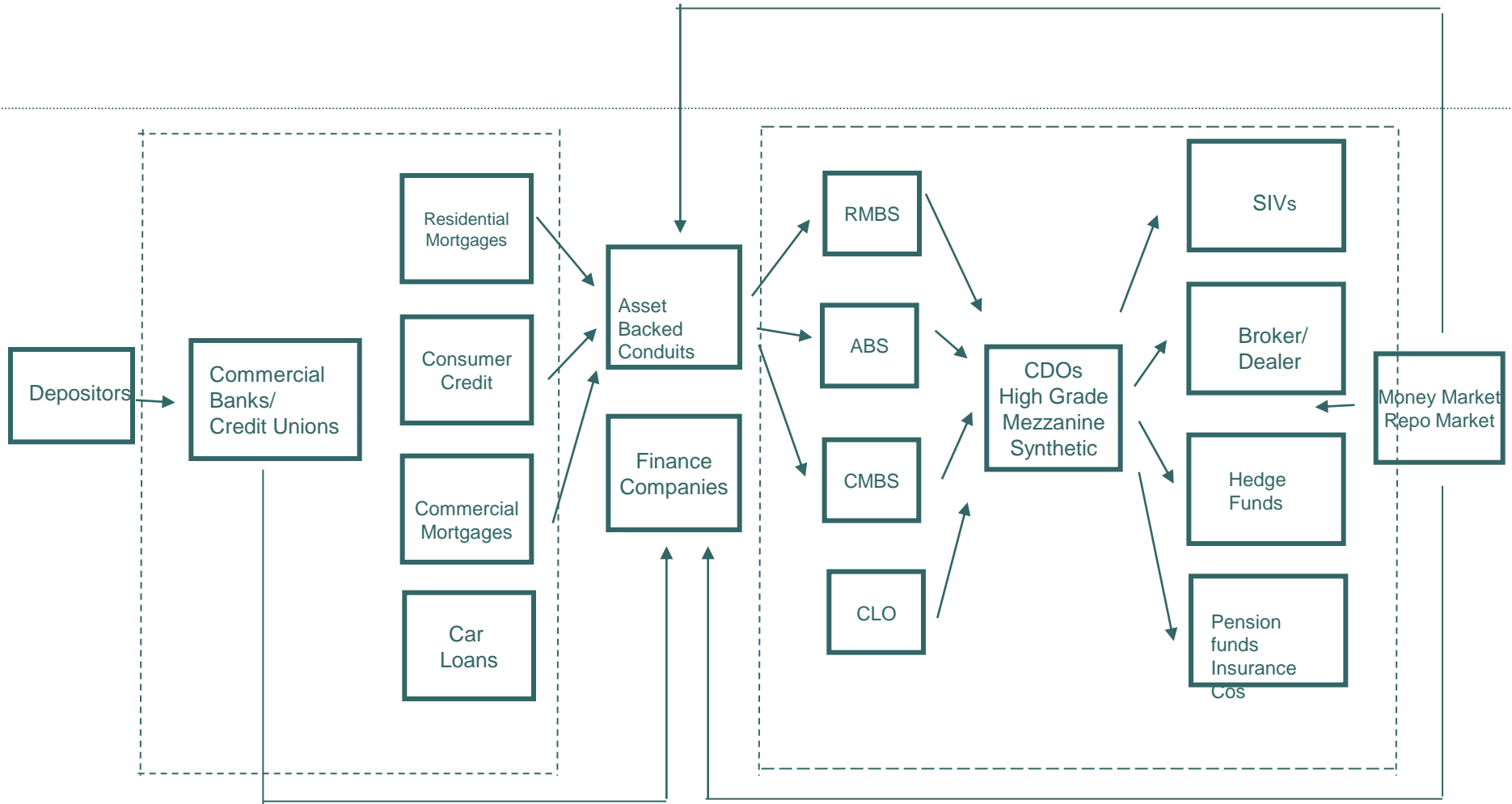
(CDOs 抵押債務證券)

Often absurdly rated AA and AAA and considered as safe as Treasuries



Traditional System

Shadow Banking



Lehman Brothers

Dick Fuld's report card: F

Bet with someone else's money

If win big, get huge profit

If you lose, you lose someone else's money rather than your own

You move on to the next job

You take a lot of money off the table

As CEO, Fuld made US 490 million (before taxes) cashing in stock options and stock he received as compensation



Did LEHMAN BROTHERS steal US\$8 Billion?



- LONDON: The administrators to the European arm of Lehman Brothers have demanded the return of US\$8 billion transferred to the bank's US holding company before its collapse, a report said Saturday.

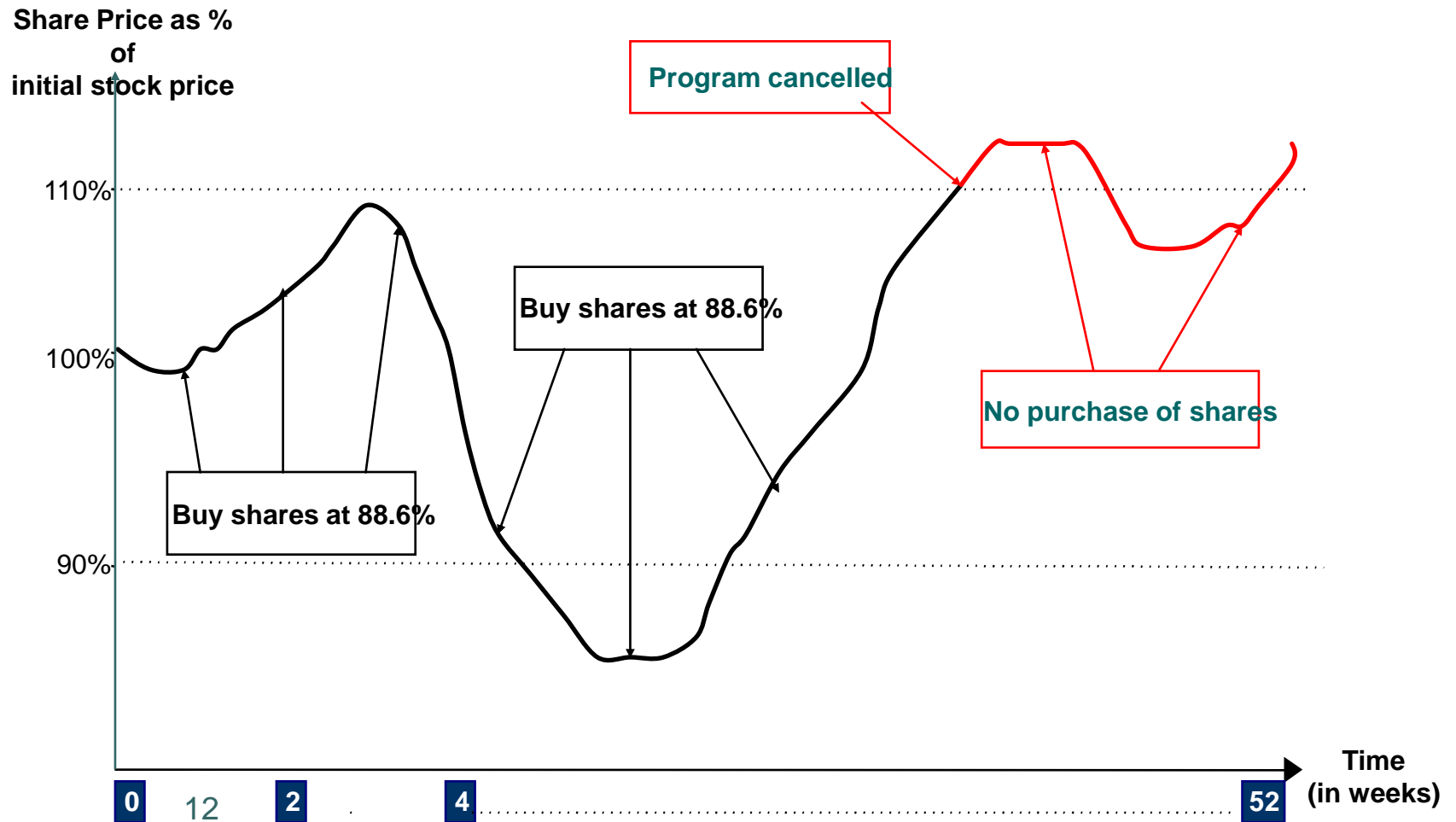
The Financial Times said administrators PricewaterhouseCoopers (PwC) made the demand in a letter on Wednesday, three days after the bank folded when the US government refused to give its suitors the guarantees they were seeking.

Securitization

證券化

Securitization is a structured finance process, which involves pooling and repackaging of cash-flow producing financial assets into securities that are then sold to investors

Buy Below Market – I Kill U Later - Accumulator



George Soros exiting hedge funds business

We wish to express our gratitude to those who chose to invest their capital with Soros Fund Management LLC over the last nearly 40 years," Soros's sons Jonathan and Robert, who are co-deputy chairmen of the investment firm, wrote in a letter to investors. "We trust that you have felt well rewarded for your decision."



A closer look at the 1000 point Dow Plunge



- *I was at 30,000 feet when the crash hit on Thursday. When I landed in NY and saw what happened, the first thought was **trader error**. But the evidence for that remains lacking. I spent a good part of the weekend trying to track down evidence that it was HFT, or a fat thumb, or a NYSE erroneous trade halt. To date, the best analysis I've seen came from a young analyst on an institutional desk. His forensic approach to piecing together what occurred is the best explanation I have come upon:*
- ~~~
- While “**trader error**” or “**a fat finger**” may have been a catalyst for certain elements of the decline, it also **may not have been**. It may have been a “**computer error**” and it may not have been.

Challenge continues in 2012

Subprime

Credit Market

European Debt Crisis



Equity

Consumer

US Recovery?

What Recovery?

Traders, in general, need to deal with both the psychological and methodological aspects of trading



What am I really good at?

What do I want to do?

What is the most important
to me?

What do I want to be
remembered for?

To be successful as an investor, you must have a *lifetime pursuit* in:

Investment selection skills

Market timing skills

Risk Management Skills

Emotion control skills



須勢而行，長短均可，

風險控制，量力而為。



Time for Reflection!

- I know u work very hard to make our lives better, to find your success. The importance is that your hard work is recognized. The dollar value of the a/c does not define your success.
- Like those who made big bucks in the market, I don't think they are successful if they don't have education, no family, no religion, no faith, no mercy, no health. Just think that you already have all you need and anything else is just a bonus. If u don't get that bonus, u don't have to be angry or down.

Keep Hope Alive!!

