

TROUBLE REMAINS

WEB BUZZ 2009.09.14

The stock market rally of the last six months has everyone singing "Happy Days Are Here Again." For those of you who are invested thusly, we say good for you. The only problem is that nothing in the financial markets and its delivery system has been changed. The truth is things have gotten worse rather than better. The too big to fail banks have gotten larger and now they are too bigger to fail. They have taken the free money hoisted on them by the Fed and have, to date, blown a mini-bubble in the various marketplaces. We again caution those who have been caught up in the utopian move of the last six months to take some money off the table. Trouble it is a comin'.

Please note the amount of bad paper that resides on the balance sheets of the large banks. Also keep in mind that this is as of the first quarter of 2009, and most of the recent fireworks have come after that date. Who knows what it looks like now.

Our major point is that we as a country have used debt to solve a debt and malinvestment problem. How does that work?

Company	Notional Value of derivatives	% of Total Notional Value	Implied market value using JPM's actual as template	Implied hedged amount using JPM's actual as template	Total Assets	Notional Value of derivatives / Total Assets	Tangible Equity	Notional Value of derivatives / Tangible Equity	Implied Counterparty Exposure of Derivatives as Multiple of Tangible Equity
JPMORGAN CHASE & CO.	81,161	40.2%	1,798	1,700.05	2,079	39.0x	84.65	958.8x	20.1x
BANK OF AMERICA CORPORATION	38,864	19.2%	861	814.06	2,323	16.7x	65.66	591.9x	12.4x
GOLDMAN SACHS GROUP, INC., THE	39,928	19.8%	884	836.34	926	43.1x	41.91	952.7x	20.0x
CITIGROUP INC.	29,619	14.7%	656	620.41	1,823	16.3x	29.67	998.4x	20.9x
WELLS FARGO & COMPANY	1,870	0.9%	41	39.17	1,286	1.5x	30.33	61.6x	1.3x
HSBC NORTH AMERICA HOLDINGS INC.	3,454	1.7%	76	72.35	402	8.6x	66.23	52.1x	1.1x
Total	201,964	100.0%	4,316.48	4,082.37					

*all data as of 1Q09.

** JPM had additional collateral at the initiation of transactions of 18,500

Adapted from safehaven.com