

# Strictly BIF

## Mayhem at Merrill Lynch

Bhavin Dhanani

**Merrill Lynch** has suffered of late and last week simply compounded the situation.

On Tuesday 6th November Stan O'Neal, Chief Executive Officer of the company, is to leave the company. Although Merrill announced the parting company as "retirement" many believe he was given notice after taking personal responsibility for the massive third quarter loss. "I am accountable for the mistakes as I am accountable for the performance of the

firm overall." It is reported that O'Neal will walk away with up to \$160million.

In addition, the company is facing legal action from shareholders over the \$8.4billion write down in debt. Experts in the law field say there is more to come.

On Friday times really took a turn for the worse as Merrill's share price plummeted 7.9% to a 52 week low of \$57.28. Not since 9/11 has there been such a decline in the share price of Merrill. Friday's

massive drop means that since the turn of the year Merrill shares have lost 38.5% or \$35 billion in market cap. This fall is a result of, a pre-tax loss of \$3.5billion and an \$8.4billion write-down of debts.

Merrill Lynch, has become the pin up of the credit crisis, and without a CEO to take them through this time things look grim for the American bank.



Stanley O'Neal Merrill Lynch CEO, graduate Harvard MBA 1978, employee of 21 years.

## China Cracks Over Oil

Phillip Butler

**Rising Oil** prices are affecting everyone around the world as demand currently outweighs supply.

This week China raised fuel prices by 10% to try and contain the worsening supply effect. The aim is to increase refiners' revenue, which in turn will increase supply. This comes despite a policy implemented in September promising to keep fuel prices constant.

This change has worried analysts as China is currently experiencing record inflation rates,

sparkling fears that inflation could rise further.

By keeping fuel prices constant, the Chinese Government restricted fuel suppliers' ability to pass on additional costs. This lowered profits and therefore the amount suppliers wished to provide.

Oil companies are now looking to import more fuel to capitalise on the extra money available. The price hike means oil suppliers can afford to increase supplies. However, world stockpiles are low resulting in continued inflation pressure.

### Market Change Winners, Losers

- Barclays, RBS, HBoS and Alliance & Leicester have all been hit with 11 to 13% share price drops over the last month.
- Rumours have circulated regarding UK banks using emergency Bank of England funds, demonstrating poor consumer confidence in the financial market stability.
- Mifid—European Markets in Financial Instruments Directive. Came into effect on Thursday, aimed at improving competition across borders for the provision of financial services.

Company	Price	Change
ICAP (finance)	602p	8.8%
Homeserve (retail)	1797p	7.1%
Invensys (electrical)	331.5p	6.6%
Mitchells (brewer)	659p	6.6%
Trinity Mirror (publishing)	378.25p	-8.0%
Barclays (banking)	537.5p	-8.7%
Northern Rock (banking)	171.3	-10.2%
New Star (asset management)	312.25p	-12.2%

## Company Profile

**Name:** Merrill Lynch

**Share price:** \$57.28

**Business sectors:** Global Wealth Management (GWM) and Global Investment Management (GMI)—advisor to small and medium businesses. Global Markets and Investment Banking (MLIM)— advisor to corporations and institutions.

### Recent M&A:

September 2007, completed merger of First Republic Bank.

December 30, 2006, acquired First Franklin mortgage origination franchise from National City Corporation.

September 29, 2006, completed merger of Merrill Lynch Investment Managers with BlackRock, Inc.

**Employees:** 64,200

**Market Cap:** 49.00 billion

### Values:

**Net Revenue:** \$577 million

**Total Client Assets:** Approx. \$1.8 trillion

**Total Stockholders' Equity:** \$41 bn

**Fortune 500:** Ranked No.22

**Stock Symbol:** MER

**Global Markets:** 38 countries

**Revenues:** 57% GMI, 37% GWM, 6% MLIM

## Sub-Prime

**Sub-prime** lending occurs when loans are issued to individuals who do not meet standards required to access the best market rates, due to a poor credit history.

Lenders and borrowers both take on risks when involved in sub-prime transactions. The lender takes on a client with a poor credit history and the borrower will incur massive interest rates.

A rise in sub-prime mortgage foreclosures has led to 100+ sub-prime lenders failing since 2005.

The US sub-prime mortgage market alone is worth \$6.5 trillion. With added company failures, the current lending crisis is expected to affect the housing market and US economy severely.

The crisis can be attributed to a decrease in house prices in 2006. Between 2000 and 2005 house prices rose and payment failings were low since the underlying asset's value was always rising, thus the loan could be refinanced.

## Drop In US Base Rate

Bhavin Dhanani

**The US** central bank has decreased the base rate in America by 25 basis points (0.25%) to 4.5%. This comes after the 0.5% decrease in September.

Many expected the cut, as recent data suggested a reduction in the strength of the US economy. The recent decreases are in an effort to restore confidence in the US economy. The rate cut had a major effect on the US dol-

lar. At the close of the markets on Friday 2nd November £1 was worth \$2.0894 and at one point, it reached a 26 year high of \$2.0897. The Euro also reached a peak against the dollar, €1 could purchase \$1.4528 at its weekly high, before closing the week at \$1.4504.

The dollar weakened against all 16 major currencies. Bloomberg, however, has forecasted a strengthening to \$1.35 per euro by 2009.

## Banking Bites

Canada's unemployment has fallen to a 33 year low. Hopes exist that the new low will shield the Canadian economy from the slow down in the US economy.

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An Asian stock market for new companies is soon to be launched. It will be similar in structure to the LSE's AIM market. The new market is part of a collaboration between the London and Tokyo stock exchanges.

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Less than a month after passing \$600 a share, Google's share price has surged past \$700. This comes as a result of investor excitement over new services in the pipeline.

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Garmin have trumped TomTom's bid for Tele Atlas by offering \$3.3billion for the Dutch digital mapmaker.

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America's GDP has risen 3.9% in the third quarter alone. A surge in consumer spending has offset the recent slump in the housing market.

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Barclays Plc saw their share price fall 6.6% after speculation grew regarding an approach made to The Bank of England for emergency funding.

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The Worlds largest fund manager, Fidelity Investments, has reorganised its corporate structure to avoid hundreds of millions of dollars in future taxes and increase profits for its owners.

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Insolvency figures in England and Wales fell again in the third quarter of the year, dropping 3%.

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Marks & Spencer's profits are announced this week and a 10% rise is forecasted, taking profits to £440 million.