

Goldman Sachs reaped while mortgages tanked, e-mails show

‘Sounds like we will make serious money,’ trader said

By ANTONIO PEREZ
Epoch Times Staff

NEW YORK—Investment banking giant Goldman Sachs Group Inc. knew it was making money betting against subprime mortgages as the market for the risky assets crumbled in front of its eyes, newly released e-mails from U.S. investigators show.

The Senate Permanent Subcommittee on Investigations, chaired by Sen. Carl Levin (D-Mich.), released e-mails it obtained from the investment bank over the weekend, showing how certain businesses and individuals of the bank profited off of the subprime mortgage crisis.

Last week, the U.S. Securities and Exchange Commission (SEC) charged Goldman with fraud for allegedly failing to disclose that a 2007 collateralized debt obligation (CDO), underwritten and subsequently sold by the bank, was partially picked by a hedge fund that was betting against the security.

The SEC claims that Goldman misled two investors in the security—ACA Management LLC and IKB Deutsche Industriebank AG, who lost millions in the transaction after the value of the CDO declined.

So far, Goldman has called the lawsuit without merit and claimed that it, too, lost money on the deal.

But deservedly or otherwise, Goldman is already subject to the public's scorn. It was the only major Wall Street player not to lose a substantial amount of money during the recent financial crisis. When its competitors booked huge losses, Goldman was above the fray, and at the time, analysts touted its prescience in getting out of the subprime market early and hedging its bets.



A financial professional works in the Goldman Sachs booth on the floor of the New York Stock Exchange April 16, 2010 in New York City. CHRIS HONDROS/GETTY IMAGES

A hearing about Wall Street, the financial crisis, and Goldman Sachs will occur on Tuesday in Washington, D.C. Goldman's CEO Lloyd Blankfein and Vice President Fabrice Tourre, an employee the SEC is suing regarding the said CDO, are both expected to testify.

BETTING AGAINST THE MARKET
In an e-mail dated Nov. 18, 2007, Blankfein wrote, "Of course we didn't

dodge the mortgage mess. We lost money, then made more than we lost because of shorts."

The message suggests that Goldman profited off the market by shorting—betting against—certain subprime investments.

Overall, Goldman insists that it did not make money, as the rest of the country saw its housing values tumble. It had lost \$1.2 billion related to subprime mortgages during 2007

and 2008, the company said.

But the e-mails released by the committee showed a different picture. When the subprime mortgage market turned sour in 2007, and many credit-rating agencies degraded their ratings, one Goldman executive was anything but worried.

"Sounds like we will make serious money," trader Donald Mullen wrote in an e-mail in late 2007 to colleague Michael Swenson.

"Yes we are well positioned," Swenson replied.

In another e-mail, a different Goldman trader compared the investments to "Frankenstein turning against his own inventor."

Tourre himself knew of how lucrative it was to take short positions on the securities.

"In sum, I'm trading a product which a month ago was worth \$100 and which today is only worth \$93 and which on average is losing 25 cents a day. ... That doesn't seem like a lot but when you take into account that we buy and sell these things that have nominal amounts that are worth billions, well it adds up to a lot of money," Tourre wrote in an e-mail in early 2007.

In response, a Goldman spokesperson said that Sen. Levin's team cherry-picked the e-mails to steer public opinion. The e-mails were part of a 20 million-document package delivered to the U.S. Senate.

But betting against the market or certain financial securities—which is called "bearish" in investing terms—is nothing new, nor is it illegal. Investors and traders do so on a daily basis—hoping to profit off a free-falling investment in an effort to outsmart other market participants.

TIMING OF LAWSUIT QUESTIONED
Tuesday's hearing and Goldman's woes are expected to serve as fresh ammo for Democratic lawmakers, who are hoping to push financial reform through Congress.

President Barack Obama was in New York late last week to gain support for his financial reform agenda, asking for Wall Street's cooperation, pleading that the reform would be good for both the U.S. economy and the financial sector.

Republicans say that the bill will do more harm than good and could lead to more bailouts. The reform bill includes a controversial "Volcker rule," which seeks to ban proprietary trading and could impose huge levies on major banks.

Others are questioning the timing of the SEC's lawsuit. David Kotz, the SEC's inspector general, said late Friday that he would commence an investigation into the timing of the SEC's lawsuit against Goldman Sachs.

The investigation was reportedly spurred by comments made by Rep. Darrell Issa (R-Calif.), who questioned whether the SEC engaged in unauthorized disclosure of information to affect the debate over financial reform in Congress.

SEC officials voted 3-2 to go ahead with the case against Goldman, evidencing a split among top SEC officials regarding the timing or merit of the case.

The marketing corner: Branding and online advertising

By ADELE LASSERE

Consumers are very savvy these days. It is no wonder that trying to keep up with what is appropriate and generating advertising content can become a full-time job.

One sure way to advertising online and converting a consumer into a customer is to provide information about your brand online. This means that consumers are responding with action to a greater frequency to article-based advertising that includes brand information. The usage of banner-ads, pop-up ads, e-mail, or sponsored links is still common—but there is a growing preference to article-based advertising.

These stats hold true especially among younger, educated, and affluent online users. Online users generally skew younger, but this group actively seeks information about products and services online. Plus, the information that is consumed does impact whether action is taken.

As a small business owner, evaluate the messages you place online. Be mindful of whether the content provides enough, and the right kind of information about your product. Consumers are plugged into the

messages placed online. You want to ensure that message is received positively.

This holds true especially with the younger demographic who wants to read about the product/service, decide if they want more information, and then have the option to click to gain more information and/or purchase the product. This segment spends a lot of time online, and for that matter, multitasks on multiple platforms—such as watching television, surfing the Web, and listening to their MP3 player at the same time. Get the picture?

An additional insight about this younger demographic group is that they are more likely to have children present in the home and have, on average, three or more people in the same household. And since they are affluent, one can see why this group becomes such a coveted consumer to court and capture as a customer.

Adele Lassere is a marketing/advertising consultant with 20+ years experience, freelance writer and soon to be published author of "Elements of Buying: An Advertising Reference Guide for Business Owners." Contact: lassere@bellsouth.net.

Greece weighs on Eurozone economy, currency

By ILYA RZHEVSKIY
Epoch Times Staff

MUNICH—The Greek financial tragedy continues to weigh on the European economy as the struggling EU member tries to secure multibillion dollar loans to bail itself out of its enormous \$400 billion debt.

The latest appeal from Greece called the EU and International Monetary Fund (IMF) to provide a loan of \$60 billion to aid the suffering economy. The final decision will be known in early May.

The appeal is the result of a wave of unsuccessful borrowing attempts where investors were demanding interest rates from Greece three times higher than that of Germany. Moody's Investors Service has lowered Greece's credit rating to A3, and the yield of its two-year note has surged to 11 percent, close to Pakistan.

Greek Prime Minister George Papandreou feels indignant about such high borrowing costs and blames the markets for their mistrust and lack of support for Greece.

"There was no response from the markets, either because they didn't believe in the political will of the EU or because they decided to go on with speculation," he told reporters this week. "The situation threatens to demolish not only the sacrifices of the people but also the regular course of the economy."

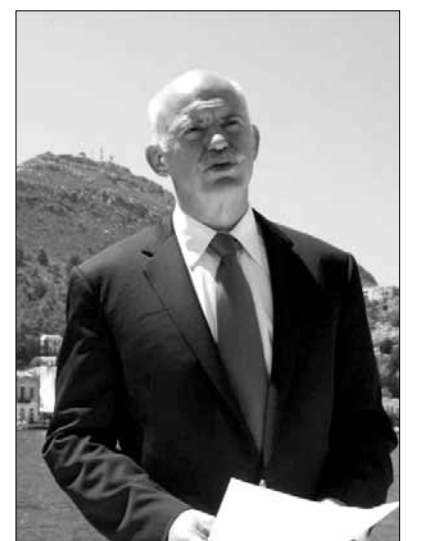
Deutsche Bank analysts expect Greece to contract another 4 percent by the end of 2010, as the country needs to pay off \$13 billion on mature bonds and another \$26.8 billion for debt coupons, and finance the deficit. This money is expected to be extracted through austerity-measure programs aimed at increasing tax, lowering public wages, and eliminating jobs.

Meanwhile, the euro continues to lose ground, falling 7 percent against the dollar over the past 12 months. Analysts speculate that the downfall of the euro could be directly linked to the Greek fiscal collapse. Talks of having the euro currency split up and be used only in the most successful EU countries are being heard more often in political and economy circles.

Greece began using the euro currency two years after its initial entry into the EU, because it didn't qualify due to its enormous budget gap and still-developing economy. After skillfully understating its budget deficit, it was able to barely qualify itself for the currency and therefore was benefiting from European Central Bank's (ECB) low interest rates and EU funds that helped it build infrastructure facilities such as airports, roads, and public buildings.

'NOT FIT TO USE CURRENCY'

The country has recorded a 4 percent economic growth for eight straight years until 2008. While recording economic growth on its balance sheet, Greece was amassing large budget



Greek Prime Minister George Papandreou speaks to the media on the island of Kastelorizo, southeastern Greece on April 23. TATIANA BOLARI/AFP/GETTY IMAGES

deficits that no one cared to notice in the times of inflated success. But to many analysts, the main difference was that Greece was not fit to use the currency, which was mainly managed in Frankfurt and by the ECB in Brussels, to whom Greece was just a small speck in comparison.

When the euro came under pressure during the economic crisis, reality set in and Greece could not borrow freely anymore and live on its borrowed debt. It is similar to the case of a credit card user who doesn't have any money and whose card is maxed out and needs to be paid back. Many EU politicians, including the German's Christian Democrats Union (CDU) representatives, see the only way for Greece to end such a crisis is to force Greece to leave the euro currency.

"The real alternative is for Greece to leave the currency union and become competitive again via hard structural reforms," said Werner Langen, who is the head of CDU group in Germany.

Angela Merkel, the German chancellor, however, is sympathetic and doesn't want to give up on Greece and still offers help. She said that if Greece shows steps to bring down its budget deficit by 2012 within the EU limit and satisfies "very stringent conditions," it will receive the necessary aid.

"Only when these two conditions are met, can we talk about specific aid, including the kind of aid and the amount," Angela Merkel told reporters in Germany.

Given all the negativity surrounding Greece, the only positive note for many EU citizens is that holidays in Greece will be much cheaper this year.

"The current debt crisis will not affect the value of the euro in the short term, but holidaymakers can expect plenty of deals as the Greeks try to lure us over there to give them much-needed revenue," Frances Tuke of the Association of British Travel Agents said.

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