

What's The Story, Part II

The related attachment is from the September 18, 2009 *Financial Times* headline article in the Markets & Companies section. On a somewhat related tangent: the following optional assignment is not the "bank story" I planned to have ready by today (9/22). More work is needed before that assignment will be ready... in case you were anxious for the bank assignment, I've added some discussion after the following story.

Business reporter Justin Baer tells an interesting story about the deal between General Electric, Citigroup, and American Airlines. It seems some sophisticated "big money" will fund a strategic-play based on AA's potentially favorable outlook (see the Baer article).

To some, this is an interesting business story. Imagine you are in this group (i.e., the interested).

The optional assignment relates to specific financial information you would seek (and find). Remember, step one is always 'forming your own story' ... the story helps direct the search for data (and the data helps inform the story).

Requirement (with a slight "no bullet point responses" preference):

There are at least three perspectives on this deal (AA, GE, and Citi)... what do you think is going on from any &/or all participant perspectives?

What information can you get to support or refute your story?

What made you want to get this specific information?

How did that information modify or support your personal story?

Two pages of text and one page of figures is the maximum length.

With the optional assignment posted (above), I'll turn to the bank story. While I realize the following will sound ridiculously nerdy... I can't wait for the third quarter bank reports to start rolling out (SEC form 10-Q for banks - especially publicly traded pseudo REITs - in the 3rd quarter). Based on prior research, the first few public reports will "matter most" to the market (they will set an industry expectation for the degree of insolvency). Basically, what we discussed during class is (1) an insolvent bank, IMPC, at the end of 2008, (2) the 'hidden' insolvency got much worse in the 2nd quarter of 2009, and (3) tentatively, this particular bank was advertising its insolvency (see the 2008 balance sheet with fair value disclosure) in a way other banks did not because they were *better off* than their peers.

There is ample reason for a gloom & doom story and looking at the popular press (WSJ & Financial Times) over the past few days, experts have markedly different views on the situation. My personal view is that the market is not efficient enough to pick out the winners vs. the losers based on 3rd Quarter footnotes in the 10Qs (i.e., I don't think the market will quickly separate the solvent vs. insolvent banks based on fair value footnotes). Originally, I thought analyzing selected banks would make for an interesting optional assignment... but screening the candidates will take awhile. If you are really interested, check out my A5320 webpage sometime in November (that class will be looking at some banks for possibilities like (1) the situation is getting better vs. worse, (2) the rate at which better vs. worse is happening is changing differentially across the country, etc.