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The Market Angle

Wall Street Doubters Growing

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Like wealth, a reputation takes years of hard labor to build -- yet can evaporate in a moment.

It's clear from recent stock-price plunges in **Citigroup** (C) , **Merrill Lynch** (MER) , **Morgan Stanley** (MS) , **Goldman Sachs** (GS) , **Lehman Brothers**, **JPMorgan Chase** (JPM) and **Bear Stearns** (BSC) that investors are scrambling to get their money out of the big brokerage firms' shares.

But shareholders may soon be confronting an even harsher reality: Customers may be scrambling to get their money out of brokerage firms, period.

A retired family member felt it extremely urgent over the past weekend to find out if I thought he should remove his life savings from the hands of Smith Barney, the brokerage division of Citigroup. He's worried about whether his money is safe if things continue to deteriorate. If there are enough of him, these institutions could encounter so-called runs on the banks, or mass withdrawals at least.

While things like federal deposit insurance seem to suggest there's no need for anyone to really worry about the safety of their money, it's clear that many investors are of a different mind.

"It seems pretty clear to me that, bank runs or not, the financial system is pretty close to melting down here," says Scott Frew, general partner at hedge fund Rockingham Capital Partners. "We're at such a tenuous moment that anybody who isn't scared to death about the possible denouements hasn't thought things through carefully enough."

My relative was thinking it through, and he's not alone.

He had read about CIBC bank analyst Meredith Witney's downgrade last week of Citigroup, based on concerns about the firm's capital cushion, given its huge exposures to mortgage-backed securities, collateralized debt obligations and its deteriorating off-balance sheet structured investment vehicle.

He'd also learned that Citigroup was planning an emergency meeting of the board over the weekend to discuss another writedown, following its third-quarter \$6 billion writedown -- mostly due to its exposure to CDOs filled with mortgage-backed securities.

The result of that meeting was Citi chief executive Charles Prince's resignation, and an announcement that the firm may take as much as \$11 billion more in fourth-quarter writedowns.

The news set analysts afoot to chase a fire, trying to get a handle on how much more banks and brokerages will have to write down amid a barrage of ratings agencies downgrades that have now stretched into so-called super senior or triple-A rated pieces of debt.

Last week, ratings agencies noted defaults on even triple-A-rated collateralized debt obligations, and just Wednesday, Moody's Investors Service slashed its rating on \$36 billion of debt backed by structured investment vehicles, or SIVs. That's 11% of total SIV debt outstanding, according to Moody's. The derivatives index tracking triple-A rated asset-backed securities is available for the bargain basement price Wednesday of just 73 cents on the dollar.

Independent research firm CreditSights estimates that Citigroup will have \$13.7 billion in fourth-quarter writedowns. The

damage balloons to \$21.1 billion if you include exposure in its SIV. The firm expects Morgan Stanley to write down \$3.8 billion, Lehman Brothers to write down \$3.9 billion, Merrill Lynch another \$9.4 billion, and Goldman Sachs to write down \$5.1 billion.

The damage is unlikely to stop there, as mortgage borrower defaults and delinquencies are hardly dropping off. Executives like mortgage lender **Washington Mutual's** (WM) Chief Executive Kerry Killinger said Wednesday morning that he expects losses and pain only to mount for the mortgage industry and housing market through 2008.

J. Derek Imes, an investment adviser at Principia Investment Advisors in Athens, Ga., is a former Merrill Lynch employee who now runs his own firm. He says he's been inundated with calls and emails on the subject of exposure to the big brokerage firms.

He and other financial advisers contacted for this story say investor panic is palpable. They didn't see as far-fetched the notion that investors would abandon any and all connection to these institutions. They quickly recalled the lines outside of **Countrywide Financial** (CFC) branches in California in August when the first wave of this credit crunch hit. They also recalled panicked investors withdrawing funds from the U.K.-based Northern Rock, which was eventually rescued by a government bailout.

"I would not be surprised to see a major bank or brokerage house insolvency," says Steve Podnos, an independent financial planner at Wealth Care.

The most recent call to Imes was "a client who thought she heard me say that Citigroup is a custodian we use," he writes in an email. "She is thankfully wrong, but after I explained the situation in detail and informed her that her assets were safely held at Pershing and Schwab, she asked how this might affect the money market funds she owns, which is a very large position I might add."

"The hard part is figuring out what you own," says James Holtzman, adviser and shareholder at Legend Financial Advisors. He says more than a few clients have inquired about whether or not their money market fund has exposure to subprime or any mortgage-backed debt.

Holtzman says he's not opposed to recommending investors move to a "garbage-free" money market account, earn just over 4%, and wait this out for the next 18 months.

"Cash isn't a bad thing at different points in the market cycle, and this is one of them," he says.

In keeping with TSC's editorial policy, Rappaport doesn't own or short individual stocks. She also doesn't invest in hedge funds or other private investment partnerships. She appreciates your feedback. Click [here](#) to send her an email.
