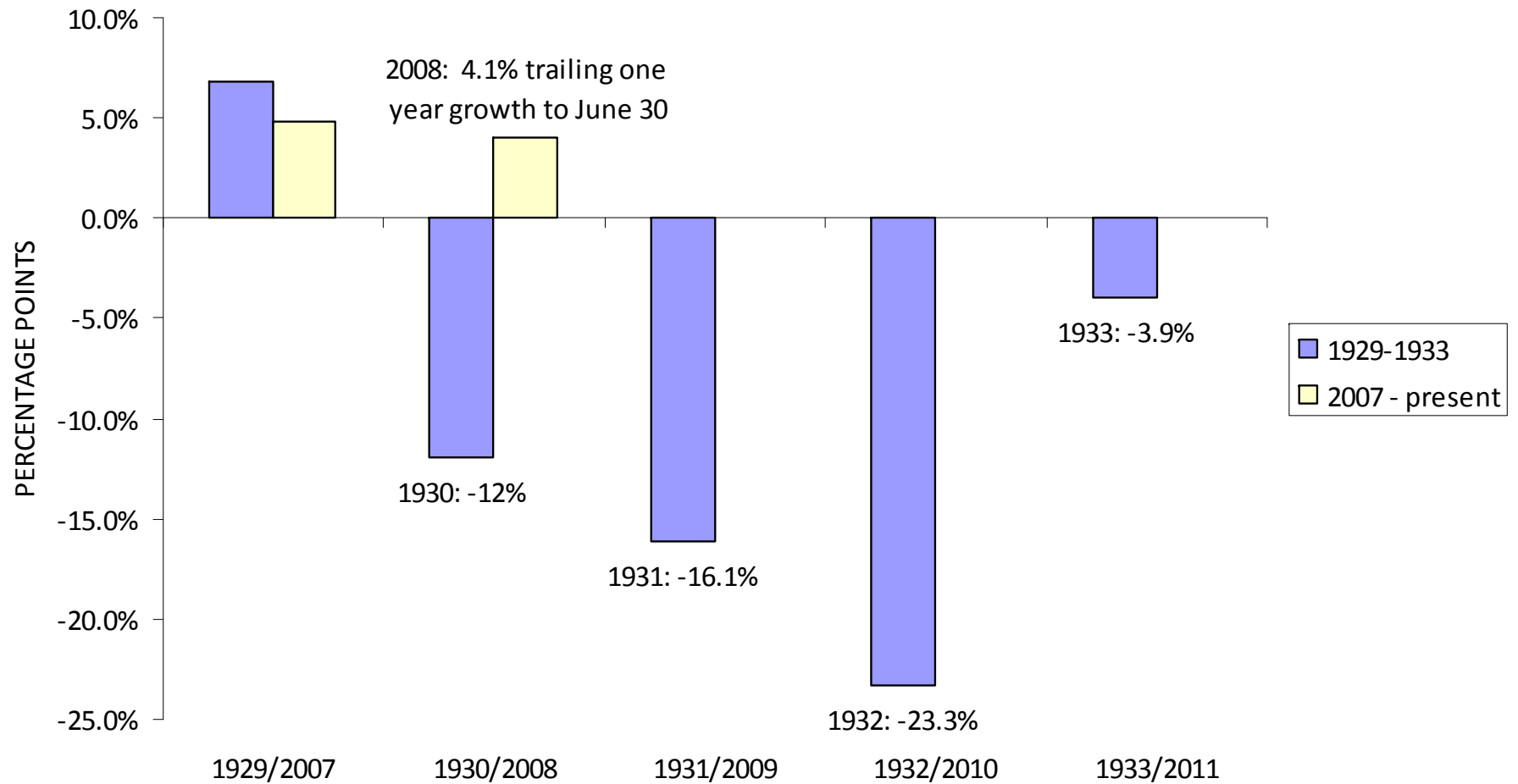


# Mr. Market Miscalculates

A presentation by  
James Grant  
at the 25<sup>th</sup> Anniversary Grant's Fall  
Investment Conference

# Nominal GDP growth



Source: Bureau of Economic Analysis

# H. I. HARRIMAN GIVES RECOVERY PROGRAM; URGES BEER AT ONCE

U. S. Chamber of Commerce  
Head Declares a Revival  
Is Clearly Under Way.

## TAX REFORMS DEMANDED

Twofold Sales Levy Advised—  
25 Per Cent Cut in Costs of  
Government Sought.

## PROHIBITION AN OBSTACLE

Brew Tax of \$6 a Barrel and Later  
Modification or Repeal Proposed  
Over Radio at Capital.

Special to THE NEW YORK TIMES.

WASHINGTON, Aug. 13. — An immediate change in the Volstead act to permit sale of non-intoxicating beer, with \$6 a barrel tax, followed by prompt repeal or modification of the Eighteenth Amendment, was advocated tonight by Henry I. Harriman, president of the Chamber of Commerce of the United States, in an address over the Columbia Broadcasting System, setting forth "the obstacles which confront economic recovery."

Reviewing the slightly upward trend of recent weeks, Mr. Harriman declared that "after three years of travail and devastating depression" there were "definite indications of reviving activity." Many fundamental factors appeared in a better light, and fear was "slowly giving way" to hope.

Confidence was "the starting point of all business enterprise," he pointed out; but before a full return to prosperity could be achieved "many fundamental changes in our way of looking at things and of doing things must be recognized and put into effect."

To facilitate economic recovery Mr. Harriman made these further suggestions:

1. Abolition of the excessive cost of government by reducing at least 25 per cent all governmental budgets, with an amendment to the Constitution authorizing the President to veto single items in appropriation bills.
2. Overhauling of our whole system of taxation, with consideration by Congress of a manufacturers' sales tax and by local governments of a retail sales tax "as a partial substitute for the over-heavy burden upon real property and certain classes of productive industry."
3. Application of spread employment and part-time work to all classes of workers.
4. Elimination of increasing governmental competition with private productive enterprise, such as operation of barge lines, hotels, saw-mills, retail stores, dairy farms and the sale of electricity and gas.  
Easing of Trust Laws Urged.
5. Modification of anti-trust laws where their effect has been to block constructive cooperation, and modification of the Federal Trade Commission act to the same end.
6. Fair trial of the domestic allotment plan for wheat, cotton and tobacco.
7. Legislation to provide for a minimum capital of \$50,000 for State and national banks, extension of branch banking within State limits, establishment of a liquidating corporation to enable depositors in closed banks to recover at least

NOV 2

*Articles of Agreement*

4/17/55H

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# INTERNATIONAL MONETARY FUND

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*United Nations Monetary and Financial Conference*

*Bretton Woods, N. H. • July 1 to 22, 1944*

WEHATCHER PRINTING CO.

1947



INTERNATIONAL MONETARY FUND  
WASHINGTON, D. C.

either member more effective, provided that such measures and regulations are consistent with this Agreement.

SEC. 3. *Avoidance of discriminatory currency practices.*—No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any discriminatory currency arrangements or multiple currency practices except as authorized under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 4 of that Article shall apply.

SEC. 4. *Convertibility of foreign-held balances.*—(a) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents

- (i) that the balances to be bought have been recently acquired as a result of current transactions; or
- (ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in the currency of the member making the request or in gold.

(b) The obligation in (a) above shall not apply

- (i) when the convertibility of the balances has been restricted consistently with Section 2 of this Article, or Article VI, Section 3; or
- (ii) when the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2; or
- (iii) when the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them; or

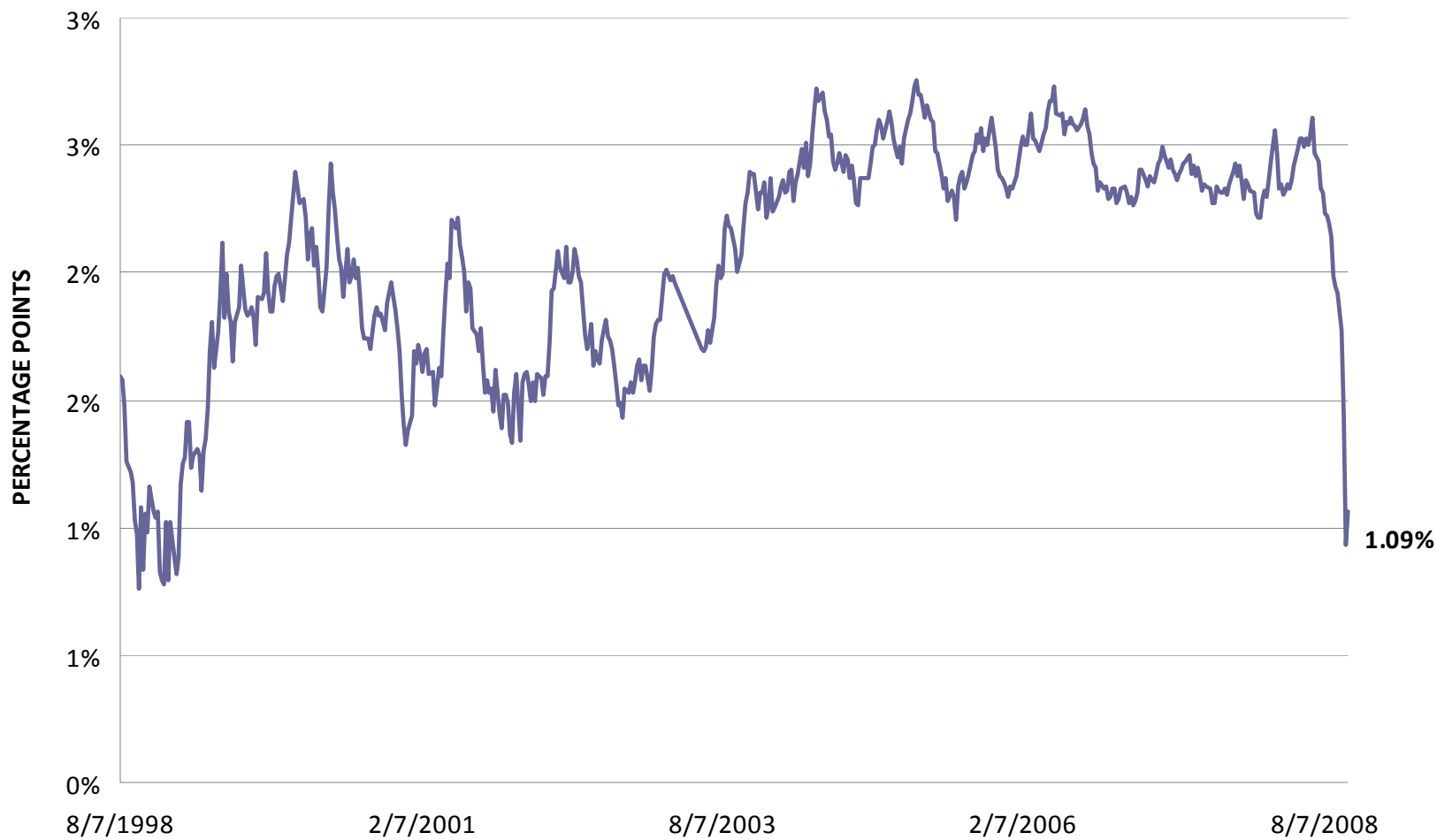
(iv) when the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3 (a); or

(v) when the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the Fund for its own currency.

SEC. 5. *Furnishing of information.*—(a) The Fund may require members to furnish it with such information as it deems necessary for its operations, including, as the minimum necessary for the effective discharge of the Fund's duties, national data on the following matters:

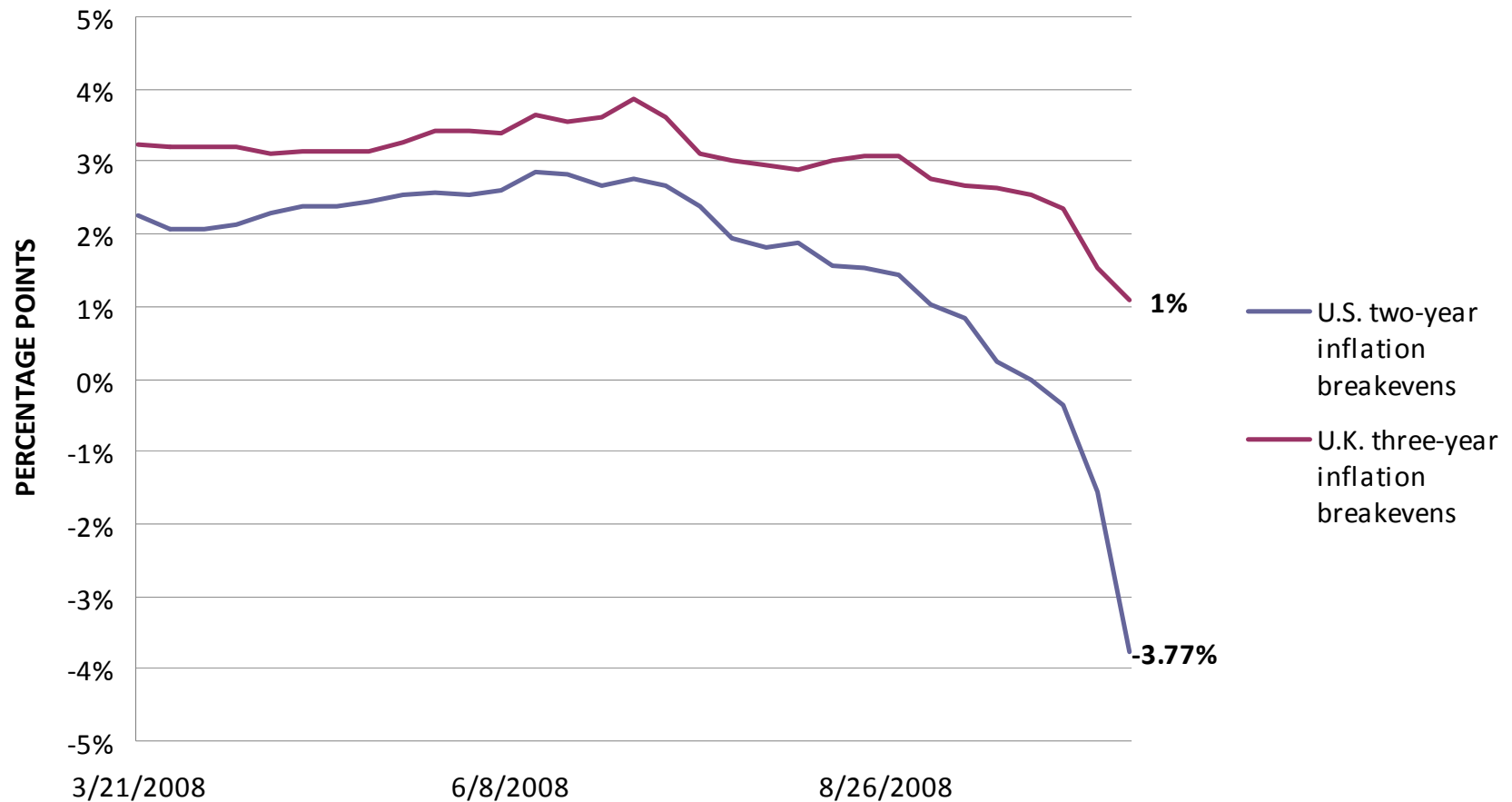
- (i) Official holdings at home and abroad, of (1) gold, (2) foreign exchange.
- (ii) Holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange.
- (iii) Production of gold.
- (iv) Gold exports and imports according to countries of destination and origin.
- (v) Total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin.
- (vi) International balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items.
- (vii) International investment position, *i. e.*, investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information.
- (viii) National income.
- (ix) Price indices, *i. e.*, indices of commodity prices in wholesale and retail markets and of export and import prices.
- (x) Buying and selling rates for foreign currencies.

## 10 year Treasury Inflation-Protected Securities inflation breakevens



Source: The Bloomberg

## Short-term inflation expectations have diverged between the U.S. and the U.K.



Source: The Bloomberg

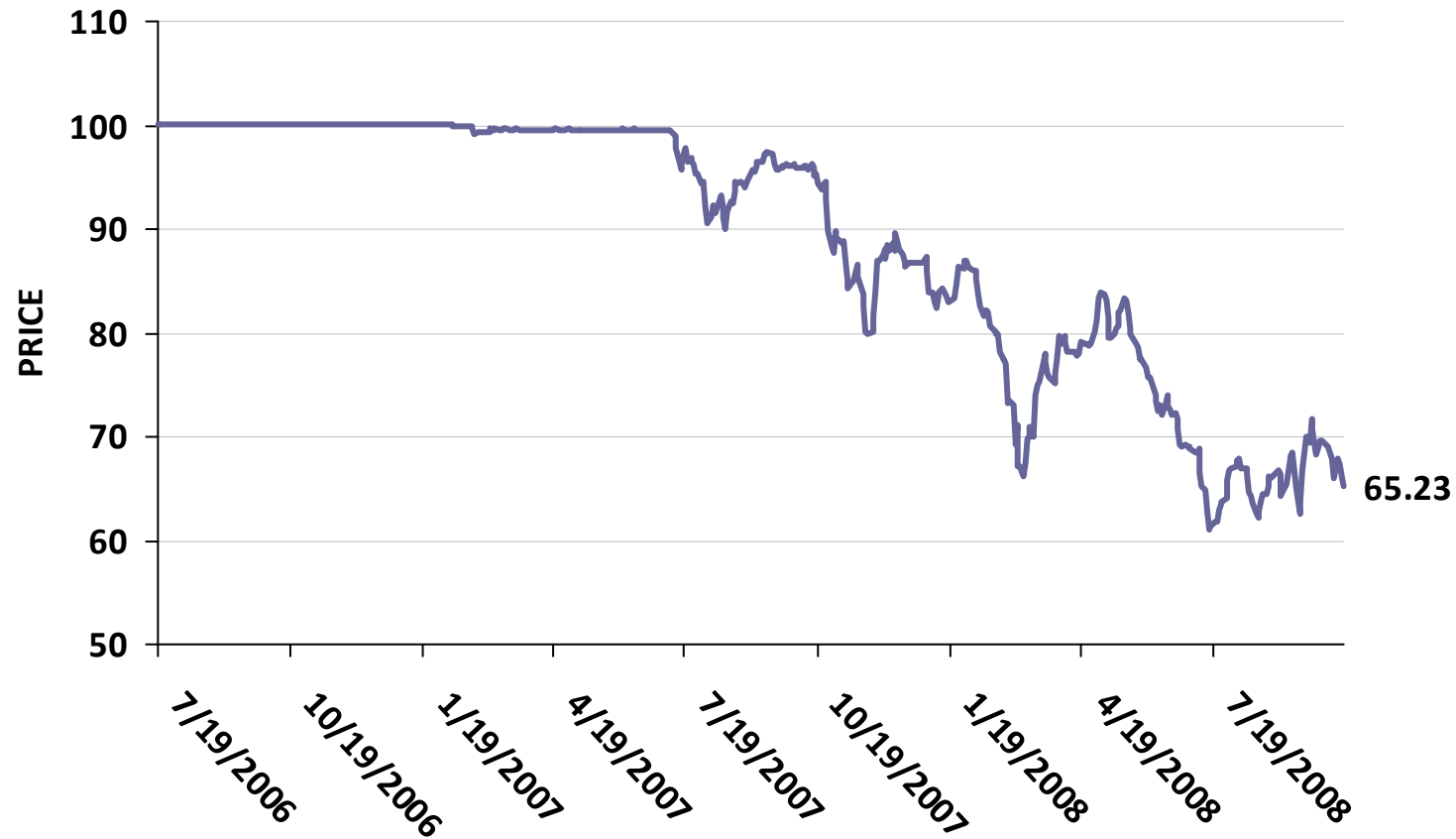
# Retailers' senior unsecured debt priced for blue sky...

- Walgreen 4 7/8s of August 2013 yield 5.8%
- Target 5 7/8 s of July 2016 yield 7.3%
  - 5-year CDS protection costs 170 basis points
- Costco 5 1/2s of March 2017 yield 6.5%
  - 5-year CDS protection costs 73 basis points
- Lowe's 5s of October 2015 yield 7.6%
  - 5-year CDS protection costs 130 basis points



# While subprime priced for Great Depression II

## Markit ABX.HE 06-2 AAA



Source: Markit

# Junior triple-A RMBS tranches priced to yield in the mid-teens

- GSAA Home Equity Trust 2005-12, Class AF-3
  - Fixed rate, Alt-A collateral
  - Credit enhancement has grown from 7.4% to 12.5%
  - 60+ days delinquent account for 10.5% of remaining pool
  - Priced at 69 for a yield-to-maturity of 15%
- Popular ABS Mortgage Pass-Through Trust 2007-A, Class A-3
  - Subprime collateral with minimal exposure to bubble housing markets
  - Credit enhancement grown from 25.9% to 30.1%
  - 60+ days delinquent account for 17.9% of remaining pool
  - Priced at 59 for a yield-to-maturity of 15%

# Visteon loans yield more than Visteon subordinated bonds

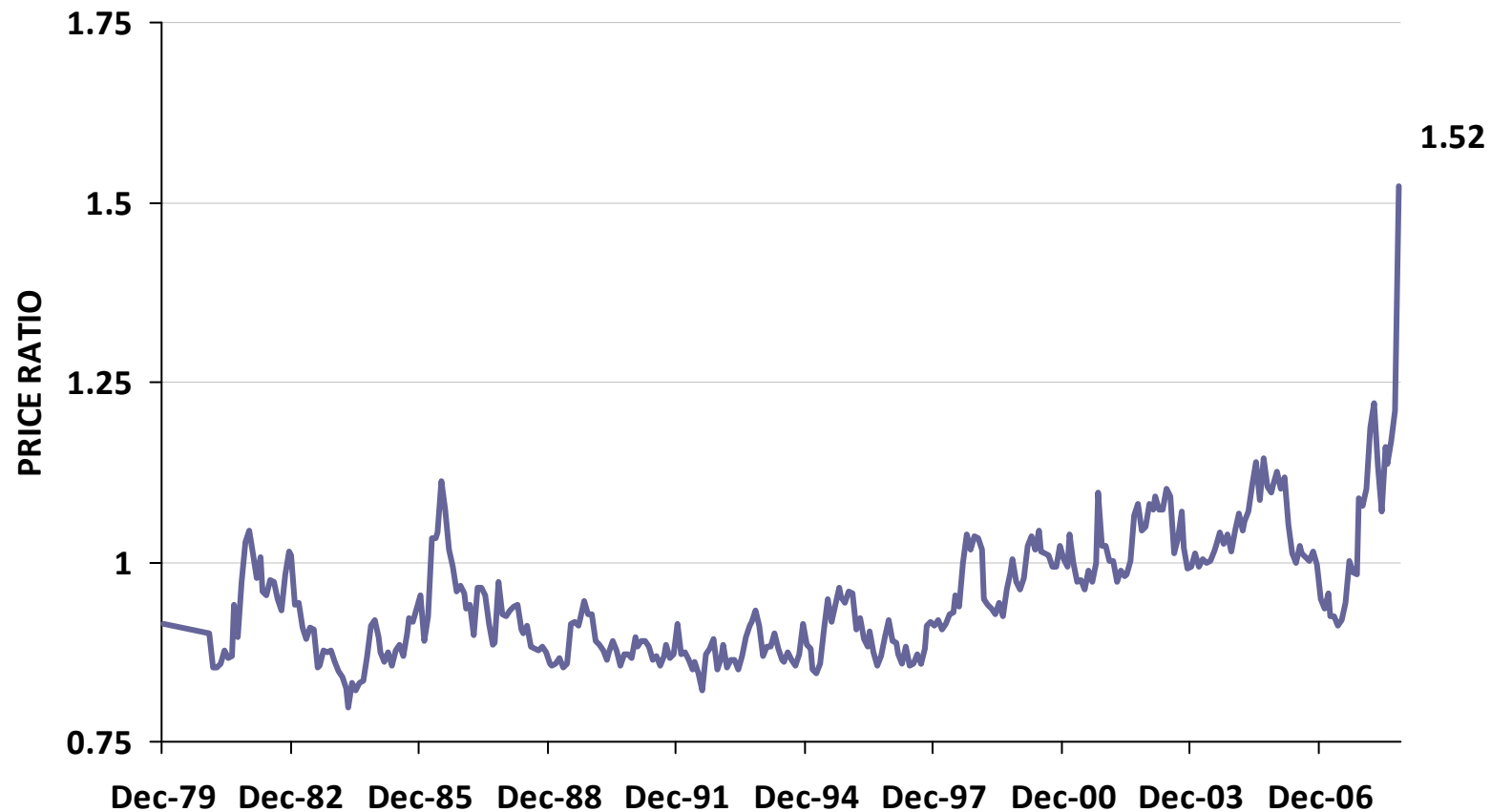
- Visteon is an automotive parts supplier. It was downgraded to B-minus by S&P on October 17.
- Term loan of December 2013 recently traded at 39.5 for a yield-to-maturity of 31%. Interest is covered 5 times by EBITDA.
- The 7% bond of March 2014 recently traded at 48 for a yield-to-maturity of 25%. Interest is covered 2.5 times.

# Visteon Corp.

	12 mos to			
	<u>6/30/2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Sales	\$ 11,169	\$ 11,266	\$ 11,253	\$ 16,750
Cost of Sales	(10,442)	(10,693)	(10,500)	(16,206)
Other costs	<u>(1,026)</u>	<u>(945)</u>	<u>(920)</u>	<u>(814)</u>
Net loss	(299)	(372)	(167)	(270)
Cash and equivalents	\$ 1,506	\$ 1,758	\$ 1,057	\$ 865
Current assets	1,217	4,072	3,565	3,345
Total assets	7,016	7,205	6,938	6,736
Term loan	1,500	1,500	1,000	241
Notes and other debt	1,165	1,340	1,228	1,753
Total liabilities	7,223	7,295	7,126	6,784
Stockholder's equity	(207)	(90)	(188)	(48)

Source: Company filings

# Bond Buyer Municipal Index yield divided by 30-year Treasury yield



Source: The Bloomberg