

# LEADER CAPITAL NEWS

December 2007

## Hooverville

It's that time of year again; performance worries begin to set in... customers will be looking at statements for sub prime exposure and performance net/net.

Our top down view going forward indicates a similar scenario to the S&L crisis beginning in 1985. \$42 billion has been written off, we see another \$200 billion coming. The worries from the fed are based more on capital requirement violations (tier1, 2 and 3) and less on whether or not people can pay their mortgages and must move to Hooverville (depression era). If mortgages are written down much more (and they will) capital requirements will be in jeopardy and we will see some bank failures. This will prompt more legislation towards the end of 2008. The yield curve will continue to invert... not because of the fed but based more on our GDP deterioration...

The good news... 30 year mortgages at 4.75 will begin to help ARMS that reset in 2008 (approximately \$500 billion).

The dollar will move higher as the flight to quality issue returns and most likely brings money from overseas the next time around. This and a technically oversold condition in the dollar will put pressure on overseas investments and commodity prices (to the downside). Also downward pressure on U.S. Equity Markets as the dollar repatriation theme is over for now.

We recommend the following for the next quarter:

- Sell commodities
- Buy quality bonds
- Sell overseas positions
- Sell floating rate and sub prime exposed funds
- Keep 20% cash on hand

Volatility should continue and a traders market should persist thru 2008.

Happy holidays... buy something at the store they need it!



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