



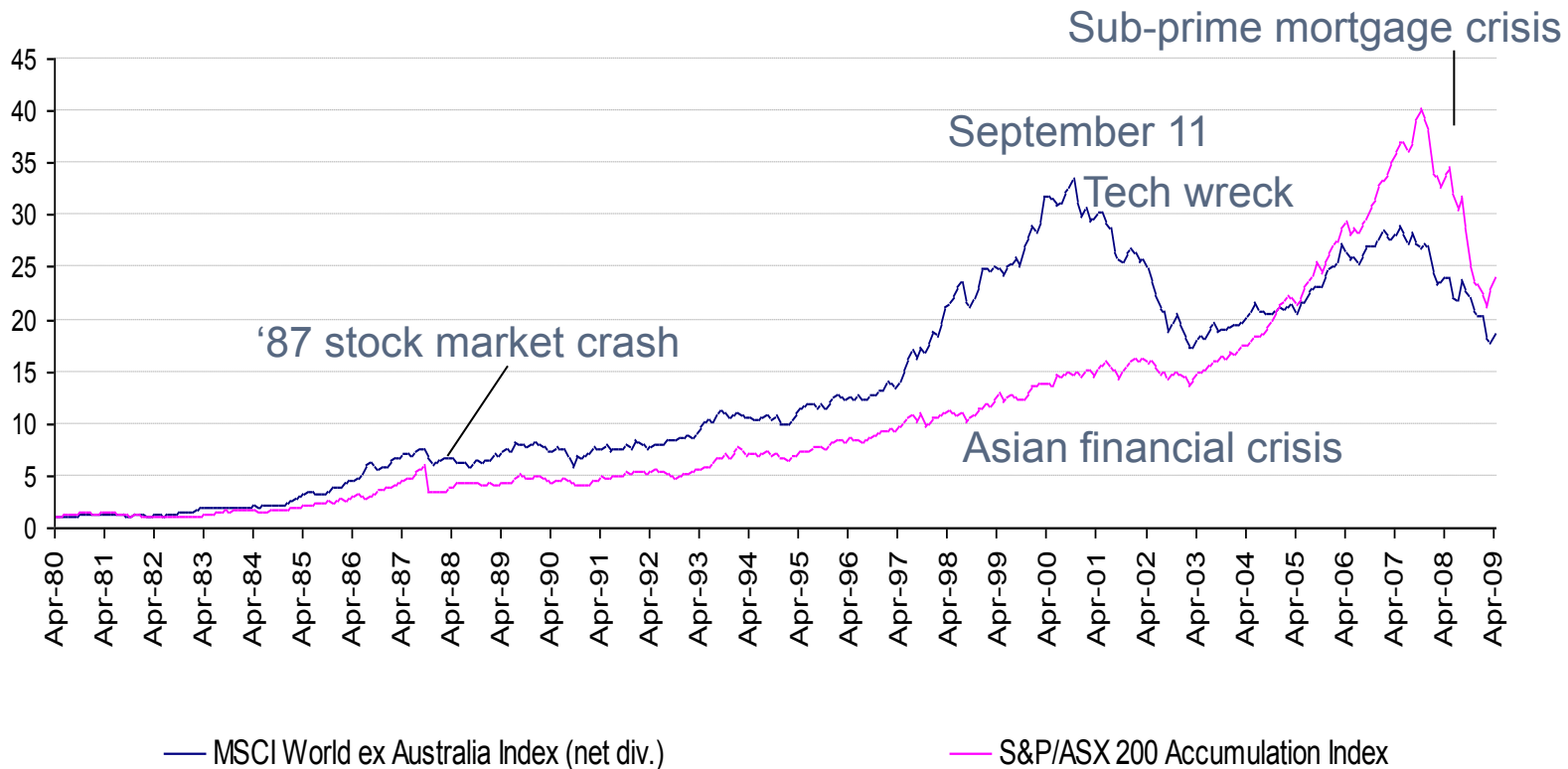
The 2008 Panic – A Christian Business Perspective

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Today's Theme

- Introduction – The Plan B Experiment
- Various views and theories about the market and participants
 - Market Science
 - Behavioural Science
 - Integrated Philosophy e.g. George Soros
- What happened to cause the Panic?
- What about the future?
- How do I apply my faith in the Money Management business?
- Is Christ the answer to all the questions in finance?

Big events in perspective – this was serious



Financial Service Models

- Exist to serve the needs of the proprietors and shareholders
- Exist to sell products
- Conflicts of interest abound
- Success is dependent on sales
- Opaque platforms and products
- Disregard for Investment Theories and misuse of Behavioural Science
- Fiduciary Responsibilities which put the client first
- Seek to disintermediate
- Transparency is important
- Accountable to client
- Success is dependent on value add and service
- Conflicts managed
- Closely aligned with the Sciences.

Science, Philosophies and Art

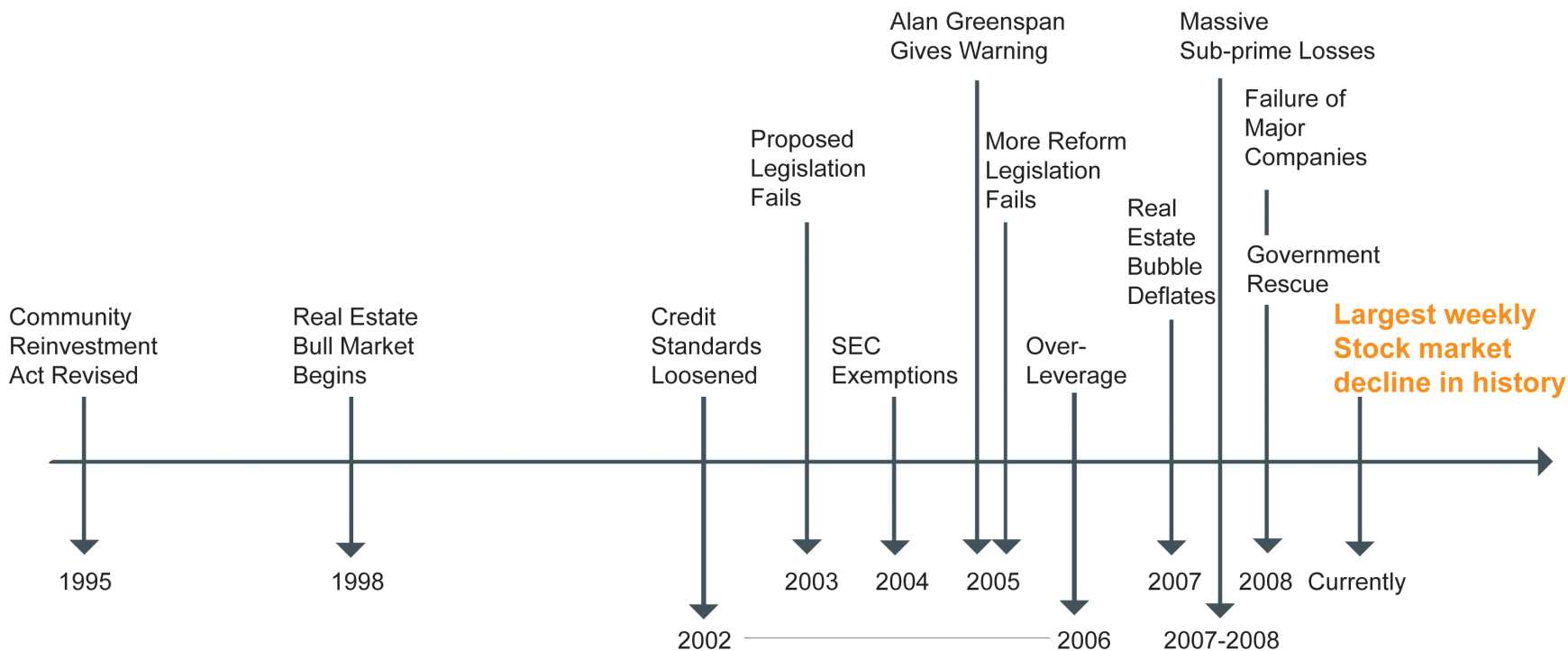
- Market Science – does not attain to Newtownian laws of Physics, but likes to think it does
 - does handle data well
 - does not really tell us why something happened, but does tell us what happened.
 - can certainly tell us what not to do.
 - regularly wins Nobel Prizes.
 - works on basis of Equilibrium, Efficiency & Rationality
- Behavioural Science
 - proves that market participants (people –even smart ones) are not rational.
 - tells us what sort of silly decisions we make in stressful situations.

Is there a way of integrating thinking & reality – George Soros.

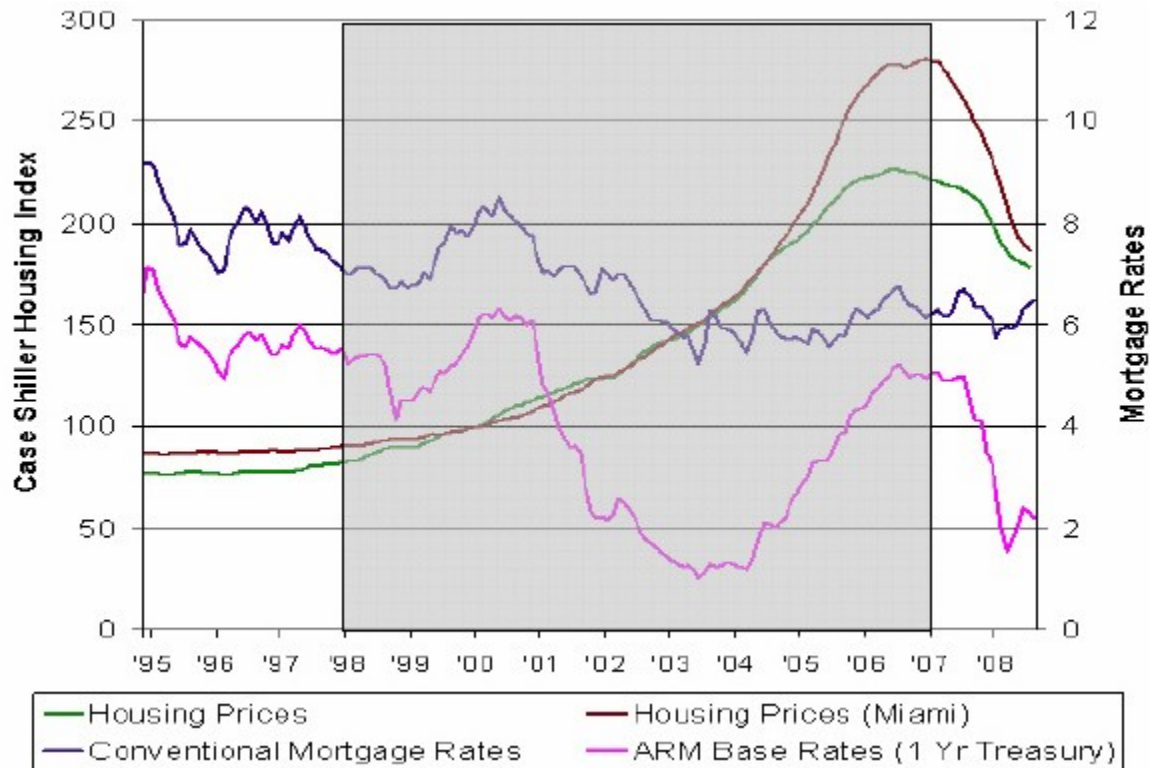


- predicted the global credit crunch has said the financial crisis has been 'stimulating' and the culmination of his life's work.
- George Soros, who predicted the global financial crisis twice before, was one of the few people to anticipate and prepare for the current economic collapse. Mr. Soros said his prediction meant he was better able to brace his Quantum investment fund against the global storm.
- But other investors failed to take notice of his prediction and his decision to come out of retirement in 2007 to manage the fund made him \$US2.9 billion. And while the financial crisis continued to deepen across the globe, the 78-year-old still managed to make \$1.1 billion last year.
- 'It is, in a way, **the culminating point of my life's work**,' he told national newspaper The Australian.
- Why? It proved how modern Finance thinking is wrong!

Timeline to the Panic

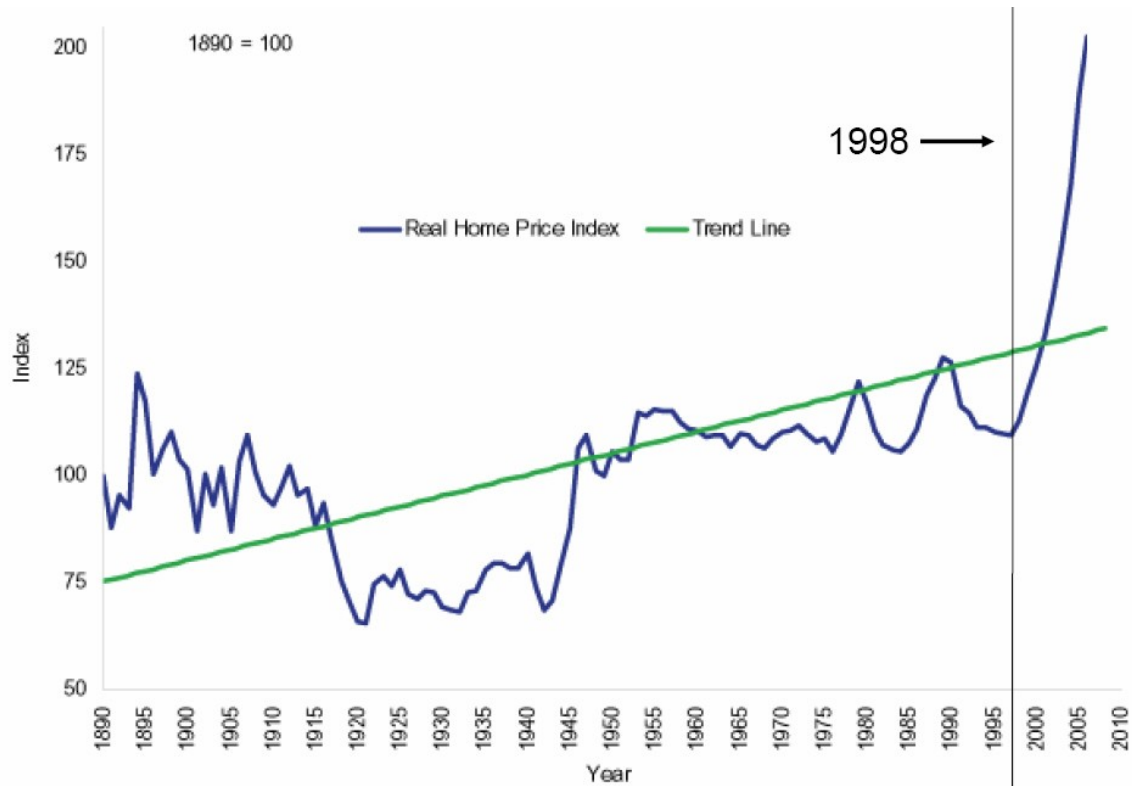


Drivers of the Real Estate Bubble

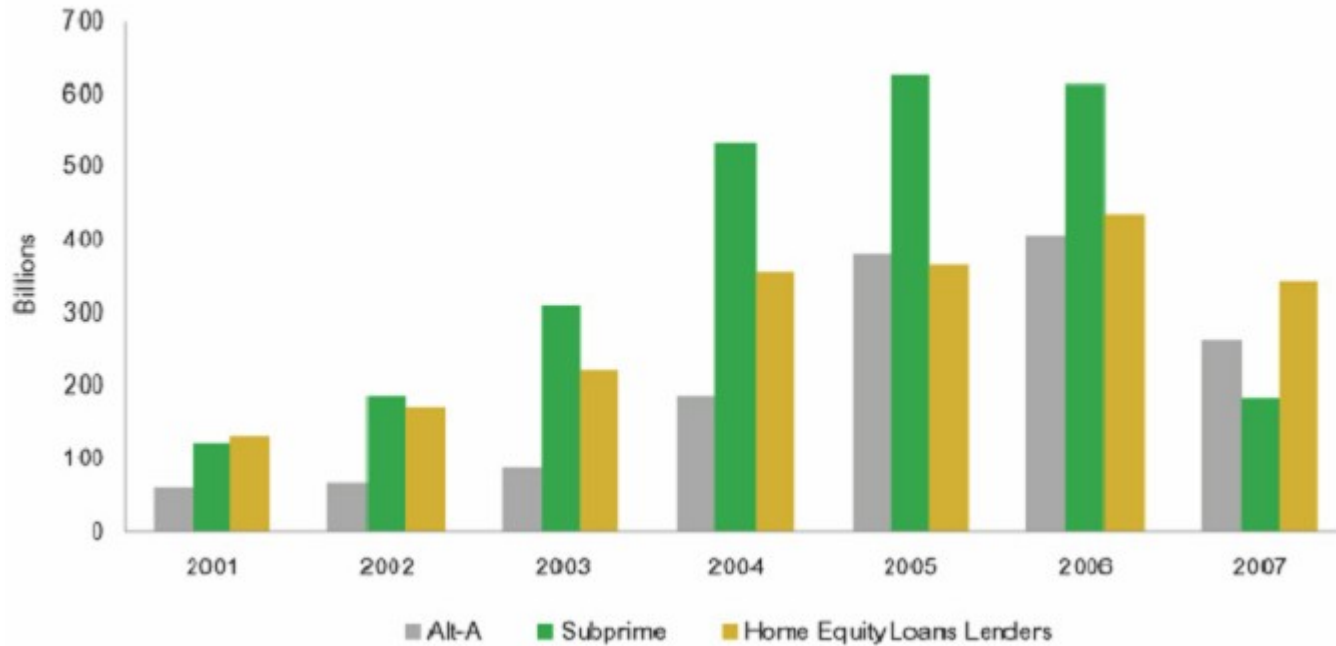


Source: S&P Case-Shiller, U.S Treasury, Federal Reserve Board of Governors Statistics

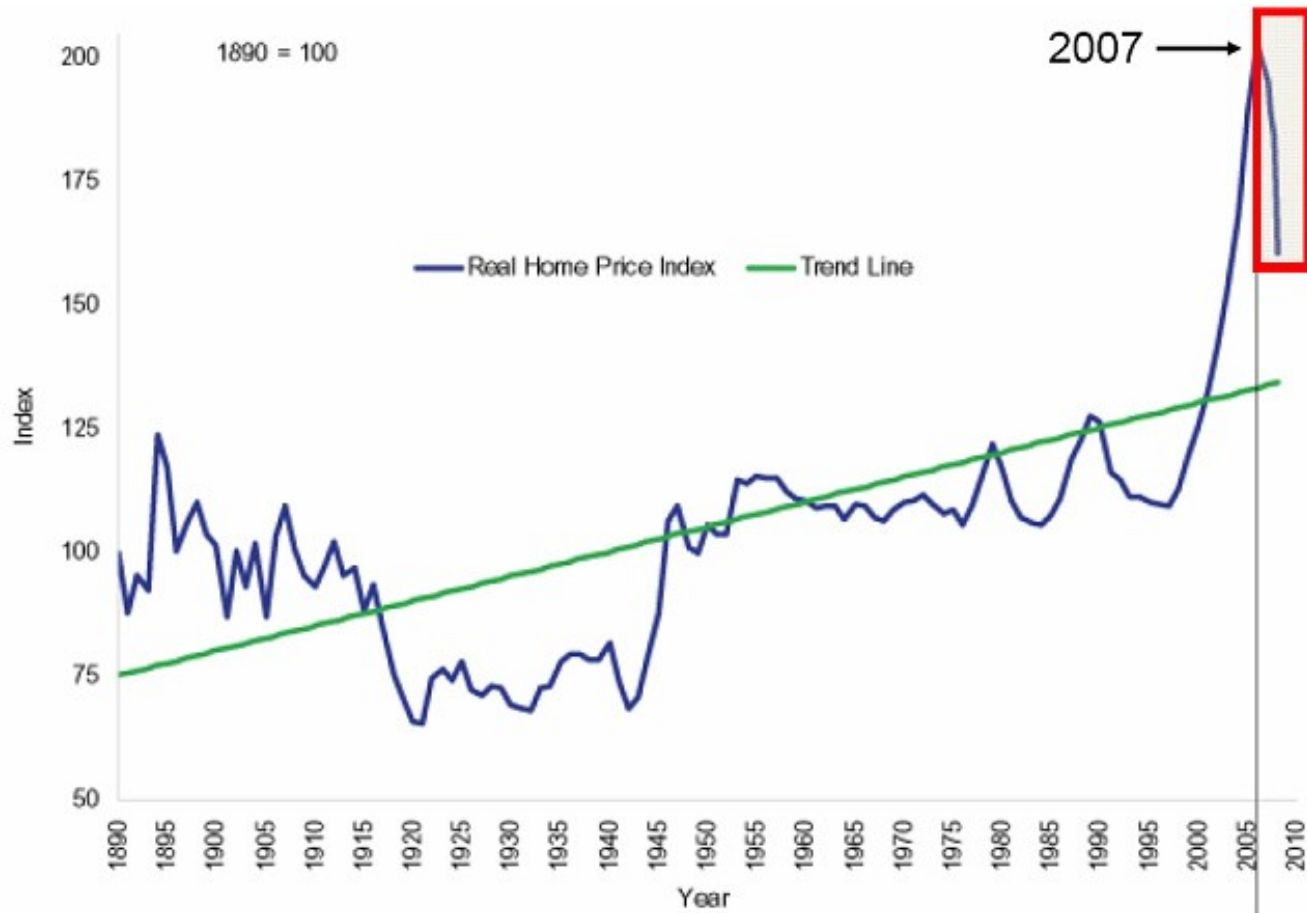
What a bubble it was!!!



But the growth was in the most risky loans



All Bubbles burst.



Source: Rober Shiller and Business Week; Vanguard

But that was not the end of the matter – The Panic followed.....

- Peculiar mortgage design – outcome linked to house price appreciation.
- Financing of the ‘faulty’ design – off balance sheet.
- The “shadow” banking system grows.
- Information asymmetry through complexity
- Indices of Sub-prime Risk – 2006 – a window of information to aggregate risk but not determine location.
- Repo market declines – banks will not lend to banks due to opacity of loans

USA Mortgages – defined

Attribute	Prime	Jumbo	Alt – A	Subprime
Lien Position	1 st Lien	1 st Lien	1 st Lien	Over 90% 1 st Lien
Weighted Average LTV	Low 70s	Low 70s	Low 70s	Low 80s
Borrower FICO	700+ FICO	700+ FICO	640 - 730 FICO	500 - 660 FICO
Borrower Credit History	No credit derogatories	No credit derogatories	No credit derogatories	Credit derogatories
Conforming to Agency Criteria?	Conforming	Conforming by all standards but size	Non-conforming due to documentation or LTV	Non-conforming due to FICO, credit history, or documentation
Loan-to-Value (LTV)	65 – 80%	65 – 80%	70 – 100%	60 – 100%

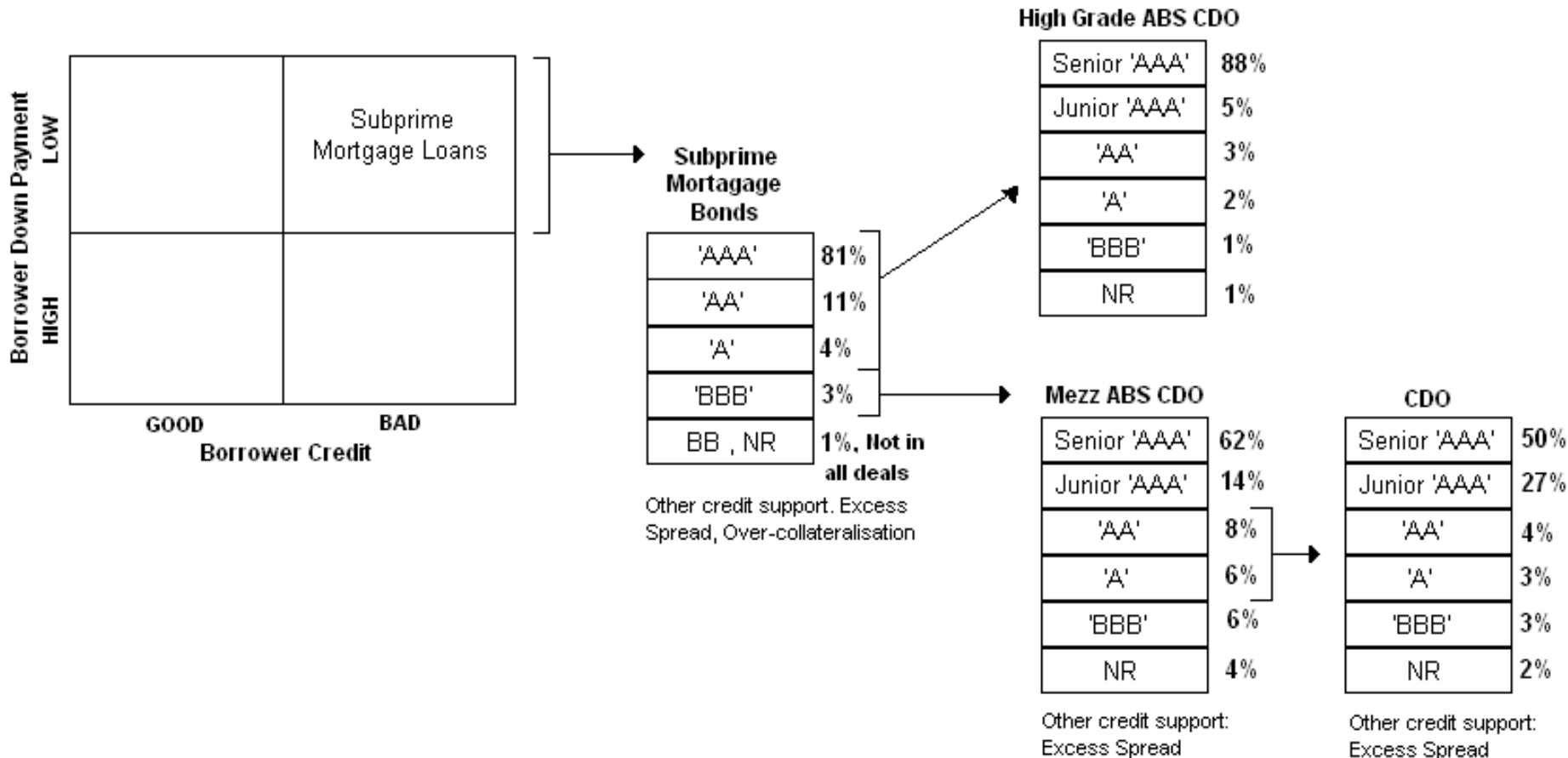
Low grade/High Risk mortgage growth was huge

- Outstanding amounts of sub- prime and Alt-A amounted to 25% of \$6 trillion mortgage market in the 2005-2007 first quarter.
- During the last seven years mortgages doubled; but sub-prime grew 800%!

But there was a design fault– theory did not meet reality.

- Problem; How can a mortgage be designed to make lending to riskier borrowers possible?
- The defining feature of the SPM is the idea that both lender and borrower can benefit from house appreciation over short horizons.
- Appreciation of the house becomes the basis for ‘rolling’ the mortgage every 2 or 3 years.
- Lender has the option of rolling the mortgage after the initial period.
- ARM’s and 2/28 or 3/27?

Then to compound the error add securitization.



Typical Collateral Composition of ABS CDOs

	High Grade ABS CDO	Mezzanine ABS CDO
Subprime RMBS Tranches	50%	77%
Other RMBS Tranches	25%	12%
CDO Tranches	19%	6%
Other	6%	5%

Source: Citigroup, cited by Basel Committee on Banking Supervision (BIS) (April 2008)

Subprime – Related CDO Volumes

Vintage	Mezz ABS CDOs (\$ billions)	High Grade ABS CDO (\$ billions)	All CDOs (\$ billions)
2005	27	50	290
2006	50	100	468
Yr to 9/2007	30	70	330

Residential Mortgage Deals in 420 ABS CDOs

Number of Deals by Vintage and Mortgage Loan Type					
Vintage	Subprime	Alt – A	Seconds	Prime	Total
2003	215	63	7	144	429
2004	371	252	25	188	836
2005	488	452	62	209	1,211
2006	522	487	69	142	1,220
2007	150	113	21	28	312
Total	1,746	1,367	184	711	4,008

Source: UBS, "Mortgage and ABS CDO Losses," December 13, 2007

A mortgage crisis becomes the Panic of 2008

- Ideas crash into reality -the Information Story.
- ABX index – created common knowledge in 2007 that situation of sub-prime borrowers was deteriorating.
- SIV's virtually disappeared as absorbed back onto balance sheets of sponsors because investors refused to roll over loans.
- SIV's did not have significant exposure to sub-prime loans – 2.01%.
- Problem was that investors could not see through – asymmetric information.
- Followed by scramble for cash and collapse/disappearance of REPO market – in August 2008.
- Why? Dealer banks would not accept collateral because they rightly believed that if they had to sell it, there would not be a market.
Why? Due to the absence of prices.

What about the future?

- Alan Greenspan – It will happen again. The price we pay for efficient markets.
- Globalisation – No-one is immune
- The problem is not markets – it is us!!
- The Reflexivity Issue
Ideas not connected to Reality, but can make their own reality.
Ideas not connected to Truth, so manipulators do not control outcomes.
- Why Panic? People realise they have been duped and are not in control – What can they do? Everything that live for is now threatened.

Applied Christianity

- Plan B is not theoretical. We implement and manage in the real world.
- Our success opens eyes and ears.
- I seek to honour the God of the Bible in everything I do.
- A key way to do that is to care for (love) people.
- Loving is defined as doing what is in THEIR best interests.

Examples from the Real World

- CEFEX Certification
- Office Rent Issue 1990 and today.
- Companies core values and Mission since 1992.
- Structure of Investment Pools.

Is Christ the Answer?

- It is possible to do what Plan B has done without being a Christian.
- No-one has done so in our space globally!
- There must be something more.
- Plan B cannot solve the human condition or back-track Post-Modernism.
- It needs a change of heart – individual hearts – your heart.
- God says, “You all like sheep have gone astray...everyone after his own way.”
- He calls us back to Him – when we return – He promises a new heart – a heart to enjoy and love Him.

Integrated Living

- Not good enough to grow in knowledge
- It needs to be integrated into reality
- Knowledge and reality need to be rooted in Truth
- Jesus said, “I am the way, the truth and the Life.

- The way you handle finances is the litmus test of life in Western society. Is it for your benefit or for the benefit of other people. You might ask the question, “What would Jesus do?”
- You will find the answers in the Bible.