Bear Stearns: A Financial Analysis of the First Domino To Fall

Financial Markets and Institutions

Professor John Thornton

Scott M. Glasgow | Haval R. Hamza | Ismael M. Ismael
Executive Summary

Bear Sterns was a New York City headquartered global investment, securities, and brokerage firm that engaged heavily in capital market activities. (Ryback, 2015) The company, founded in 1923, was an equity trading house managed by Joseph Bear, Robert Stearns, and Harold Mayer. (Levin, 2008) The Bear Sterns’ cliental included corporations, financial institutions, hedge funds, governments, and individuals. Prior to the financial crisis, the firm sponsored two hedge funds through its subsidiary.

During most of the fund’s life, it was extremely profitable. However, this dramatically shifted when the housing market struggles began in late 2006. The fund was leveraged at an astonishing 35 times its invested funds. (Ryback, 2015) Bear Stearns financial analysis during 2001 and 2007 shows that: (a) it had the highest net profit margin in comparison to similar companies. (b) Its low asset turnover ratio indicates the company’s inefficiency in using its assets to generate profit. (c) It had the lowest return on assets among its competitors in both 2006 and 2007. (d) Similar to asset turnover ratio, Bear Stearns had the lowest fixed assets turnover during 2001 to 2007. (e) Bear Stearns earnings per share dropped very sharply in 2007 comparing by its competitors. (f) Bear Stearns had the lowest debt-to-equity ratio in 2006 and 2007.

In addition to the firm’s financial instability starting from 2006, taken excessive, unnecessary risk by management team further harmed the firm’s stability; resulting in the eventual JP Morgan buy out at the embarrassing price of $2 a share. However, the company has provided little comment on what the takeover of Bear Stearns has done for the JP Morgan Chase business. (Schaefer, 2013) There are many lessons that can be taken from Bear Stearns’ case. The following are some of them: (a) the concept of too big to fail is not concrete. (b) Too much risk is lethal. (c) Words can lose their power. (d) Efficient Market Theory can be questioned.
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1. Introduction

We live in a sea of information. The information sea is vast, extending to the horizons in all directions, deep, and often turbulent—especially during the height of the 2007/2008 financial crisis. In relation to sailing; we desire to sail, to learn more about the sea, but fear venturing too far from shore in case we get capsized and are lost. Such is it with the “sea” of financial markets and institutions. With but a few fallen dominos, we can quickly be deep into a financial crisis. Just as a sailboat can be quickly capsized by an incorrect maneuver, financial markets can move like a wild roller coaster—up and down—with insane volatility. The most recent financial crisis of 2007/2008 depicted this extreme panic and volatility well as there was massive volumes of shares traded with minute by minute wild swings in the markets. The volatility was off the charts! For instance, the markets were up 500 points one day, only to be down 500 to 1000 points the next. Newspapers and media—such as the New York Times—portrayed the craziness with pessimistic front-page article titles such as For Stocks, Worst Single-Day Drop in Two Decades becoming a norm. The financial world was a mess, both in the United States and abroad, and the general economy greatly felt the rippling effects with a massive surge in unemployment, a virtual collapse in the financial system, and a vast failure in financial institutions. In relation to the latter, we will productively analyze the lessons learned from the financial panic by depicting the brief history, description/business model, and financial analysis of the late Bear Stearns.

2. A Brief History

Bear Stearns was a global investment, securities, and brokerage firm headquartered in New York City that engaged heavily in capital market activities that consisted of approximately 80% in
equities trading, 8% in wealth management; and the rest in global clearing services. (Ryback, 2015) The company, founded in 1923, was an equity trading house managed by Joseph Bear, Robert Stearns, and Harold Mayer. (Levin, 2008) They started the firm with roughly $500,000 in capital—approximately $6.1 billion dollars in today’s value. (Levin, 2008) Bear Stearns survived the Wall Street Crisis of 1929 and opened its first branch office in Chicago in 1933. (Ryback, 2015) Later they established offices in 10 other U.S. cities in addition to 12 global branches across Europe, Asia, and South America. (Ryback, 2015) Bear Stearns was the fifth largest investment bank in the United States before the crisis.

3. Description

The Bear Stearns cliental included corporations, financial institutions, hedge funds, governments, and individuals. The firm had a diversified portfolio including corporate finance, mergers and acquisitions, institutional equities and fixed income sales, trading and research, private wealth management services, derivatives, foreign exchange futures and trading, asset management and custody services. (Ryback, 2015)

4. Business Model

In the investment banking world, there are three types of investment strategies. The first method, Low Risk/Low Return investing, offers little more than the preservation of capital. The second method, Intermediate Risk/Intermediate Return, is investing in mutual stock and bond funds, or, investing in individually selected mutual stock and bond funds. The third method, High Risk/High Return, is investing in individually (personally) selected stocks and bonds, clearly the
most adventurous - and challenging - form of investing. A recent financial article bemoaned that the Wilshire 5000 index actually contained only about 3600 stocks. However, combined with the opportunities for international investing, the total number of publicly traded stock offerings in which one could invest is about 63000.

Most investment banking firms choose one of these three basic investment philosophies; others choose some combination of the three. In respect to Bear Stearns, they chose a strategy beyond the traditional third strategy into a potential fourth strategy—extremely high risk. The firm had a very aggressive investing behavior.

The strategy employed by Bear Stearns could be classified as leveraged credit investments—a very common, yet extremely aggressive strategy in the hedge fund world. This leveraged credit investment strategy had four steps: (1) purchase collateralized debt obligations that pay a rate over and above the cost of borrowing (in this case—the so called “AAA” rated tranches of the subprime mortgage backed securities); (2) use leverage to buy more collateral debt obligations to gain a greater expected return; (3) use credit default swaps as insurance against movements in the credit market; (4) watch the money roll in—at least while everything is going well. (Investopedia, 2015) When credit markets behave in a historically predictable way that is stable; the strategy can produce very consistent and positive returns with little deviation. (Investopedia, 2015) However, when markets behave irrationally with panic; this aggressive strategy can create gigantic losses in a relatively short amount of time. Bear Stearns knew the risks associated with their aggressiveness; high risk, high reward—or losses.

Nevertheless, this aggressive riskiness wasn’t anything new to Bear Stearns, they had a history of it! From the beginning, Bear Stearns was a very heavy investor in equities and took advantage of the roaring twenties where the investment climate was thriving. And when trading
fell sharply during the heart of the Great Depression in the market contraction of the early 1930’s, Bear Stearns managed to not only avoid laying off employees, but also avoided decreasing their employee bonuses. (Ryback, 2015) It was truly a fantastic place to work.

In the post-depression era, the firm took advantage of the increasing market activity that progressed from the New Deal by becoming a leading trader in government securities and corporate bonds. (Ryback, 2015) Bear Stearns solved the dilemma of banks having plenty of cash but few opportunities to expand by selling large volumes of government and corporate bonds to banks around the country, they made a lot of money. (Ryback, 2015)

Bear Stearns had a proven record of success, which entailed their ability to absorb, adapt, and transform from challenging markets, depressions, and recessions for nearly 85 years. Ryback (2015) of the World Bank depicts this aggressive business model behavior in more detail with an examination of the firm’s investment history:

- In 1935, the Public Utilities Holding Act was passed, which led to the eventual breakup of privately held utility companies. Bear Stearns became an aggressive trader in the new market for securities being issued to place the utilities in public hands. (Ryback, 2015)
- In the 1940’s, the firm became a large player in mergers and acquisitions, particularly in the freight and transportation industries as cars and trucks began to replace railroads as the primary transport of people and freight. (Ryback, 2015)
- In the 1950’s, Bear was one of the principal originators of block trading, which by 1960 was the foundation for most profitable Wall Street brokers until fixed brokerage commissions were eliminated in the 1970’s. (Ryback, 2015)
- By the late 1960’s Bear Stearns was one of the first firms to significantly expand its retail business operations in selected locations. (Ryback, 2015)
• In the 1970’s, Bear Stearns took a large gamble by investing heavily in near bankruptcy securities issued by the City of New York. It came very close to losing much of its capital, but the firm eventually profited significantly. (Ryback, 2015)

• As the 1970’s closed, Alan “Ace” Greenburg became Chairman of Bear Stearns. He was considered the most aggressive trader on Wall Street. (Ryback, 2015)

• By the 1990’s, the firm was a major player in initial public offerings for a variety of foreign and domestic companies. (Ryback, 2015)

• In 1997, Bear Stearns made the first public securitization of Community Reinvestment Act Loans in the United States. The Community Reinvestment Act encouraged bank lending, especially mortgage loans, in poorer neighborhoods. Such lending is believed by many to have eventually led to the subprime crisis. Bear Stearns would claim special expertise in this market because of its early entry and long experience. (Ryback, 2015)

• By 2000, Bear Stearns was focusing on its newly founded strengths with clearing operations and the housing boom. They focused on the packaging and selling of bonds to investors who were averse to taking risks in equities. (Ryback, 2015)

• Bear Stearns’ senior management used to refer to the company as a firm run by “PSD’s” – Poor smart employees with a deep desire to become rich. (Ryback, 2015)

• In 2005 – 2007 Bear Stearns was listed as the “most Admired” securities firm in its annual “America’s Most Admired Companies” survey. (Ryback, 2015)
5. Financial Analysis (Appendix A)

5.1. Net Profit Margin

Net profit margin measures how much in every dollar sales is profit. A company with strong management team is expected to maintain or improve its net profit margin. (Robert, Libby, & Short, 2013) Since Bear Stearns had a highest net profit margin comparing by other companies except 2007, it was more efficient in managing its sales and expenses. The difference even was higher during 2002 to 2005, which reflects that Bear Stearns was successful in responding to change in demand, sale volume, sales price, and cost. However, Bear Stearns’ net profit margin was decline very sharply after 2004.

5.2. Total Asset Turnover

The total asset turnover ratio measures the sales generated per dollar spending in assets. (Robert, Libby, & Short, 2013) Bear Stearns’ low asset turnover indicates the company’s inefficiency in using its assets to
generate profit. However, the low asset turnover might be due to Bears Stearns business structure because it was improved in 2007. Rising Bear Stearns’ assets turnover was a result of increase in sale in 2007.

5.3. Return on Assets (ROA)

Return on assets is another way to measure companies’ profitability. It is very similar to total assets turnover except using net income instead of total sales. Many analysts believe that the return on assets ratio is a better measurement (comparing by return on equity “ROE”) of management’s ability to utilize assets effectively since it is not affected by the way in which the assets have been financed. (Robert, Libby, & Short, 2013) Bear Stearns had the lowest return on assets among its competitors in 2005 to 2007.
5.4. Fixed Asset Turnover

Another measure of operating efficiency is the fixed asset turnover ratio, which is based on the fixed assets instead of total assets. Fixed asset turnover may be more suitable to measure the companies’ performance that are capital intensive such as airline and car producing companies, but in the case of financial institutions total asset turnover ratio may be more preferable. Similar to asset turnover ratio, Bear Stearns had the lowest fixed assets turnover since it had the highest amount of fixed assets during 2001 to 2007.

5.5. Revenue Growth Year over Year

Revenue growth year over year measures an increase of a company's revenue when compared to a previous year’s revenue. In investigating a company’s performance, it is not enough to just look at the company’s current year’s revenue. Having the sustainable pattern in the company’s revenue growth is required by investors and creditors. Also,
it is important to compare the company’s revenue growth with its competitors to see its growth term of others. (Robert, Libby, & Short, 2013) In the case of Bear Stearns, all companies have slow and unsustainable revenue growth during 2001 to 2007. However, Goldman Sachs still had a better performance than Bear Stearns.

5.6. Net Income Growth Year over Year

Net Income Growth Year over Year is a percentage of increase or decrease on a company’s profit over time. (Robert, Libby, & Short, 2013) It will be the same as revenue growth year over year if the contribution margin remains the same. All companies except Goldman Sachs experienced negative or very small net income growth during 2001 to 2007. However, Bear Stearns had the better ratio comparing by other companies.
5.7. Earnings per Share

Earnings per share is a company’s net income divided by the average number of outstanding shares. It is a widely used in evaluating companies’ profit and performance. Earnings per share may not be a true representation of the company actual earned. For example, “GAAP EPS (earnings reported according to Generally Accepted Accounting Principles) may meet the letter of the law but may not truly reflect the earnings of the company” (Wayman). In other cases, this discrepancy may be the result of management choices. In both cases, untrue earning per share may mislead investors. Bear Stearns Earning per share dropped very sharply in 2007 comparing by its competitors.

5.8. Dividend Yield

The dividend yield ratio measures the percentage of return that is paid to investors in a form of dividends. It is equal to dividends per share divided by price of share. Holding all other factors constant investors prefer a company with
high dividend yield. (Robert, Libby, & Short, 2013) Nonetheless, paying a high percentage of dividend may the result of management disability to find the new investment opportunities. Bear Stearns and its competitors had very similar dividend yield during 2001 to 2007, except AIG and Morgan Stanley which had a very high dividend yield during 2005 to 2007.

5.9. Debt-to-Equity

The debt-to-equity ratio compares the amount of capital supplied by creditors to the amount supplied by owners. (Robert, Libby, & Short, 2013) Investing in a company with high percentage of debt may provide higher return since the creditors require lower return than investors, but it is associated with high risk as debt capital requires interest and principal payments. Bear Stearns had the lowest debt-to-equity ratio, and Morgan Stanley had the highest debt-to-equity ratio during 2001 to 2007.

6. The Fall of Bear Stearns

Prior to the financial crisis, the firm sponsored two hedge funds through its subsidiary—Bear Stearns Asset Management. The principal fund—the High-Grade Structured Credit Strategy Fund—consisted of complex derivatives backed by home mortgages. (Ryback, 2015) During most of the fund’s life, it was extremely profitable. However, this dramatically shifted when the housing
market struggles began in late 2006. The fund was leveraged at an astonishing 35 times its invested funds. (Ryback, 2015)

As the housing struggles worsened in 2007, the highly leveraged—Bear Stearns Asset Management—subsidiary that consisted of two funds sank like a sinking sailboat. In an attempt to recoup the constant stream of significant losses, Bear Stearns pledged a collateralized loan of around $3.2 billion to the High Grade Structural Credit Strategies Fund in addition to negotiating with other lenders to lend additional money to the other risky fund—Bear Stearns High Grade Structured Credit Enhanced Leverage Fund. (Ryback, 2015) Both funds were invested almost exclusively in very thinly traded collateralized debt obligations; thus, as the market downturn accelerated, the funds were left with billions of dollars of losses in securities that were literally unmarketable and sellable in the market. (Ryback, 2015) It was essentially a modern bank run with investors cutting their losses and running for the hills, while lenders like Merrill Lynch and J.P. Morgan Chase were threatening to seize the collateral.

In an attempt to halt the panic, Bear Stearns’ managers tried to convince and manipulate their investors and lenders to provide more time for the situation to turn around. With a poker face, the fund managers promised an eminent turnaround in the market. (Ryback, 2015) Unfortunately for Bear Stearns, the poker face didn’t work, the investors and lenders wanted out.

As the crisis for Bear Stearns continued, Merrill Lynch became the first major lender to seize approximately $850 million of underlying collateral. (Ryback, 2015) All was thought to be good until a major problem rose; the collateral was worthless! As a result, Lynch was only able to sell a small amount of it in the market. (Ryback, 2015) This revelation of worthless assets sparked major fear in the market. (Ryback, 2015)
By July of 2007, the Bear Stearns Asset Management subsidiary failed since the two subprime funds lost essentially all of their value. On July 17, 2007, the two funds filed for Chapter 15 bankruptcy. In an open letter to clients and investors, James Cayne—the Chairman and CEO of Bear Stearns—wrote a descriptive letter of confidence to investors. [Appendix B]

In November of 2007, the company’s credit rating was downgraded from AA to A by Standard and Poors. (Ryback, 2015) From November of 2007 to March of 2008, the company was in desperation mode with immense internal pressure to reduce their inventory of mortgages and the bonds that backed them. (Ryback, 2015) The company made at least six efforts to raise billions of dollars, but such attempts failed.

As the crisis continued, there was a transition in leadership with the co-president and CEO, Warren Spector, being fired and replaced by Alan Schwartz. James Cayne, the other then co-CEO transitioned into the Chairman position. Cayne quickly replaced the board with his own handpicked members. (Ryback, 2015) The new operating plan by Bear Stearns was to calm the market through conducting business as usual and talking up the former strengths of the company in a last effort to calm investors, clients, and lenders. (Ryback, 2015)

The company operated in this quiet and confident manner for several months until March of 2008; where the situation quickly turned for the worst. The financial, political, and reputation of the institution was deteriorating rapidly, resulting in an unraveling of the company and stock. (Ryback, 2015) The stock sank as rumors of the firm being strapped for cash rapidly flooded the market. (Ryback, 2015) For instance, a major hedge fund removed $5 billion in a single day.

Remarkably, after all the massive withdraws, the firm still had $18 billion in cash by early March. The firm used this cash to put their poker face back on in an attempt to assure the market
and fellow employees that the company was still viable and financially solvent. (Ryback, 2015) Sadly for Bear Stearns, as before, the poker face failed. Investors were running. (Ryback, 2015)

On Thursday, March 6th of 2008, Moody’s started slashing mortgage-backed securities with downgrades that had been affiliated with Bear Stearns—citing they had a greater default risk with the underlying collateral. Additionally, on the same day, a major European bank fueled the speculation that Bear was financially insolvent by informing the firm that it would not renew a large loan coming due. (Ryback, 2015)

On Monday, March 10th, the cost of a credit default swap on $10 million of the Bear Stearns debt spiked to roughly $625,000 from $450,000 from the previous Friday. This dramatic increase was a clear indication by the markets that the firm was shortly running out of cash. (Ryback, 2015) Furthermore, the firm’s trading partners were continually losing confidence in their ability to remain solvent. (Ryback, 2015) By late day, Bear Stearns tried to assure investors by releasing the company’s supposedly strong balance sheet, liquidity, and capital. (Ryback, 2015)

On the following day, Tuesday, March 11th, a major Dutch bank pulled its half of a billion dollar line and hedge funds immediately responded by calling a Swiss bank to take over trades where Bear Stearns was the counter-party. (Ryback, 2015) The bank was massively overwhelmed with requests. (Ryback, 2015) At this point, there was a clear modern day bank run occurring to the firm. Accordingly, in a last attempt to reassure the market, “the CEO, Alan Schwartz, asked for air time on a major business news network to make another public statement about the ‘good health’ of the company and to emphasize that the firm, while having some problems associated with subprime mortgage securities, was still viable”. (Ryback, 2015) The poker face failed again due to some late breaking new unrelated to the firm that crowded out the confidence message. (Ryback, 2015)
On Wednesday, March 12th, the bank run continued with prime-brokerage clients fleeing with worries that Bear Stearns would be unable to settle their trades in the short-term future. The firm CEO “realized he now needed assistance and advice and placed a number of phone calls. One was to a top legal expert in New York. The attorney in turn placed a call to the President of the New York Federal Reserve Bank, Mr. Timothy Geithner” (Ryback, 2015) Geithner didn’t know what to do considering that although the Federal Reserve Act allows the Federal Reserve to lend to institutions that are outside the commercial banking system, it has never done such a thing in its 96 year history; thus Geithner originally insisted staying out. (Ryback, 2015)

By the next morning, on Thursday March 13th, the CEO of Bear Stearns called Mr. Geithner to brief him on the extremely fast and delicate situation. (Ryback, 2015) By mid-day, the situation got worse:

Another major hedge fund joined the growing number of clients exiting from a Bear Stearns relationship and was arranging to withdraw $5 billion. In one week Bear Stearns had burned through nearly $18 billion in cash reserves and was continuing to hemorrhage cash. It still owed another large New York City bank another $2.5 billion due by the close of business. It was clear that the firm might not last through the next business day. The Board of Directors, in emergency session, authorized the management to file for bankruptcy, if necessary. - (Ryback, 2015)

By the end of that day, Bear Stearns had a gigantic law team separated into two groups: (1) the first group dedicated to the bankruptcy filing while (2) the second group was dedicated to
various scenarios in relation to a cash infusion from outside parties. (Ryback, 2015) They were running out of cash and needed someone to bail them out.

Bear Stearns then called Jamie Dimon, the CEO of J.P Morgan Chase for an overnight loan. “Mr. Schwartz knew that if a deep-pocketed creditor like J.P. Morgan didn’t come through, Bear Stearns’ only option was bankruptcy…” (Kelly, 2009) Jamie Dimon was willing to help; however he was concerned with making a major financial commitment with such little time. (Kelly, 2009) Accordingly, Dimon asked the Federal Reserve Board for funding instead. (Kelly, 2009)

Early the next morning, on March 14th, “Fed officials relied on legislative powers that hadn’t been used since the 1930s to find a temporary solution: a loan to Bear Stearns of undetermined size, to be provided through JP Morgan” (Kelly, 2009) By 9:13 am, JP Morgan's official press release went out on the end was blasted all over computer news feeds and on CNBC with the following message:

JP Morgan Chase and Federal Reserve Bank of New York to Provide Financing to Bear Stearns," it read. The release went on to say that the bank and the government would together lend Bear "secured funding," or money backed by collateral, for "an initial period of up to 28 days. - (Kelly, 2009)

Bear Stearns had life, 28 days of life; or at least that is what they thought:

Henry Paulson Jr., the Treasury Secretary had had enough. He placed a call to CEO Alan Schwartz that Friday evening to inform him that he and Federal Reserve
President Geithner expected Bear Stearns to arrange a deal to sell the company by Sunday before the Asian markets opened. - (Ryback, 2015)

At this point, JP Morgan were crunching the numbers as to figuring out what price they should buy Bear Stearns at. Jamie Dimon decided on a deal valued at $4 a share; however, the Treasury Secretary Paulson thought that this price was too high considering that he wanted to illustrate that the government was not bailing out Wall Street investors. (Ryback, 2015) Accordingly, JP Morgan lowered the offer to $2 a share and the Board of Bear Stearns accepted the offer at 7:00 pm eastern time on that Sunday night. “In the end… [After an intermediation of shareholder]..., a share price of $10 was agreed. (Ryback, 2015) Bear Stearns was the first major domino of the 2007/2008 financial crisis to fall.

7. The Domino Effect

Following the fall of Bear Stearns, the Domino Effect took place.

- July 11th, the Federal regulators seized IndyMac Federal Bank after it becomes the largest regulated thrift to fail. (USATODAY, 2013)
- September 7th, the Mortgage giants Fannie Mae and Freddie Mac are taken over by the government. (USATODAY, 2013)
- September 15th, the Bank of America agrees to purchase Merrill Lynch for $50 billion while Lehman Brothers files for bankruptcy-court protection. (USATODAY, 2013)
- September 16th, American International Group, the world's largest insurer, accepts an $85 billion federal bailout that gives the government a 79.9% stake in the company. (USATODAY, 2013)
• September 21st, Goldman Sachs and Morgan Stanley, the last two independent investment banks, will become bank holding companies subject to greater regulation by the Federal Reserve. (USATODAY, 2013)

• September 25th, Federal regulators close Washington Mutual Bank and its branches and assets are sold to JP Morgan Chase in the biggest U.S. bank failure in history. (USATODAY, 2013)

• September 29th, Congress rejects a $700 billion Wall Street financial rescue package, known as the Troubled Asset Relief Program or TARP, sending the Dow Jones industrial average down 778 points, its single-worst point drop ever. (USATODAY, 2013)

• October 3rd, Congress passes a revised version of TARP and President Bush signs it. Wells Fargo & Co., the biggest U.S. bank on the West Coast, agrees to buy Wachovia for about $14.8 billion. (USATODAY, 2013)

• November 18th, Ford, General Motors and Chrysler executives testify before Congress, requesting federal loans from TARP. (USATODAY, 2013)

• November 23rd, The Treasury Department, Federal Reserve and Federal Deposit Insurance Corp. agree to rescue Citigroup with a package of guarantees, funding access and capital. (USATODAY, 2013)

• December 19th, The U.S. Treasury authorizes loans of up to $13.4 billion for General Motors and $4.0 billion for Chrysler from TARP. (USATODAY, 2013)
8. The Status of Bear Stearns Today

After the JP Morgan Chase acquisition of Bear Stearns in 2008, the company has provided little comment on what the takeover of Bear Stearns has done for the JP Morgan Chase business (Schaefer, 2013) Accordingly, we must illustrate the evolution of the acquisition through a tour of the Jamie Dimon’s [the current chairman, president, and chief executive officer of JPMorgan Chase--annual shareholder letters. (Schaefer, 2013)

The trail of annual shareholder letters from Jamie Dimon reveal little to nothing in regards to the status of Bear Stearns today. Nevertheless, Bear Stearns does pop up, especially in terms of using it as a scapegoat. For instance, in the 2008 annual shareholder letter, discussed the acquisition of Bear Stearns:

Under normal conditions, the price we ultimately paid for Bear Stearns would have been considered low by most standards. But these were not normal conditions, and because of the risk we were taking, we needed a huge margin for error. We were not buying a house - we were buying a house on fire. (Schaefer, 2013)

In 2009, Jamie Dimon was discussing the steps in which JPMorgan Chase has taken in respect to developing a global footprint as a leverage to the Bear Stearns businesses. In 2010, Jamie Dimon illustrated the strength of the JPMorgan Chase balance sheet by depicting how the bank managed to acquire two hazardous companies called Bear Stearns and Washington Mutual in 2008 with a very minimal and modest drop in its capital. (Schaefer, 2013)

In 2011, Jamie Dimon used the letter to take a dig at the Federal Reserve Stress tests by stating; “keep in mind that during the real stress test after the collapse of Lehman Brothers, our capital
levels never went down, even after buying $500 billion of assets through the acquisitions of Bear Stearns and WaMu” (Schaefer, 2013) The 2011 shareholder letter strengthens the notion that JP Morgan Chase is still using Bear Sterns as a scapegoat by stating:

Many of our problems were inherited from Bear Stearns and WaMu. Even our subprime mortgages outperformed most other subprime mortgages. Early in the crisis, we also stopped dealing with mortgage brokers, some of whom underwrote the worst of the mortgages and probably miss sold mortgages more than most. (Schaefer, 2013)

And in 2015, Jamie Dimon is still complaining about the Bear Sterns acquisition by stating in his recent shareholder letter [Appendix C]:

[W]e did not anticipate that we would have to pay the penalties we ultimately were required to pay," Dimon wrote in his new letter to shareholder. "In case you were wondering: No, we would not do something like Bear Stearns again – in fact, I don’t think our Board would let me take the call.” (Ro, 2015)

In summary, JP Morgan Chase has commented very little in regards to the status of Bear Stearns today. Nevertheless, one thought is certain, Bear Stearns has and most likely will continue to be used as a scapegoat for JP Morgan Chase.
9. Lessons Learned

After 85 years of admired reputation in U.S financial market, on March 16, 2008, Bear Stearns was sold to JP Morgan Chase for a mere $2 per share. The following lessons can be taken away:

9.1. The Concept of Too Big To Fail Is Not Concrete

Only responsible risk management could save Bear Stearns, however, it was too late to think about that during the rapid collapse of the firm’s reputation. Bear Stearns left the Federal Reserve with no feasible option but mediation to sell the firm to JP Morgan Chase for what they thought it was worth. It was a clear message from Fed that being too big to fail group will not save you if any of the major banks do mess around and get themselves into big trouble.

9.2. Too much risk is lethal

As we learned that Bear Stearns was levered 34 to 1 in its last quarter. This means, its total assets were 34 times its equity cushion. This implies that it would only take a very small loss -- around 3% of assets -- to totally wipe out bank's equity. This simply means: there was no margin of safety to protect the firm from the unpredictable.

9.3. Words can lose their power

Bear Stearns tried very hard with their financial statements and balance sheets by putting words on a pages in order to calm down the investors and shareholders, but claiming the ability of the firm to do keep its promise does not mean that it can achieve it through market environment.
9.4. Efficient market theory can be questioned

Looking at the bigger picture, we see that the housing bubble was fueled by income inequality growth. The main assumption is that a stock always trade at their fair value on stock exchanges, making it impossible for investors to either purchase undervalued stocks or sell stocks for inflated prices. (Investopedia) However, this can be true if the price reflect the information provided in the market. But as we see that most of real states bought by lower income Americans throughout the subprime mortgages were treated as asset rather than normal goods. With normal goods if the price goes up the demand drops. But, for houses were considered as financial assets for buyers, which means that as the price goes up the demand goes up and this is what we call the price bubble that eventually exploded leaving the low-income house buyers with significant losses of their life savings.

10. Conclusion

The Purpose of this paper was to deliberate and analyze the lessons learned from the financial panic by depicting the brief history, description/business model, and financial analysis of the late Bear Stearns. Looking at the Bear Stearns financial analysis from 2001-2007, we can see that in terms of profit margin, return on asset and total asset turnover that the company has the most unstable net profit margin and lowest return on assets compared to other big financial firms that were affected by the crisis in 2008. Additionally, we also find that the net profit margin and return on assets in prior to the crisis had a significant drop, implying that the firm’s management team was not effective in generating profit and using resources efficiently. Moreover, Bear Stearns had the highest earnings per share among its competitors from 2001 to 2007; however, this was probably from taking high risks. Thus, we can conclude that the firm’s data illustrated a strong line
of financial instability starting from 2006-2007 by the management team who appeared to take excessive, unnecessary risk that further harmed the firm’s stability; resulting in the eventual JP Morgan buy out at the embarrassing price of $2 a share.

Overall, like sailing, the investment banking world can be fun and rewarding, but it is not without risks, particularly for highly leveraged investment banks. The constantly changing US and world-wide economic environments offer cycles of financial gain or loss. Accordingly, we hope that with this study and financial analysis, society can gain a better understanding and potentially learn from fallen mega investment banks like Bear Stearns so when the next cycle of financial downturn occurs, we can sail safely.
11. Appendix

11.1. Appendix A

The Bear Stearns Companies Inc.
(Parent Company Only)
Condensed Statements Of Income
(In Millions) \(^{(1)}\)

<table>
<thead>
<tr>
<th>Fiscal Years Ended November 30</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>4,102.00</td>
<td>3,157.00</td>
<td>1,233.00</td>
</tr>
<tr>
<td>Other</td>
<td>534.00</td>
<td>195.00</td>
<td>248.00</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>4,636.00</td>
<td>3,352.00</td>
<td>1,481.00</td>
</tr>
<tr>
<td><strong>EXPENSES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>4,235.00</td>
<td>3,387.00</td>
<td>1,582.00</td>
</tr>
<tr>
<td>Other</td>
<td>198.00</td>
<td>206.00</td>
<td>196.00</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>4,433.00</td>
<td>3,593.00</td>
<td>1,778.00</td>
</tr>
<tr>
<td><strong>Income (loss) before benefit from income taxes and equity in earnings of subsidiaries</strong></td>
<td>203.00</td>
<td>(241.00)</td>
<td>(297.00)</td>
</tr>
<tr>
<td>(Provision for) benefit from income taxes</td>
<td>(160.00)</td>
<td>20.00</td>
<td>96.00</td>
</tr>
<tr>
<td><strong>Income (loss) before equity in earnings of subsidiaries</strong></td>
<td>43.00</td>
<td>(221.00)</td>
<td>(201.00)</td>
</tr>
<tr>
<td>Equity in earnings of subsidiaries, net of tax</td>
<td>190.00</td>
<td>2,275.00</td>
<td>1,663.00</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>233.00</td>
<td>2,054.00</td>
<td>1,462.00</td>
</tr>
</tbody>
</table>

\(^{(1)}\) (EDGAR online, n.d.)
The Bear Stearns Companies Inc.
(Parent Company Only)
Condensed Statements Of Financial Condition
(In Millions, Except Share Data)

Fiscal Years Ended November 30

<table>
<thead>
<tr>
<th></th>
<th>2007 (2)</th>
<th>2006 (3)</th>
<th>2005 (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>17,401.00</td>
<td>2,007.00</td>
<td>2,154,047.00</td>
</tr>
<tr>
<td>Securities purchased under agreements to resell</td>
<td>1,409.00</td>
<td>97.00</td>
<td>174,105.00</td>
</tr>
<tr>
<td>Receivables from subsidiaries</td>
<td>47,985.00</td>
<td>67,185.00</td>
<td>44,471,375.00</td>
</tr>
<tr>
<td>Subordinated loans receivable from subsidiaries</td>
<td>12,948.00</td>
<td>9,963.00</td>
<td>10,185,562.00</td>
</tr>
<tr>
<td>Investments in subsidiaries, at equity</td>
<td>8,097.00</td>
<td>7,975.00</td>
<td>7,191,657.00</td>
</tr>
<tr>
<td>Investments in subsidiaries, at equity</td>
<td>8,097.00</td>
<td>7,975.00</td>
<td>7,191,657.00</td>
</tr>
<tr>
<td>Assets of variable interest entities</td>
<td>650.00</td>
<td>575.00</td>
<td>748,506.00</td>
</tr>
<tr>
<td>Other assets</td>
<td>7,587.00</td>
<td>3,580.00</td>
<td>2,865,713.00</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>96,077.00</td>
<td>91,382.00</td>
<td>67,790,965.00</td>
</tr>
</tbody>
</table>

| **LIABILITIES AND STOCKHOLDERS' EQUITY** |          |          |          |
| Unsecured short-term borrowings | 8,723.00 | 19,467.00 | 9,569,754.00 |
| Collateralized financings | 122.00 | - | - |
| Payables to subsidiaries | 6,961.00 | 6,573.00 | 5,006,475.00 |
| Liabilities of variable interest entities | 205.00 | 220.00 | 221,638.00 |
| Other liabilities and accrued expenses | 2,345.00 | 1,102.00 | 1,232,027.00 |
| **Total Short Term Liabilities** | 18,356.00 | 27,362.00 | 16,029,894.00 |

| **Commitments and contingencies (Note 1)** |          |          |          |
| Long-term borrowings | 65,665.00 | 51,628.00 | 40,707,139.00 |
| Long-term borrowings from subsidiaries | 263.00 | 263.00 | 262,500.00 |
| **Total Long Term Liabilities** | 65,928.00 | 51,891.00 | 40,969,639.00 |

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2 (EDGAR online, n.d.)
3 (EDGAR online, n.d.)
4 (The Securities and Exchange Commission, 2005)
## STOCKHOLDERS' EQUITY

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred stock</td>
<td>352.00</td>
<td>359.00</td>
<td>372,326.00</td>
</tr>
<tr>
<td>Common stock, $1.00 par value; 500,000,000 shares authorized as of November 30, 2007, 2006 and 2005; 184,805,847 shares issued as of November 30, 2007, 2006 and 2005</td>
<td>185.00</td>
<td>185.00</td>
<td>184,806.00</td>
</tr>
<tr>
<td>Paid-in capital</td>
<td>4,986.00</td>
<td>4,579.00</td>
<td>4,109,166.00</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>9,441.00</td>
<td>9,385.00</td>
<td>7,492,951.00</td>
</tr>
<tr>
<td>Employee stock compensation plans</td>
<td>2,478.00</td>
<td>2,066.00</td>
<td>2,600,186.00</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(8.00)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unearned compensation</td>
<td>-</td>
<td>-</td>
<td>(143,302.00)</td>
</tr>
<tr>
<td><strong>Treasury stock, at cost:</strong> Common stock: 71,807,227, 67,396,876, and 70,937,640 shares as of November 30, 2007, 2006, and 2005 respectively</td>
<td>(5,641.00)</td>
<td>(4,445.00)</td>
<td>(3,824,701.00)</td>
</tr>
<tr>
<td><strong>Total Stockholders' Equity</strong></td>
<td><strong>11,793.00</strong></td>
<td><strong>12,129.00</strong></td>
<td><strong>10,791,432.00</strong></td>
</tr>
<tr>
<td><strong>Total Liabilities and Stockholders' Equity</strong></td>
<td><strong>96,077.00</strong></td>
<td><strong>91,382.00</strong></td>
<td><strong>67,790,965.00</strong></td>
</tr>
</tbody>
</table>

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### The Bear Stearns Companies Inc. (Parent Company Only)

#### Condensed Statements Of Cash Flows (In Millions) (5)

<table>
<thead>
<tr>
<th>Fiscal Years Ended November 30</th>
<th>2007</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>233.00</td>
<td>2,054.00</td>
<td>1,462.00</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to cash provided by operating activities: Non-cash items included in net income: Employee stock compensation plans</td>
<td>31.00</td>
<td>1,010.00</td>
<td>801.00</td>
</tr>
<tr>
<td>Equity in earnings of subsidiaries, net of dividends received</td>
<td>(1,292.00)</td>
<td>(493.00)</td>
<td>(876.00)</td>
</tr>
<tr>
<td>Other</td>
<td>14.00</td>
<td>10.00</td>
<td>10.00</td>
</tr>
<tr>
<td>Decreases (increases) in assets: Securities purchased under agreements to resell</td>
<td>(1,312.00)</td>
<td>77.00</td>
<td>99.00</td>
</tr>
<tr>
<td>Other assets</td>
<td>(2,397.00)</td>
<td>1,007.00</td>
<td>(34.00)</td>
</tr>
<tr>
<td>Payables to subsidiaries</td>
<td>388.00</td>
<td>1,566.00</td>
<td>1,276.00</td>
</tr>
</tbody>
</table>

---

(EDGAR online, n.d.)
Other liabilities and accrued expenses | 2,071.00 | (50.00) | 306.00
---|---|---|---
**Cash (used in) provided by operating activities** | (2,264.00) | 5,181.00 | 3,044.00

**CASH FLOWS FROM FINANCING ACTIVITIES**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short-term borrowings, net</td>
<td>(10,744.00)</td>
</tr>
<tr>
<td>Collateralized financings</td>
<td>122.00</td>
</tr>
<tr>
<td>Proceeds from issuance of long-term borrowings</td>
<td>21,193.00</td>
</tr>
<tr>
<td>Issuance of common stock</td>
<td>162.00</td>
</tr>
<tr>
<td>Cash retained resulting from tax deductibility under share-based payment arrangements</td>
<td>254.00</td>
</tr>
<tr>
<td>Redemption of preferred stock</td>
<td>(7.00)</td>
</tr>
<tr>
<td>Payments for:</td>
<td></td>
</tr>
<tr>
<td>Retirement of long-term borrowings</td>
<td>(8,865.00)</td>
</tr>
<tr>
<td>Treasury stock purchases</td>
<td>(1,670.00)</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>(172.00)</td>
</tr>
<tr>
<td><strong>Cash provided by financing activities</strong></td>
<td>273.00</td>
</tr>
</tbody>
</table>

**CASH FLOWS FROM INVESTING ACTIVITIES**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables from subsidiaries</td>
<td>19,200.00</td>
</tr>
<tr>
<td>Subordinated loans receivable from subsidiaries</td>
<td>(2,985.00)</td>
</tr>
<tr>
<td>Investments in subsidiaries, net</td>
<td>1,170.00</td>
</tr>
<tr>
<td><strong>Cash provided by (used in) investing activities</strong></td>
<td>17,385.00</td>
</tr>
</tbody>
</table>

**Net increase (decrease) in cash and cash equivalents** | 15,394.00 | (147.00) | 2,154.00

**Cash and cash equivalents, beginning of fiscal year** | 2,007.00 | 2,154.00 | -

**Cash and cash equivalents, end of fiscal year** | 17,401.00 | 2,007.00 | 2,154.00
<table>
<thead>
<tr>
<th>Ratio</th>
<th>Bear Stearns&lt;sup&gt;(6)&lt;/sup&gt;</th>
<th>AIG&lt;sup&gt;(7)&lt;/sup&gt;</th>
<th>Morgan Stanley&lt;sup&gt;(8)&lt;/sup&gt;</th>
<th>Goldman Sachs&lt;sup&gt;(9)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Asset Turnover</td>
<td>0.06 0.04 0.04 0.04 0.00 0.00 0.05 0.00</td>
<td>0.13 0.13 0.13 0.11 0.17 0.12 0.11</td>
<td>0.10 0.04 0.06 0.04 0.03 0.03 0.03</td>
<td>0.05 0.04 0.04 0.04 0.04 0.04</td>
</tr>
<tr>
<td>Net Profit Margin</td>
<td>0.26 0.48 0.60 0.64 0.47 0.37 0.05</td>
<td>0.08 0.11 0.01 0.01 0.01 0.01 0.00</td>
<td>0.08 0.16 0.11 0.19 0.18 0.25 0.11</td>
<td>0.15 0.15 0.19 0.22 0.23 0.02</td>
</tr>
<tr>
<td>Return on Assets (ROA)</td>
<td>0.02 0.02 0.03 0.03 0.00 0.00 0.00</td>
<td>0.01 0.01 0.01 0.01 0.01 0.01 0.00</td>
<td>0.01 0.01 0.01 0.01 0.01 0.01 0.01</td>
<td>0.01 0.01 0.01 0.01 0.01 0.01 0.01</td>
</tr>
<tr>
<td>Revenue Growth Year over Year</td>
<td>(0.26) (0.25) (0.26) 0.09 0.50 0.79 (0.14)</td>
<td>(0.19) (0.15) 0.27 0.18 0.10 0.51 (0.57)</td>
<td>(0.03) (0.56) 0.83 (0.32) 0.13 0.11 (0.06)</td>
<td>(0.05) (0.12) 0.14 0.28 0.21 0.52 0.22</td>
</tr>
<tr>
<td>Net Income Growth Year over Year</td>
<td>0.92 0.69 0.65 0.49 0.00 0.00 0.86</td>
<td>2.86 1.18 2.10 1.27 1.29 1.55 1.56</td>
<td>21.01 21.92 20.78 25.43 29.72 30.65 32.43</td>
<td>16.13 17.71 17.67 20.19 24.24 22.42 25.16</td>
</tr>
<tr>
<td>Fixed Asset Turnover</td>
<td>6.07 5.48 5.11 4.94 5.28 6.53 7.15</td>
<td>8.07 8.16 8.49 7.57 8.61 10.06</td>
<td>3.23 2.75 3.52 4.15 4.70 7.40 3.20</td>
<td>4.53 4.27 6.15 9.30 11.73 2.09 26.34</td>
</tr>
<tr>
<td>Debt-to-Equity</td>
<td>7.30 10.36 14.06 16.60 20.61 30.48 3.24</td>
<td>2.05 2.11 3.55 1.60 4.02 5.40 2.39</td>
<td>3.23 2.75 3.52 4.15 4.70 7.40 3.20</td>
<td>4.53 4.27 6.15 9.30 11.73 2.09 26.34</td>
</tr>
<tr>
<td>Earnings per Share</td>
<td>0.03 0.07 0.07 0.07 0.07 0.07 0.07</td>
<td>2.05 2.11 3.55 1.60 4.02 5.40 2.39</td>
<td>3.23 2.75 3.52 4.15 4.70 7.40 3.20</td>
<td>4.53 4.27 6.15 9.30 11.73 2.09 26.34</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>0.03 0.07 0.07 0.07 0.07 0.07 0.07</td>
<td>0.04 0.06 0.07 0.09 0.16 0.18 0.19</td>
<td>0.01 0.02 0.02 0.02 0.02 0.01 0.29</td>
<td>0.01 0.01 0.01 0.01 0.01 0.01 0.01</td>
</tr>
</tbody>
</table>

<sup>6</sup> (EDGAR online, n.d.), (Bear Stearns, n.d.)<br>
<sup>7</sup> (AIG, n.d.)<br>
<sup>8</sup> (MorganStanley, n.d.)<br>
<sup>9</sup> (Goldman Sachs, n.d.)
Dear Client/Investor

I want to take this opportunity to provide you with an update on the Bear Stearns High-Grade Structured Credit Strategies Fund and the Bear Stearns High-Grade Structured Credit Strategies Enhanced Leverage Fund. A team at BSAM has been working diligently to calculate the 2007 month-end performance for both May and June for the Funds. This process has been much more time-consuming than in prior months due to increasingly difficult market conditions.

As you know, in early June, the Funds were faced with investor redemption requests and margin calls that they were unable to meet. The Funds sold assets in an attempt to raise liquidity, but were unable to generate sufficient cash to meet the outstanding margin obligations. As a result, counterparties moved to seize collateral or otherwise terminate financing arrangements they had with the Funds. During June, the Funds experienced significant declines in the value of their assets resulting in losses of net asset value. The Funds’ reported performance, in part, reflects the unprecedented declines in the valuations of a number of highly-rated (AA and AAA) securities.

Fund managers and account executives have been informing the Funds’ investors of the significant deterioration in performance for May and June. The preliminary estimates show there is effectively no value left for the investors in the Enhanced Leverage Fund and very little value left for the investors in the High-Grade Fund as of June 30, 2007.
In light of these returns, we intend to seek an orderly wind-down of the Funds over time. This is a difficult development for investors in these Funds and it is certainly uncharacteristic of BSAM’s overall strong record of performance.

Bear Stearns has been working to achieve the best possible outcome for investors under these circumstances. On June 26th, Bear Stearns committed $1.6 billion in a collateralized repo line to the High-Grade Fund. At this time, approximately $1.4 billion remains outstanding on this line and we continue to believe there are sufficient assets available in the High-Grade Fund to fully collateralize the repo facility.

At Bear Stearns, we have taken the performance of these two funds very seriously and have taken several important steps to restore your confidence in BSAM and affirm our commitment to serving you with excellence. On June 29th, we announced that Jeff Lane was appointed chairman and chief executive officer of BSAM. Tom Marano, head of Bear Stearns’ mortgage department, has been assigned to BSAM to aid in achieving orderly sales of the Funds’ assets. The risk management function at BSAM has been restructured so that it will now report up to Mike Alix, Bear Stearns’ chief risk officer, creating an additional layer of oversight. Mike Winchell, former head of risk management for Bear Stearns and most recently with Bear Wagner, has been engaged to consult with BSAM with regard to its hedge fund risk management function.

As a dedicated team addresses the issues with respect to these particular Funds, Jeff and the rest of the BSAM team remain fully focused on meeting your investment needs.
I have enormous confidence in BSAM and the ability of our talented professionals to bring you the highest quality products and services now and in the future. You can count on us to deliver.

CEO Bear Stearns

11.3. Appendix C

We still face legal uncertainty though we are determined to reduce it over time. Though we still face legal uncertainty (particularly around foreign exchange trading), we are determined to reduce it and believe it will diminish over time. I should point out that while we certainly have made our share of costly mistakes, a large portion of our legal expense over the last few years has come from issues that we acquired with Bear Stearns and WaMu. These problems were far in excess of our expectations. Virtually 70% of all our mortgage legal costs, which have been extraordinary (they now total close to $19 billion), resulted from those two acquisitions. In the Bear Stearns case, we did not anticipate that we would have to pay the penalties we ultimately were required to pay. And in the WaMu case, we thought we had robust indemnities from the Federal Deposit Insurance Corporation and the WaMu receivership, but as part of our negotiations with the Department of Justice that led to our big mortgage settlement, we had to give those up. In case you were wondering: No, we would not do something like Bear Stearns again – in fact, I don’t think our Board would let me take the call. The WaMu deal might still make sense but at a much lower price to make up for the ongoing legal uncertainty (including the government’s ability to take away our bargained-for indemnities). I did not, and perhaps could not, have anticipated such a turn of events. These are expensive lessons that I will not forget.
Part of the issue around legal costs is that banks are now frequently paying penalties to five or six different regulators (both domestic and international) on exactly the same issue. This is an unprecedented approach that probably warrants a serious policy discussion – especially if those regulators (as at least some of them have acknowledged) don’t take into account what is being paid to the others. For now, it’s simply a reality for big banks, and certainly for us, that when one or more employees do something wrong, we’ll hear from multiple regulators on the subject.

The good news is that our legal costs are coming down and, we hope, will normalize by 2016.

12. References


http://www.morganstanley.com/about-us-ir/sec_filings.html


