


Do Fannie and Freddie Matter?

The S&P 500 fell to the lowest level since June 2006, extending its drop from last October record to almost 22%. Record oil prices and more than \$400 billion of writedowns and credit losses globally stemming from the US housing market collapse have dimmed the outlook for corporate profits. To ease the pressure for oil price, US president George W. Bush said this week he's lifting a presidential ban on drilling for oil and natural gas on the US outer continental shelf, setting up a showdown with Congress over a separate ban it put in place in the 1980s. Pressure to permit drilling off the Pacific and Atlantic Ocean coastlines and in the Eastern Gulf of Mexico has been building as oil and gasoline prices have surged to records. US Congress has barred drilling since 1983 through an annual Interior Department spending bill. That ban could be lifted if Bush refused to sign the department's fiscal 2009 appropriations

measure that is now being debated in the House and Senate. The president's father, George H.W. Bush, imposed the existing executive moratorium. However, there are still overhang in financial markets. National City Corp. tumbled to a 24-year low after last week's collapse of IndyMac Bancorp Inc. spurred speculation that regional banks are short of capital. Fannie Mae has fallen 61% in the past month, and Freddie Mac has lost 69%. The declines in the companies that own or guarantee about half of the \$12 trillion in US home loans outstanding threaten to increase mortgage rates, deepening the worst housing recession in 25 years. The two companies' presence in the struggling housing market is widely considered to be critical. They help keep mortgage rates low for many consumers, but the companies are struggling to balance growth through buying loans

against rising delinquencies. With this regard, Paulson proposed two days ago legislation giving the Treasury the power to make unlimited purchases of equity in the firms, and to increase their credit lines. In the interim, the Fed agreed to let Fannie Mae and Freddie Mac borrow directly from the central bank. Even if Bernanke and Paulson announce possible support measures, it did not revive the confidence in the US property market as well as investment market. The US dollar declined to a 25-year low versus the Australian dollar on speculation over further losses at Fannie Mae and Freddie Mac. Whatsoever, the market sentiment is fragile now. The stockmarket cannot rise until there is positive news with regard to the economic situation. 



Microscope

Fannie Mae was established in 1938 during the Great Depression. US congress chartered Freddie Mac in 1970. Both companies help homebuyers through the purchase of mortgages from banks and other lenders to homebuyers. They neither provide loans directly to purchasers. When they buy mortgages from banks, they group them into bonds and sell them to investors with a guarantee to be paid. This process makes it easier for banks to lend money because both companies are taking the risks associated with missed payments and defaults. Amid the dwindling mortgages, escalating foreclosures and high mortgage rate are threatening both companies. The two companies hold some of the loans and securities they bundle. Fannie Mae said its portfolio was \$736.9 billion in May, the highest since August 2005, while Freddie Mac said its portfolio was a record \$770.4 billion in May. Fannie Mae's total book of business topped \$3 trillion for the first time in May, twice its size at the beginning of 2002. With Freddie Mac's \$2.2 trillion in investments and guarantees, the two have a hand in nearly half of the entire US mortgage market. 

MARKET BRIEFING


YTD % (local curr)

US DJ	11,100 (-16.3%)
Nasdaq	2,239 (-15.6%)
Euro Stoxx 50	3,197 (-27.3%)
HSI	22,184 (-20.2%)
Japan NK225	13,039 (-14.8%)
China Shanghai Composite	2,856 (-45.7%)
Singapore	2,926 (-15.5%)
India BSE30	13,469 (-33.6%)
Brazil BOVESPA	60,148 (-5.9%)
Aus All Ord	5,067 (-21.1%)
US-10yr Bond	Yield 3.89%


As at 11/07/08

Insight: "Buy Term Invest the Difference"

Buying term and investing the difference is a concept involving term life insurance and investment strategies that allow individuals to eventually self-insure and provides an alternative to permanent life insurance. Generally speaking term insurance premiums are considerably less expensive in the short term than permanent life insurance for an individual for the same benefit amount. Permanent programs are more expensive because they force the policy owner to combine some form of cash accumulation with the insurance program as a single package. This viewpoint assumes consumers will self-insure on their own and will

eventually be able to eliminate the need for permanent insurance which forces them to self insure. Most responsibilities for which life insurance is purchased are temporary in nature (paying off mortgage and/or debts, provide education for dependants and create cash reserves. Insurance terms may be a number of years in length which, in theory, should provide enough time for the insured to invest and eliminate these responsibilities. With the concept of buying term instead of permanent insurance, more investments vehicles are available, all of which are independent of the insurance program and remain in control of the insured if the insurance portion is canceled. All cash accumulated is available based on the investment vehicle selected by the investor, not the insurance company. 

A-Z Financial Tools

Window Dressing is trading activity near the end of a quarter or fiscal year that is designed to improve the appearance of a portfolio to be presented to clients. For example, a portfolio manager may sell losing positions so as to display only positions that have gained in value. Investors should closely look at the momentum behind rising prices during that period. 



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