

**THE GLOBAL
ECONOMIC CRISIS
SEPTEMBER 2007-???**

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“GLOBAL”

Global Growth Dives

Country / Region	4 Q GDP (% yoy Annualized)
USA	-6
Canada	-3
Eurozone	-6
Germany	-8
Japan	-12
Singapore	-16
Korea	-20

“ECONOMIC”

The Roots of Ruin

- Housing Bubble
- + Poor Lending Practices
- = Big Financial Problems

GUILTY

- Credit Default Swaps (CDS)
- Collateralized Debt Obligations (CDO)

The Seduction of Leverage

Equity (m ln)	Debt (m ln)	10% Returns (m ln)	5% Interest (m ln)	Net Returns (m ln)	Return on Equity (%)	20% Hedge Fund Fees (m ln)
100	0	10	0	10	10	2
100	400	50	20	30	30	6
100	800	90	40	50	50	10

The Roots of Ruin

- Housing Bubble
- + Poor Lending Practices
- + Derivatives
- + Leverage
- = **FINANCIAL DISASTER**

Total Amount of Financial Assets Destroyed in the World (2007-2009)

US\$60 Trillion

President Obama is Probably Using This Model

$$\begin{aligned} \text{GDP} = & \text{Consumption (C)} \\ & + \text{Investment (I)} \\ & + \text{Net Government} \\ & \text{Spending (G-T)} \\ & + \text{Net Exports} \\ & \quad (\text{Exports, X} - \text{Imports, M}) \end{aligned}$$

Total Amount of Financial Assets Destroyed in the World (2007-2009)

US\$ 60 Trillion

US Government Fiscal Stimulus
US\$787 Billion

“CRISIS”

The Crises List

- Savings and Loans Crisis - 1984
- Junk Bond Crisis - 1989
- Japanese Bubble Bursts - 1992
- Mexico Currency Devaluation - 1994
- Barings collapse - 1995
- Asian Currency Crisis - 1997
- Russian Currency Devaluation and Default - 1998
- LTCM Bailout - 1998
- Dot-Com Bubble Bursts - 2000
- Bear Stearns Bails Out Funds - 2007
- Lehman goes bankrupt - 15 September 2008

“2007-???”

When Will The Recession End?

A Sampling of “Expert” Opinions (I):

- Jim Grant: “don’t ask when”
- Stephen Roach of Morgan Stanley: “late 2010 or 2011”
- A. Michael Spence, Nobel Laureate: “unusually long and deep global recession through 2010”
- William Poole (ex-Fed governor): “against government bailouts”
- Eric Schmidt, Chairman and CEO of Google: “expects signs of life later this year”
- George Cooper, financial writer: “financial drag extending into the next decade”

When Will The Recession End?

A Sampling of “Expert” Opinions (II):

- Niall Ferguson, Harvard economic historian: “two years of contraction and two lean years after that”
- Nouriel Roubini, NYU Economics Professor (aka Dr. Doom): “three year recession, with chances for much worse”
- Alan Blinder, Princeton Economics Professor: “growth resuming in the fourth quarter of 2009, but with many caveats”
- Warren Buffet, CEO of Berkshire Hathaway: “economy will be in a shambles through 2009 and probably beyond”

The Slow Recovery

- Time Taken for S&P Index to reach its previous peak:
- 1932 – 26 years
- 1982 – 10 years