

LAST WEEK

REVIEW &

Dow Indicator

Dow Industrials 17128.55

– 136.66 Dow Global Index

302.91 – 0.03

10-Year Treasury Bonds 2.20 + 0.06

Film Fallacy

The Big Short: A Big Mess



As entertainment, *The Big Short* merits its rave reviews. Based on Michael Lewis' book of the same title and directed by Adam McKay, this tale of the housing bubble that begot the financial crisis of 2008 is funny, fast-paced, and graced with appealing stars, including Christian Bale, Ryan Gosling, and Steve Carell.

In the accuracy department, however, *The Big Short* falls far short. The movie suggests that bankers securitized subprime loans and passed off this dross as gold simply because they ran out of higher-quality paper. But it ignores the fact that blame for the housing bubble begins not with Wall Street but with Washington—in particular, the Clinton administration, which sought to make mortgage financing “more available, affordable, and flexible,” thereby encouraging borrowing by people ill-equipped to repay their loans. Clinton’s policies were embraced

by his successor, George W. Bush, who was equally intent on promoting “the American dream” of homeownership among minorities and the poor.

Incredibly, those who lost their homes are represented in the movie by a family of renters; it’s their landlord who defaults on the mortgage. Evidently, Hollywood dares not suggest

that people who bought houses they couldn’t afford were responsible, even in a small way, for their fate. The movie’s creators might argue that their aim is entertainment, not education. But they are shaping perceptions of historical events in ways that could produce inadequate policy responses to future crises affecting the economy and markets. —MARTIN FRIDSON

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Finally, the Fed Raises Rates

In a long-anticipated move, the Federal Reserve raised the federal-funds rate Wednesday. The liftoff, the first in nine years, was small, 0.25%, and the Fed was careful to say that tightening would be gradual. Fed Chair Janet Yellen, in a news conference after the meeting of the Federal Open Market Committee, which unanimously voted for the hike, noted that the U.S. economic recovery was strong but not complete, with weakness globally. The markets reacted calmly, with the Dow Jones Industrial Average rising 224.18 points to 17,749.09 after Yellen spoke. On Thursday, yields on Treasuries fell as investor demand drove prices higher.

Junk's Roller-Coaster Ride

The high-yield market appeared to stabilize after the implosion of the Third Avenue Focused Credit fund and a record plunge in junk prices. No other funds collapsed, though asset managers did experience heavy selling and there were reports of illiquidity in some issues (see page 29). After the Fed rate hike Wednesday, junk prices rallied.

A Tough Week for Stocks

With a rate hike in the rearview mirror but commodity prices falling again, the Dow Jones Industrial Average slipped 136.7, down 0.79%, to 17,128.55. The Standard & Poor’s 500 lost 6.85 or 0.34% to 2005.55.

Shkreli Takes a Perp Walk

Drug-company executive Martin Shkreli was arrested by the FBI at his Manhattan apartment early Thursday on charges of defrauding investors through a Ponzi scheme involving a drug company, Retrophin, he then ran, and two hedge funds he had founded. The allegations were unrelated to the outcry over the 32-year-old Shkreli’s dra-

She Said:

“The committee expects economic conditions will evolve in a manner that will warrant only gradual increases in the federal-funds rate.”

Fed Chair Janet Yellen after the Fed hiked interest rates.



The Numbers

Trends in Google searches point to an improving economy, Convexity observed.

3%: year-over-year increase in searches for “buy a house” in July, the peak buying month

19%: increase in searches for “vacation” in July, the first since ‘08

0%: recent change in searches for “buy a car”; those are still at high levels

8%: decrease in searches for “bad credit” since 2014

matic price increases at Turing Pharmaceuticals. Shkreli resigned from Turing Friday. A Kaye Scholer partner was also arrested on charges that he helped Shkreli.

Star Wars: Big, Not Biggest?

The newest iteration of the Star Wars series, *Star Wars: The Force Awakens*, opened. Goldman Sachs is predicting ticket sales of some \$1.95 billion for the Disney film, with \$750 million in the U.S. and \$1.2 billion internationally. However, Goldman doesn’t expect the film to beat *Titanic*, at \$3.6 billion, and *Avatar*, at \$2.9 billion.

FedEx Gets Some Early Gifts

FedEx is enjoying its busiest holiday season ever, driven by booming e-commerce. The company reported that the pace of deliveries has been consistently high since Cyber Monday and should continue. FedEx reported a 4% bump in profit for the quarter ended Nov. 30.

Merger Mania Continues

Newell Rubbermaid announced a \$15.4 billion deal for Jarden. Private-equity firm Cerberus agreed to buy 80% of Avon Products’ North American business and to inject some \$435 million into the parent company. Canadian Pacific sweetened its bid for Norfolk Southern. And British drug maker AstraZeneca acquired 55% of biotech Acerta Pharma for \$4 billion.

In Brief

■ Enrique Marquez, a neighbor and friend of one of the suspected San Bernardino shooters, was arrested on charges, among others, of conspiring to support terrorism.

■ Casino mogul Sheldon Adelson bought the Las Vegas Review-Journal, Nevada’s biggest paper.

■ Beijing issued the second red-alert smog warning since early December.

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