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**OVERNIGHT**

**The Dow led the way higher today posting a gain of 0.89%. The S&P 500 gained 0.31% and the NASDAQ was lower by 0.11%. The gain for the S&P 500 marked the seventh consecutive positive session for the index.**

**Apple closed lower by over 5%. Their new product announcements overnight with China Mobile underwhelmed the market. The poor performance of the stock had a severe negative impact on both the NASDAQ and the S&P 500. Activist investor Carl Icahn came out after the close and said he was aggressively buying shares late in the trading session.**

**The price-weighted Dow Jones Industrial average fared better as the largest member of the index, IBM, gained more than 2%. United Technology, Disney, Travelers, Microsoft, DuPont, and Exxon all gained better than 1% in today's session.**

**Cyclical issues were in favor today. Energy, industrials, materials, and discretionary groups gained at least 0.50% today. The energy sector added 0.80% as crude gained 0.30%. Gold posted slight losses on the day but gold mining stocks rose by 0.80%.**

**The MBA Mortgage Index fell 13.5% to its lowest level since November 2008. Refinances declined 20.2%.**

**////////////////**

**Hear Hear….**

**Stanley Druckemiller, the former portfolio manager for George Soros' Quantum Fund says that he's "lost."**

**"Ok, so my guess is, and I believe the market is topping. The stock market predicted seven out of the last three recessions; I predicted seven out of the last three bear markets. I started in a bear market, so I have a bearish bias.**

**Where I am on the market is if you gave me a stock I really like, I will buy it. If you give me a stock I really hate, I'll short it.**

**In terms of having some big position, long or show indez, or some exposure to the stock market right now, I am lost. I don't play when I am lost. I know in the future I won't be lost," he told Bloomberg TV.**

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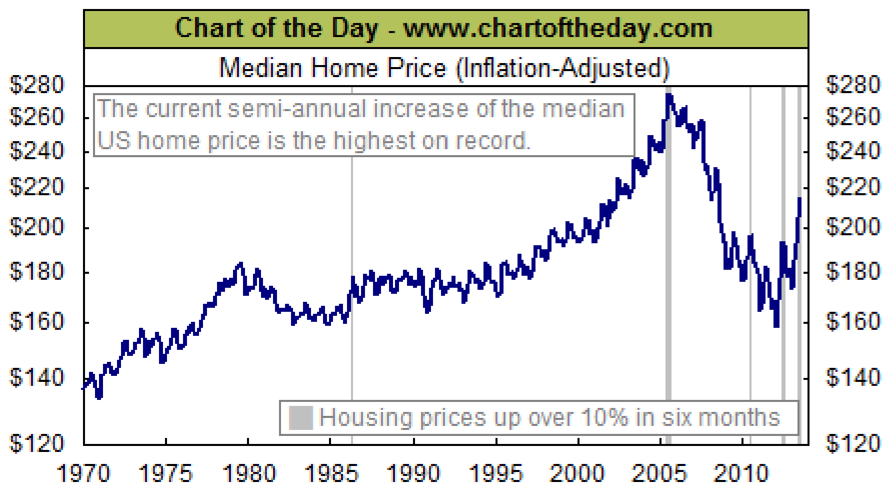
## US PROPERTY PRICES ROARING AWAY

**The US real estate market continues to surge. For some perspective, today's top chart illustrates the US median price (adjusted for inflation) of a single-family home over the past 43 years while today's bottom chart presents the semi-annual percent change in home prices (also adjusted for inflation).**

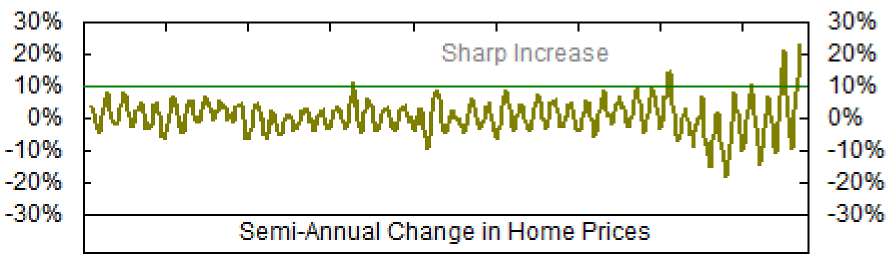
**Today's chart illustrates that the inflation-adjusted median home price has rarely increased more than 10% in six months (gray shading). When inflation-adjusted home prices did increase more than 10% in six months, it was often soon followed by a period of stagnant or declining prices.**

**It is worth noting that over the past six months, the median price for a single-family home has shot up at the fastest pace on record.**




**The below chart presents the semi-annual percent change in home prices (also adjusted for inflation).**

**Fastest increase (SA) in 40 years..**



# Five years after the crisis, these 13 charts show what's fixed and what isn't.

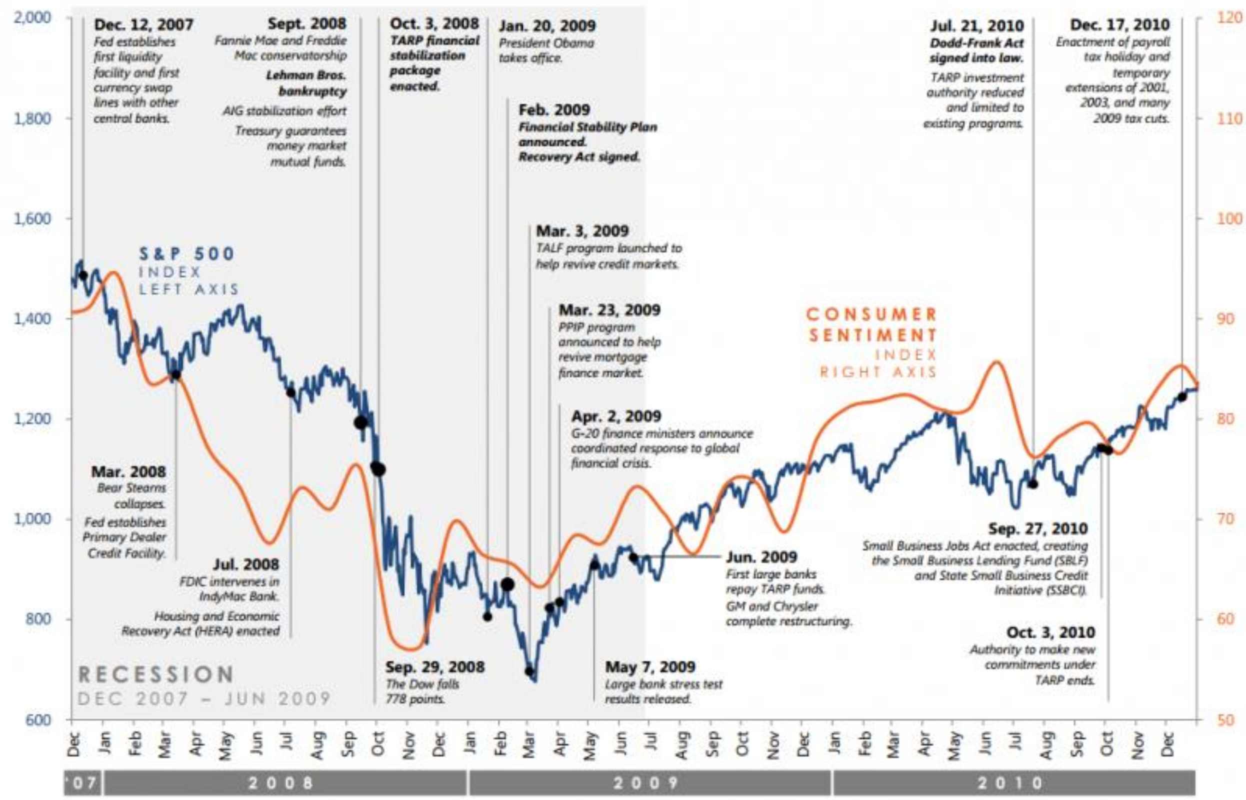
By Neil Irwin, Washington Post

The five-year anniversary of the Lehman Brothers bankruptcy is this weekend, and the Treasury Department–where the response to the crisis that failure spurred unfolded–has issued a document that amounts to its take on what has happened since then. It includes some terrific graphs that add up to a visual history of the world's financial palpitations over the last several years.

Here are some key charts. And we'll add a couple of charts of our own, as a corrective for the fact that the treasury presentation, in the data it chooses to present and how it is portrayed, is inevitably focused on showing how the Treasury Department did a great job rather than giving a complete picture of where things stand five years later.

First, a brief history of the crisis and its aftermath:

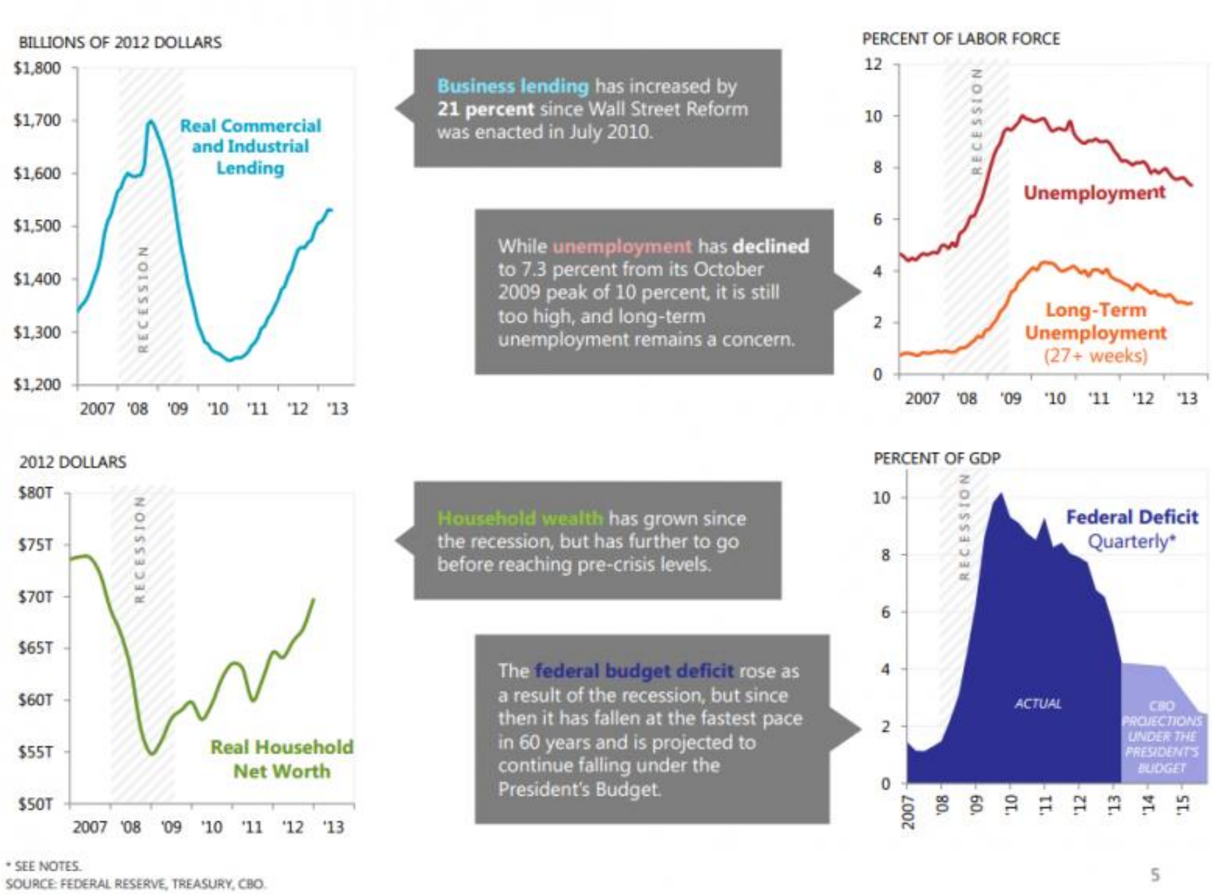
History of the Financial Crisis: **Mid-2007 to 2010**




Source: Treasury Department

**The economy**

On a number of measures of how the economy has done since then, there is considerable progress–but many key measures, like unemployment, commercial lending, and household wealth, are not back to where they were pre-crisis.




Source: Treasury Department

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Now, for a little economic perspective, we'll add a couple of graphs of our own. First, here's the employment-to-population ratio. As the graph in the upper right quadrant above shows, the unemployment rate has been coming down steadily since roughly the start of 2010. But a large portion of that is due to people dropping out of the labor force. If you look at the actual number of people with jobs, relative to the whole population, a different pattern emerges: It plummeted during the recession, and has rebounded hardly at all since then:


Source: Bureau of Labor Statistics.

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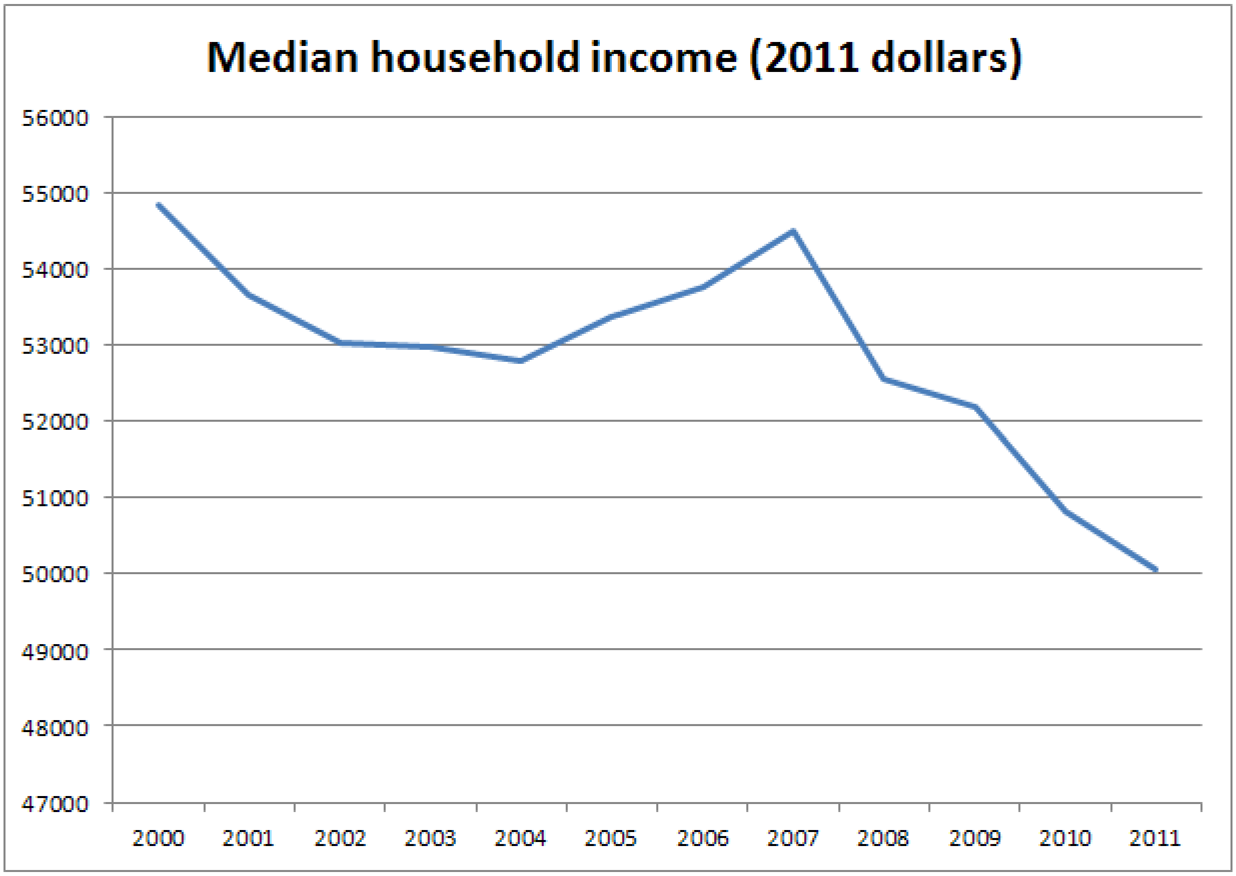
And while the Treasury slide deck notes that household net worth has risen a good deal since the crisis, this can be misleading. Wealth is disproportionately held by the very rich, so, for example, the sharp run-up in the stock market since the spring of 2009 has disproportionately benefited the wealthy. A more useful measure of well-being for many working Americans is incomes. The data are only available through 2011, but this is what has happened to inflation-adjusted incomes of the American household at the middle of the income distribution:

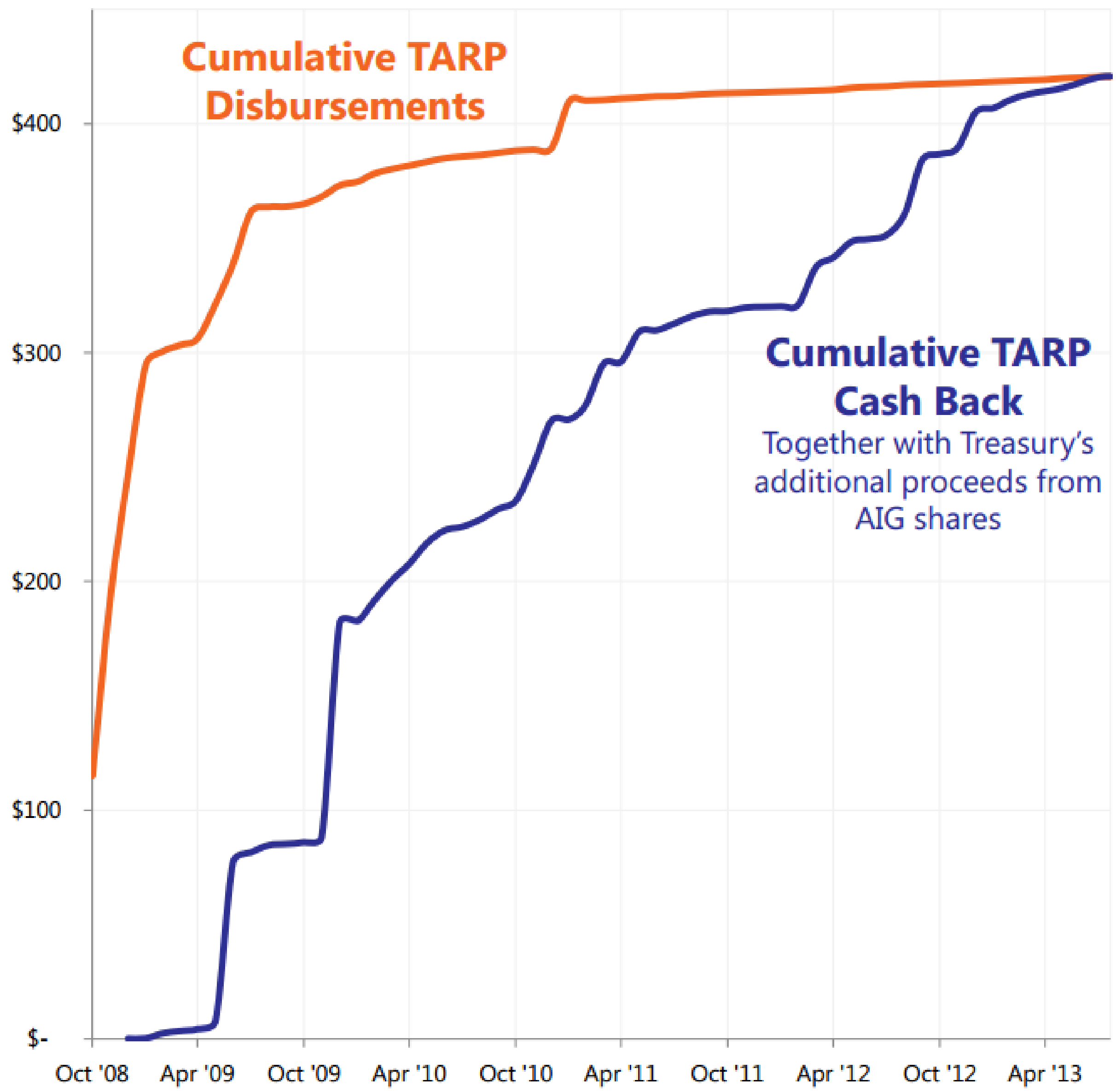



Source: Census Bureau

As it shows, there has been no rebound in what working American families earn when adjusted for inflation, at least as of 2011.

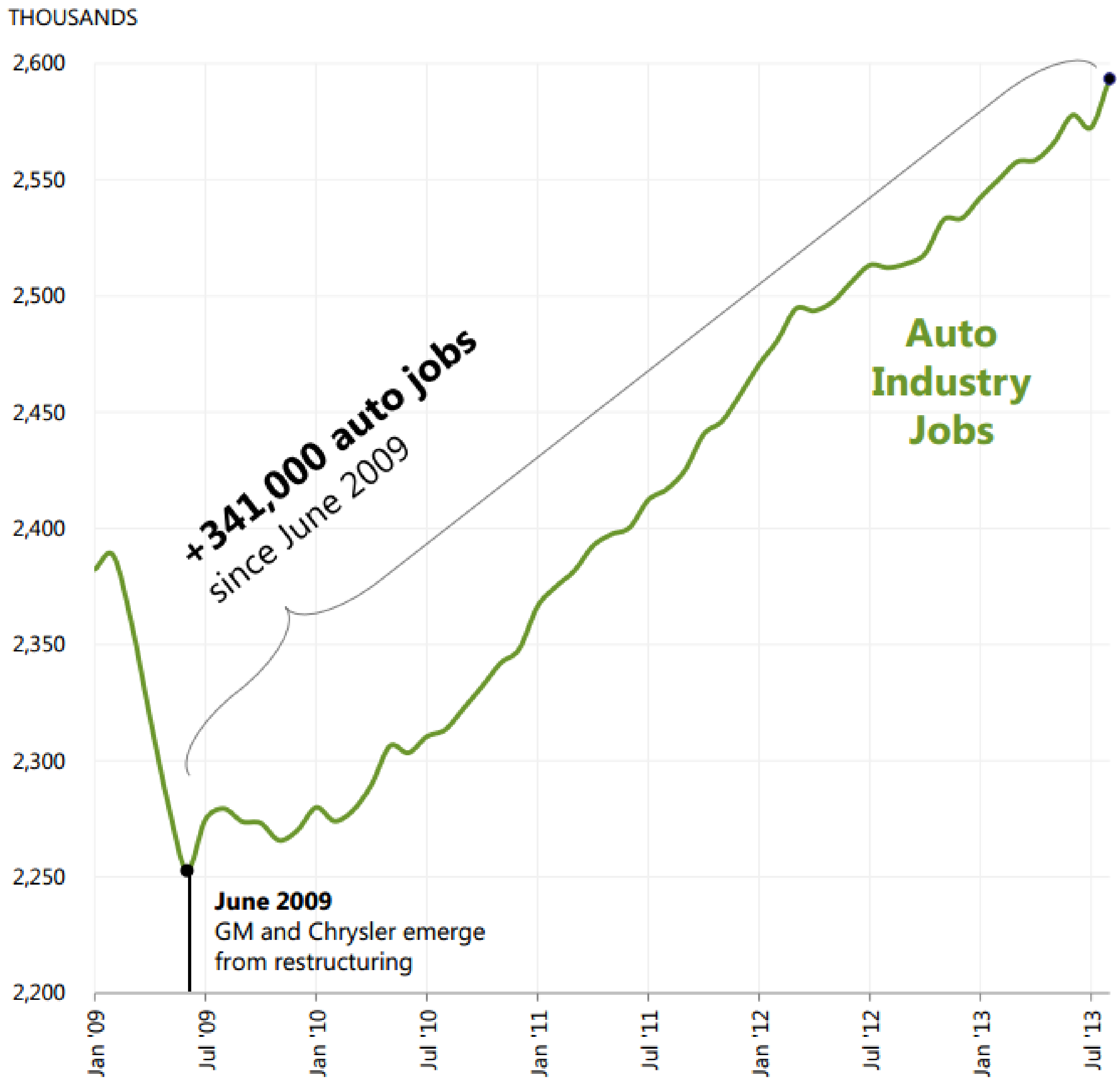
**What about the TARP?**

But what about the financial rescue, which is a key area the Treasury emphasizes? The Troubled Asset Relief Program, the bank bailout passed by Congress and the Bush administration five years ago on Oct. 3, was a key tool the government used to push capital into the banking system, rescue automakers, and try to help homeowners.



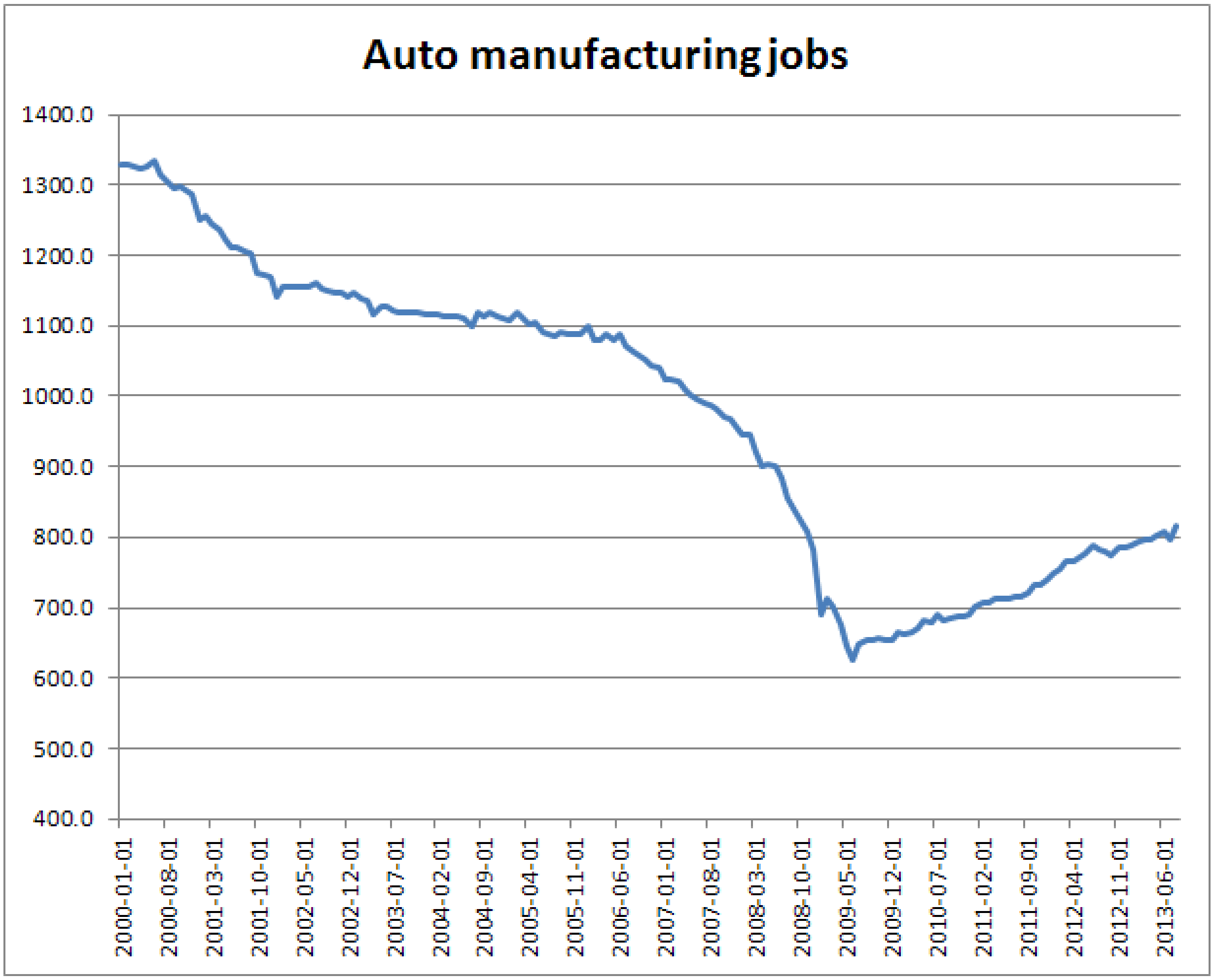

Source: Treasury Department

As this graphic shows, the money has been paid back. What did the American taxpayer get for it? Well, here's the Treasury's graphic on job growth in the auto sector, in no small part thanks to the TARP-funded auto rescue.




Source: Treasury Department

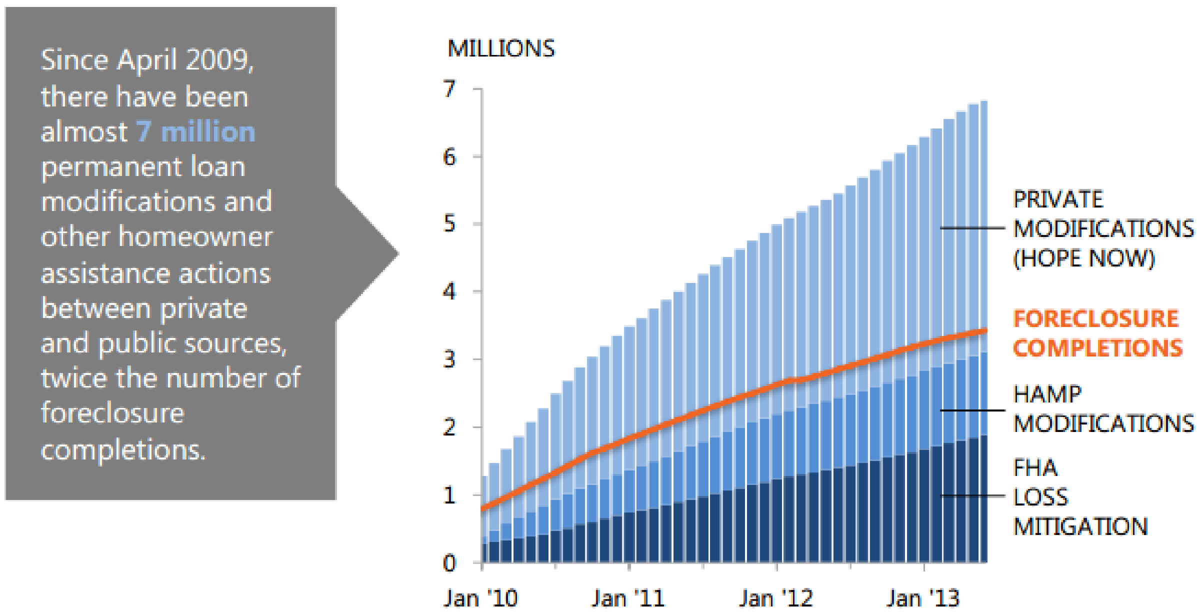
But they're being a little too cute with their x-axis. Yes, auto jobs are up since July 2009, their low point in modern history. Go back a few more years, though, and the picture is not quite as sunny.




Source: BLS

So yeah, not quite as great as it seems. But there was an epic collapse underway in the auto industry, and it has indeed turned around since the Obama administration's TARP-funded auto bailout.

How about when it comes to helping homeowners modify mortgages? The Treasury points to progress on that front, too.




Source: Treasury Department

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Advocacy groups have argued that the administration's mortgage assistance programs were inadequate to the scale of the foreclosure crisis that afflicted the nation, particularly in 2009 and 2010. Here is the total number of foreclosures:

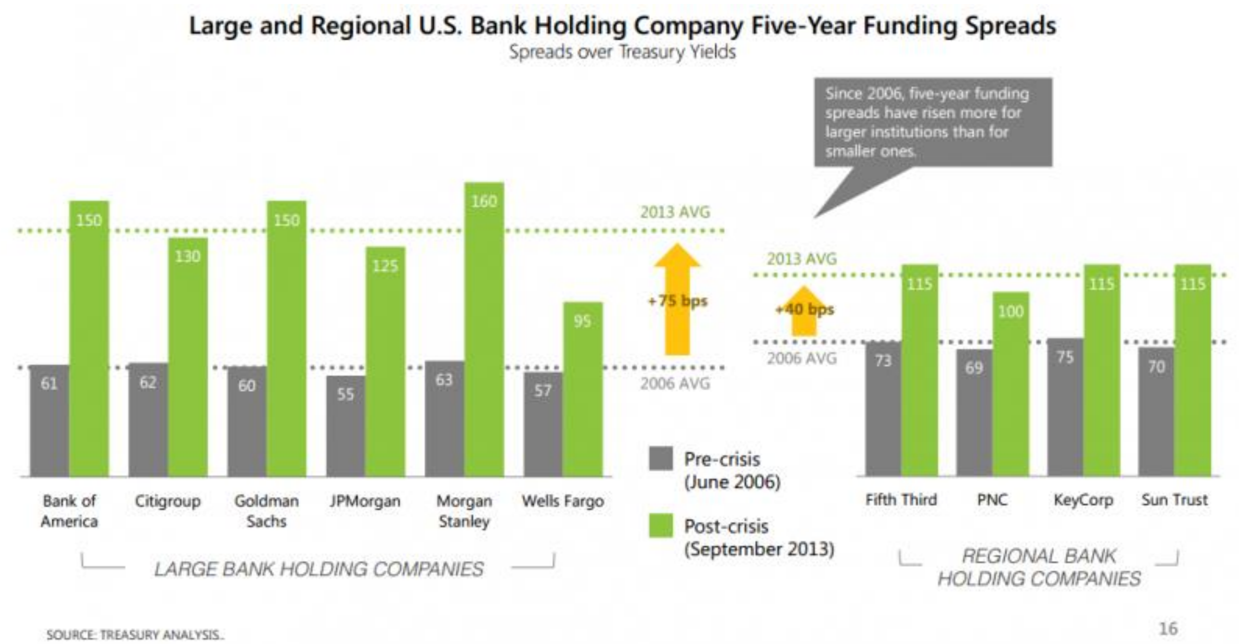

Source: Realty Trac via Bloomberg

The programs, then, may have helped millions of families, but were not up to the task of preventing the most extreme foreclosure crisis of modern times–and the level remains well above pre-crisis levels.

**Is the financial system fixed?**

The Treasury Department argues that the Dodd-Frank financial reform act and other related measures have meaningfully improved the oversight and stability of the U.S. financial system.

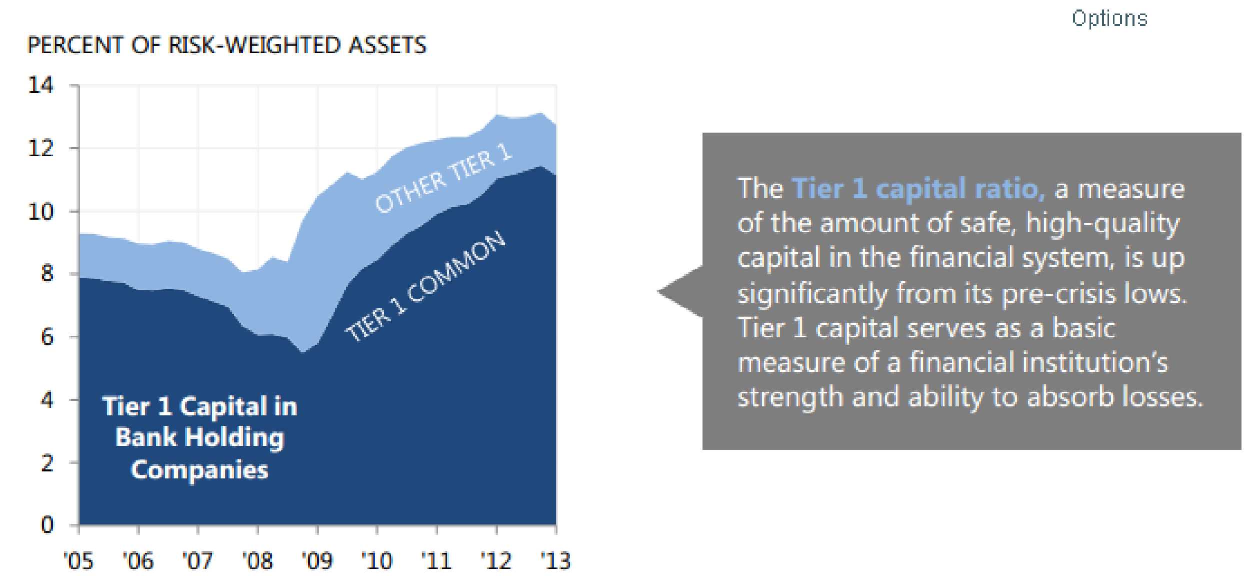
They play down, meanwhile, the risk that the "too big to fail" problem is worse than ever. Here, for example, are the funding costs of the biggest U.S. banks versus their regional competitors.




Source: Treasury Department

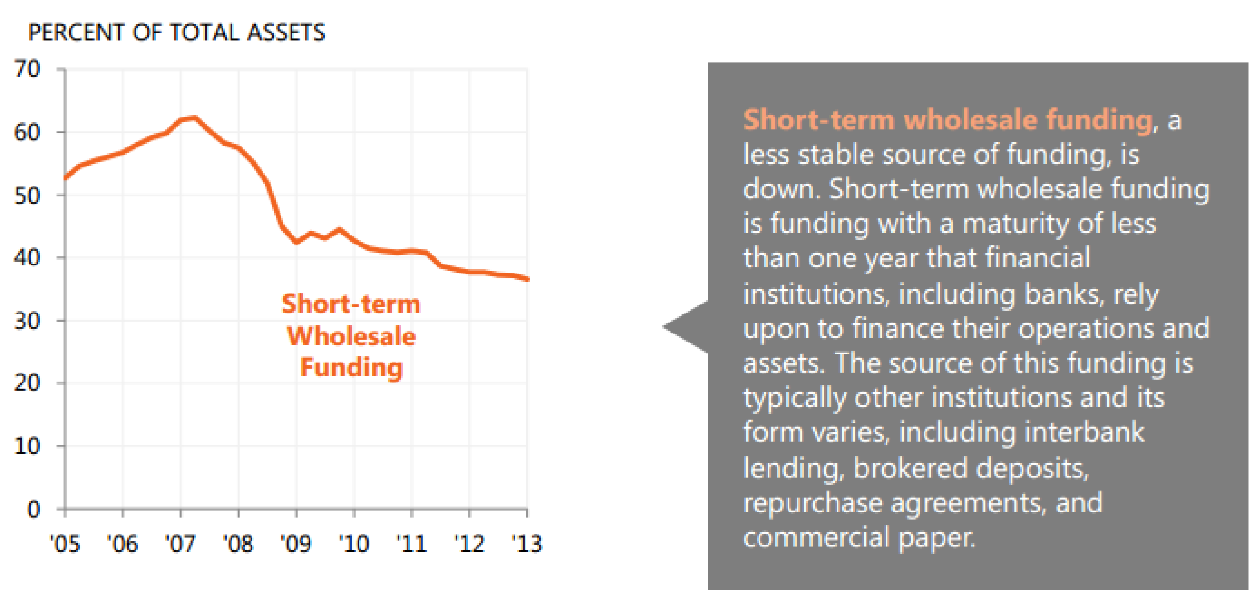
Whereas before the crisis these giant banks like Citigroup and JPMorgan could borrow money at ultra-cheap interest rates (the grey lines), and at lower rates than the non-too-big-to-fail competitors on the right, now they pay higher rates both in absolute terms and relative to mid-size competitors. This, in other words, signals that the markets are pricing in their higher riskiness and not assuming that there is a government backstop that will bail them out.

Relatedly, these institutions hold more capital:




Source: Treasury Department

And they rely less on short-term borrowings that can disappear quickly in a crisis, which should in theory make the banking system more stable and less vulnerable to runs.




Source: Treasury Department

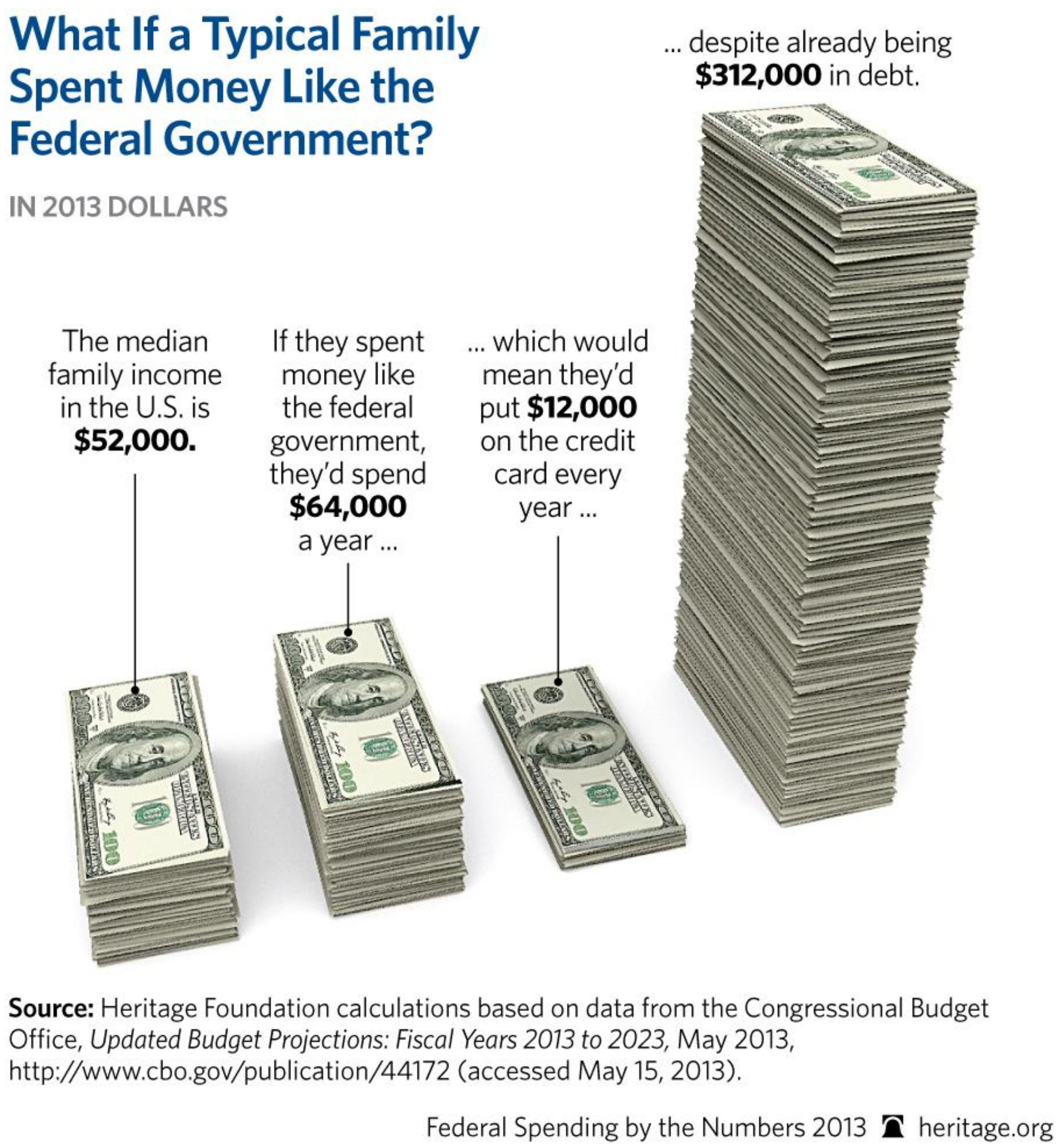
Add it all up, and it does seem like a persuasive case that this is a more stable financial system circa 2013 than the one that existed before the crisis.

We'll add one more chart to those that the Treasury offers. The department is, logically, focused on explaining the contributions of policy levers it has had power over. But in understanding why financial markets have recovered, growth has been underway for four years and counting, and the nation seems to have avoided a Japan-style deflationary trap, you need one more chart, about another agency.


This is the Federal Reserve's balance sheet. It is now at $3.65 trillion, up from around $800 billion before Lehman Brothers failed. The ramp-up, along with other crisis-era measures, are a significant part of why the Treasury was able to report progress elsewhere in its report.

**What if a typical family spent like the federal government? It'd be a very weird family.**

**Brad Plummer, Washington Post**



The idea here seems to be that the U.S. government is taking on a lot of debt. True, the typical American family also takes on a lot of debt through mortgages and the like, but U.S. government borrowing is even more massive than that.

Fair enough. This analogy seems incomplete, though. We should take it further. If the typical family — let's call them the Smiths — really did spend like the federal government, a few other things would also be true:

– The Smiths would spend 20 percent of their income, or $10,440 each year, on an arsenal of guns, tanks and drones to defend their house against threats or invade the occasional neighbor over lawn-pesticide disputes and access to the gas station.

– The Smiths would spend another third of their income financing retirement and health care for Grandma and Grandpa. Part of that would have been prepaid by money that Grandma and Grandpa socked away while they were working, but some of it would be paid for by the parents and kids who are chipping in.

– Actually, come to think of it, the Smiths spend nearly half their money — 43 percent — operating a massive insurance conglomerate whose main beneficiaries are family members.

– Over the past few years, the Smiths have been able to borrow a vast amount of cash at negative interest rates. That is, banks have essentially been paying the family to hold their money. That's partly because everyone assumes the Smiths are more or less immortal and will always be good for it. They're the wealthiest, most dependable family in a neighborhood full of upstarts and imploding Greek restaurants. Plus they have all those tanks.

– The Smiths, by the way, own their own printing press. For whatever reason, it's totally legal for them to print more money, although they have to be selective about this. That does seem to reassure lenders.

– Of the $312,000 that the Smith parents have borrowed so far, about 47 percent of that is owed to outsiders, including the Chens down the street. But much of the rest they borrow from their kids with a promise to repay.

– The parents could also tap into the kids' extra income from their lucrative million-dollar lemonade stand business if they wanted to whittle down the debt, although this would come up for a family vote and the kids aren't keen on this.

Anyway, it's a good analogy. The U.S. federal government really does resemble your typical money-printing family that owns lots of tanks, operates a giant insurance conglomerate, can borrow money at extremely low rates, and is assumed to be immortal.