It's hard to know whether the unfolding drama with Bank of America and Citigroup Inc. represents history repeating itself as farce, or whether the markets have a few more go-rounds with tragedy first. Sure, shares are higher on the day on news that the U.S. Treasury has driven an armored truck full of large bills to the front of headquarters, even as similar amounts are being sent into the incinerator in a back office somewhere. But many see the situation as untenable, believe the government is throwing good money after bad, and believe the resolution will look similar to a liquidation. Citigroup and Bank of America are receiving another round of funding to shore up their capital bases even though the outlook remains depressing. Economic weakness, the fractured real estate market and the horrific-looking balance sheets of these financial-services companies are likely to translate to losses for an ongoing period of time, until the market somehow recovers, or the institutions collapse.
“We’re funding operating losses and we’re only buying time,” says Christopher Whalen of Institutional Risk Analytics.

Citigroup is receiving at least $45 billion to stabilize itself after announcing an $8.3 billion loss amid plans to split into two businesses. Bank of America, meanwhile, reported big losses and nailed down plans to receive $20 billion from the government to handle losses related to its acquisition of Merrill Lynch.

But when does all of this end? That’s the germane question here — and to some, it points to an eventual takeover by the Federal Deposit Insurance Corp., where the bank deposits and certain other assets are sold off, piecemeal, to other banks, and the company’s debt remains with a shell company. Debtholders eventually lose a ton of money in bankruptcy.

“The debt must be reduced — if it means the debtholders lose money along with shareholders and depositors it must occur,” says Chris Wang, portfolio manager at hedge fund SYW Capital Management LLC in New York, who has short positions in the financial sector. “It’s not politically viable to let depositors lose money so it’s only through debtholders losing money can credit flow again. Then, we’ll be able to let companies that bought them operate in a stronger situation, because they’ll be able to conduct business.”

That all sounds incredibly easy on paper, but one only need look at the wrangling that has accompanied the slow spiral into nothingness of the U.S. automakers to see that debtholders won’t go gently into the night, particularly if the perception remains that the underlying company in question still remains viable (which is how people see Bank of America and its stronger brethren, J.P. Morgan Chase).

**MARKETS ON THE MOVE**

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<tr>
<th>STOCKS</th>
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<tbody>
<tr>
<td>Dow Jones Industrials *</td>
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<tr>
<td>S&amp;P 500 *</td>
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<td>6.38</td>
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<tr>
<td>Nasdaq Composite *</td>
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<td>Russell 2000 *</td>
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<tr>
<td>Crude Oil</td>
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<tr>
<td>10-Year Note *</td>
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<td>-1 9/32</td>
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<tr>
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<tbody>
<tr>
<td>Yen (per dollar)</td>
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<tr>
<td>Euro (in dollars)</td>
<td>1.3289</td>
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</tbody>
</table>

Note: Reuters and Dow Jones

Source: Reuters and Dow Jones

* At close

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5. US Airways Plane Down in New York's

professor of finance at Duke University says taxpayers shouldn’t have to subsidize a bad bet by Bank of America when it purchased Merrill Lynch at $29 a share. “We’re in a situation where the government is continuing to bail out mistakes and continuing to throw good money after bad and then take a back-seat position — they have to stop or [management] will continue to do this,” he says.

For his part, Mr. Whalen believes the industry has reached an inevitable point; Citigroup’s restructuring into two units will only buy a bit of time. “You’re basically going to liquidate these guys and break them up into bite-sized pieces by geography,” he says. “If you want the economy to recover, you go to US Bancorp on down and you tell them you’re going to give them more TARP money, on more concessionary terms than Citi or B of A, and they can use that to buy other banks, and breathe life into these moribund assets.”
Bank of America just positioned itself into a Premiere Global Financial Powerhouse. This will only take a few years to unravel.

Comment by nhao - January 16, 2009 at 12:09 pm

My orb showed the OZ said the banks were insolvent and hiding it over 14 months ago. HMMMMMMMMMMMM, the OZ on CNBC, it staggers the imagination. He was right. while almost all the dumbed down high powered CNBC incorrectos were wrong.

Comment by The Oracle of Tunis - January 16, 2009 at 12:10 pm

Nhao,

Get off the Prozac now, that haze has become permanently opaque.

Comment by Holy pucky - January 16, 2009 at 12:13 pm

How much more money will be input into Bank system to prove that most of them are bankrupt dozens of times? Buying time is stupid just as doctor tries his best to save a dying man

Comment by Greedy CEO - January 16, 2009 at 12:16 pm

ask yourself…why would a bank like B of A buy up a banks with toxic mortgages up, knowing it will go bankrupt, and then buy up all the good assets?….there is something more then meets the eye…I think nhoa might be on to something…

Comment by volkermord - January 16, 2009 at 12:44 pm

Guess, what. You replace the tires and windshield on that car and the picture and it would be just fine for getting from point A to B.

Digg -- submit this item to be shared and voted on by the digg community. For more about digg, click here.
Del.icio.us -- mark an item as a favorite to access later or share with the del.icio.us community. For more about del.icio.us, click here.
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I like how all these article writers so conveniently forget that the government pushed really pushed these merger deals early on.

Comment by funny - January 16, 2009 at 12:59 pm

To:volkermord….perhaps to keep the system afloat?

Comment by ANONYMOUS - January 16, 2009 at 1:00 pm

Nothing to see here. Move along….

Comment by Richard Fuld - January 16, 2009 at 1:07 pm

Here are some thoughts….Have a Mass Refinancing up to $10 Trillion @ a rate of 5%. Have the Government subsidize for 5 years @ rate of 3%. This will cost about a $Trillion. It eases the monthly burden for Prime Borrowers, Puts $$$ back in their pockets and stimulates the economy and stabilizes the unemployment rate, caps the amount of go forward foreclosures and bankruptcies and gives the banks an opportunity to recapitalize.

Comment by Michael S - January 16, 2009 at 1:07 pm

BAC buys MER for 50 billion. Thain feels he did such a GREAT job, he asks for 8 mil in year-end bonus.

Ken Lewis appoints himself THE EMPEROR.

Three months later they want the US Taxpayer to bail their butts out.

These guys are clueless, greedy, shameless incompetent morons.

Most importantly SHAMELESS.
I would, personally, have difficulty showing my face in public if this happened to me. But here these so-called Captains of Financial World are on TV, on conf calls and in Washington explaining their worth to the rest of us peons.

Take them all to the fence and shoot them. Remember the French Revolution?

Comment by sickofit - January 16, 2009 at 1:19 pm

I support Michael S. The slow hemmhoraging(sp?) of the banking system is due to underwater investments. The deflation of the assets, the houses, the CDOs, etc. and insurance on those, is just occurring as we speak and Washington keeps thinking there is a bottom. Guess what Feds, there isn’t.

Comment by marketwatcher - January 16, 2009 at 1:28 pm

1:07 had to be a broker or a banker!

Comment by Jim Patton - January 16, 2009 at 1:59 pm

The Oz, Herbert Guthrie, ex apostle USD, Joseph Battaglia Kafka, Alex Jones, Peter Schiff and in a blackened out booth due to aesthetic considerations and because everyone is scared of him, “The Undertaker”.

Comment by The New CNBC panel of experts - January 16, 2009 at 2:05 pm

What’s to fear about the undertaker, you won’t feel a thing after the US Tax Payer is bleed dead on his table. Just think about that for a second… as your life savings are draind out on the floor of Wall Street, they say you become very warm and have a smoothing fuzy felling right befor you pass on to the Twilight Zone!
Comment by We are now in control of all the TV Set's in America... Ya' Think! - January 16, 2009 at 3:00 pm

[“The debt must be reduced — if it means the debtholders lose money along with shareholders and depositors it must occur,”]

- Holy Crap Monkeys!!!
Depositors will lose money. At the risk of showing my ignorance I thought depositors money was covered by FDIC. I mean are we talking about people checking and savings accounts?

- I like the article, but can anyone give a breakdown of where people are going to feel the hurting.

- U.S. borrowing money from TxPyr to give to C, to loan to TxPyr, to pay back U.S. so U.S can pay back TxPyr doesn’t sound all that good to me, especially when TxPyr can’t afford the loan.

- I still say people need to move their 401k’s outside the market or at least quit throwing good money after bad through contributions.

Comment by Supposed to be working - January 16, 2009 at 3:11 pm

Move to China if you whinners don’t like it.

Comment by The Top 1% - January 16, 2009 at 4:08 pm

Let the whining inferior taxpayers eat weavil rice and mildewed pasta. It’s what they deserve because they’re cattle.

Comment by Phil Gramm - January 16, 2009 at 4:29 pm
Post a Comment

Name :