

From: Russo, Thomas A [trusso1@lehman.com].

Sent:4/18/2008 11:27 PM.

To: Fuld, Dick [lbexec1@lehman.com]; Gregory, Joe [jgregory@lehman.com].

Cc: .

Bcc: .

Subject: Fw: Euro 50.

I love jack Malvey's note

Sent from my BlackBerry Handheld.

----- Original Message -----

From: Antoncic, Madelyn

To: Russo, Thomas A

Sent: Fri Apr 18 22:43:25 2008

Subject: FW: Euro 50

See below. My response to jack and his comments.

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From: Antoncic, Madelyn

Sent: Friday, April 18, 2008 10:43 PM

To: Malvey, Jack V; Harris, Ethan; Rieder, Rick M

Subject: RE: Euro 50

Thank you for your feedback, couldn't agree more that every one saw the train wreck coming. 64k question is why didn't anyone get out of the way???

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From: Malvey, Jack V

Sent: Friday, April 18, 2008 10:38 PM

To: Antoncic, Madelyn; Harris, Ethan; Rieder, Rick M

Subject: RE: Euro 50

Madelyn,

Outstanding.

A few thoughts from a guy who hardly got it all right either.

1. Why is there a major mystery in some circles. By 2004, several million Google hits on "housing bubble notion." Surprise is there is a surprise.

2. Regulators warned constantly. Malcom Knight, head of BIS, in Sept 2005 stability report commented on the new architecture and potential risks. IMF chief economist as well. Numerous other central banks. Regular talking point with investors over most of this decade: what are CDS/structured credit risks. Like building in hurricane zone. Despite numerous warnings, build, house wrecked, profess shock.

3. Decade of lost returns. John Stuart Mill in his 1848 Principles noted that low returns on capital encourage business persons to expand risk. Same true this decade. Lowest combined public debt/equity returns since the 1940s, lowest real returns since the 1970s. Environment fostered

stampede into Alternatives (HF explosion, commodity index demand, and extra yield).

4. How many times in how many ways must the hazard of perpetual positive carry be relearned. Major banks with LDC's in late 1970s and again early 1980s, S&L's in the late 1980s (esp. troupe like Columbia S&L that bought HY bonds financed by ST borrowing, Orange County (1994), LTCM.....you know the rest.

5. Low vol environment effectively incited near abandonment of high-grade credit analysis and prompted some institutions like Teachers to get rid of a lot of their credit staff. Just buy structured: more yield/less risk (so said the raters).

6. Multi-source issue, with long history.

7. Not sure that any solid solutions proposed. Lot of well intentioned nebulous talk to encourage more oversight, coordination, cooperation, less leverage. Exactly how and when?

8. Some economists assert that world information too vast to accurately predict earthquake timing and magnitude. Like geologist, only can say there will be more shakes from time to time. Discouraging. Not good enough.

J

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From: Antoncic, Madelyn  
Sent: Friday, April 18, 2008 7:13 PM  
To: Harris, Ethan; Malvey, Jack V; Rieder, Rick M  
Subject: Euro 50

Finally done.

Pls let me know if you have any comments or things you think I should change. Leaving Sunday nite and giving this Monday so appreciate any comments before then.

Rick, one comment I make is the demand from CLOs led to LBOs on firms in industries which had not been leveraged previously - something I had read/heard along the way. However, I forgot which they were. Do you know?

Thnx.

Madelyn

<< File: Euro 50.doc >>