

Great Expectations For The Week Of June 13th 2008

A recap of the news that beat, met and fell short of expectations



1 - David Einhorn, Greenlight Capital Management and short LEH
0 - Erin Callan, Lehman Bros Chief Financial Officer and long LEH



Vs.



This week's most anticipated showdown was a complete mismatch. After defending themselves for months against charges by David Einhorn that the firm was undercapitalized and aggressive in its accounting, Lehman's management announced this week the firm would lose more than \$2 billion and needed to raise an additional \$6 billion in capital.

Turns out Lehman's CFO, Erin Callan, was set up as a mouthpiece for Lehman's dastardly CEO Dick Fuld right from the start. David Einhorn understood Lehman's balance sheet better than CFO Callan ever did. And is it any wonder. Callan admitted in an April interview with Portfolio magazine that she had no "accounting background."

Which makes you wonder why she was chosen for the difficult job just six months ago? Unless, of course, CEO Dick needed someone naïve and inexperienced to help hide the ugly truth of LEH's balance sheet as long as possible. On Thursday, CEO Dick "demoted" Callan from CFO back to the rank-and-file, essentially throwing "Wall Street's Most Powerful Woman" under the bus. So Einhorn wins this round, with an assist from Fuld.

0 - Steve Ballmer, CEO Evil Empire
0 - Jerry Yang, CEO Yahoo



Vs.



The enemy of your enemy is your friend after all. On Thursday, Yahoo announced an agreement with Google, effectively ending any Microsoft alliance. While Jerry Yang achieved his goal of not being gobbled up by the "Evil Empire" as a mid-morning snack, he's assured himself and Yahoo of a slow death at the hands of Google.

Microsoft, on the other hand, saves \$46 billion by not buying assets that would have crashed the computers, burnt the furniture and walked out of the door as soon as the merger was closed. However, MSFT has also assured itself of a slow death at the hands of Google. Ballmer and Yang blew the only chance of catching their biggest rival. They end their match a draw at 0-0. Eric Schmitt, GOOG CEO, gets the win by default.

1 - Jean-Claude Trichet, EU Central Bank President
0 - Ben Bernanke, US Federal Reserve Bank President



Vs.

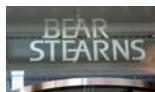


Ever since last year, EU Central Bank President Trichet has been firm on his stance that the European Central bank would fight inflation with continued high interest rates rather than help out a weakening economy. ECB inflation is expected to remain over 3 percent this year, the biggest increase since 1993. Trichet has held the ECB interest rate at 4 percent, even as several European nations face rapidly deteriorating economies.

This week was the first in which Trichet's contemporary, Ben Bernanke, clearly acknowledged the threat higher energy prices are having on the expectations for long-term inflation. Prior to this week, Bernanke has repeatedly stressed that "core" inflation remained firmly under control. But on Tuesday, Bernanke broke with tradition and didn't take the FedMobile™ to work. He actually filled up his own gas tank and was startled that his 2005 Hummer 3 cost \$125 to top off. "Why didn't the chauffeur tell me gas cost this much?"

Bernanke instantly revised his stance that the high oil price is not raising inflation expectations. He stated the Fed "will strongly resist an erosion of longer-term inflation expectations, as an unanchoring of those expectations would be destabilizing for growth as well as for inflation." In other words, the Fed is now more concerned about high inflation than a weakening economy. Welcome to the real world Mr. Bernanke. Unfortunately, Jean-Claude beat you there. There's no telling how high inflation expectations will soar later this year given the historic monetary easing and government stimulus pumped into the US system so far this year.

1 - Bear Stearns, Formerly The Street's Smallest Investment Bank
0 - Lehman Brothers, Newly Crowned Smallest Wall Street Investment Bank



Vs.



Bear Stearns definitely won the race to the bottom since it exists no more. However, last week, Bear Stearns was able to unleash their pent-up anger on fellow real-estate bubble losers Lehman Brothers in Lacrosse. The Bear Stearns Lacrosse team beat Lehman Brothers 11-4 on Tuesday in the inaugural season of the Gotham Investment Bank Lacrosse league. Half of the Lehman Brothers team was instantly "demoted" after the match to "Retail Branch Banking" Gotham Lacrosse league.