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Securities Industry Focus
Freeman & Co. LLC

Inside this Issue:

Indices at September 18, 2008

Index / Metric	Value	YTD chg
DJIA	11,020	(16.9%)
NASDAQ	2,199	(17.1%)
S&P 500	1,207	(18.8%)
FTSE 100	4,880	(24.4%)
Nikkei	11,489	(21.8%)
AMEX BD Index	122	(41.0%)
10-yr U.S. T-Bond	3.44%	(14.8%)
USD per GBP	1.82	(7.17%)
USD per Euro	1.43	(2.1%)

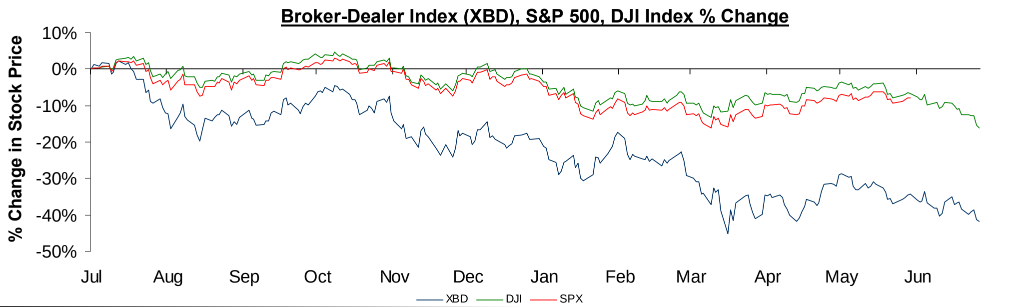
Mom, Dad, Are We There Yet?

Resembling the small, anxious child who every other mile marker down the road is asking their parents how much longer until they get to their relatives' house, and anticipates the relief and holiday party that awaits, the central theme in the Securities Industry marketplace remains a nervous focus on whether the continuing credit write-downs are near the end. The trading market has become increasingly volatile to the downside as it continues to discover that balance sheet transparency has been lacking – or worse – that credit markets have seen such a lack of liquidity that fair asset values remain unknown to Senior Executives.

On the heels of Lehman Brothers' Chapter 11 filing and the rushed sale of Merrill Lynch to Bank of America, we anticipate that most firms will not survive this crisis in their current forms. Goldman Sachs and Morgan Stanley are now Bank Holding Companies but it remains to be seen whether they remain independent by year-end. Never the less, we are cautiously optimistic that the Stage One problem of deleveraging and shoring up the balance sheet of the major money-center banks (and their Broker-Dealer subsidiaries) is within a year of being solved.

The potentially more challenging problem for the large, diversified broker-dealer community (almost all now part of Bank Holding Co.'s) then becomes how to re-invent one self and tackle Stage Two – fixing the Income Statement. With the Federal Reserve first effectively opening up the discount window to broker-dealers and the various regulators then forcing the large broker-dealers to become (or into) Bank Holding Co.'s, it has ushered in an era where the large, diversified broker-dealers will no longer be able to run the recent leverage ratios of 30+ to 1. This deleveraging coupled with the Securitization businesses being former shells of themselves lead to the direct question of where will future Revenue and Earnings growth come from?

We estimate that at least 30%+ of recent pre-crisis profitability has come from Securitization operations and inflated leverage levels, both of which are not near term drivers. Stage Two will be interesting…and will create opportunities for strategic minded firms. Strategic solutions for the winners will include the sale of non-core assets and the acquisition of businesses that provide products and services that create solutions for customers.



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