My blog has been quite popular as of late, most likely because it may appear to some that I have a crystal ball. My last 5 or so warnings have resulted in 50 point or so price drops in the shares of the companies in questions. Let me be both modest and honest. I am not that smart and do not have a crystal ball. There is a simple premise behind all of this that allows me to understand what is going on, but this premise does not get any press play and is not harped on by the analyst community. **Many major players in our financial system are simply insolvent**. Plain and simple. The liquidity issues that you see are simply a result of that insolvency, not a cause. When you lever up on assets at the top of a bubble and that bubble pops, you become insolvent, delevered or not. If forced to delever, the balance sheet insolvency now becomes an income statement insolvency as the cash outflow outstrips the cash inflows, but it all stems from the original balance sheet insolvency - not the other way around.

Borrowing more money, no matter what the terms, will not aide you in your dilemma. That is, of course, unless you can borrow large amounts of that money quickly on non-recourse terms. But that is not really borrowing money, it is someone giving you money with the ***option*** to pay it back. It is the equivalent of a straight bailout, isn't it? That is what just happened last weekend, which leads me to the next paragraph...

I have been alleging that many investment banks, monoline insurers, home builders and commercial banks are effectively insolvent . Nouriel Roubinin wrote an accurate piece on the topic. Between that and the the five or six major analytical pieces that I put together, I believe a pattern emerges (please take note of the dates the pieces were written and the share prices at the time of the post). I believe the pattern is indisputable. You could have made a fortune on the short side of these analyses, and you could have lost a fortune on the long side, just ask the employess and shareholders of Bear Stearns, Ambac, MBIA, Lennar, etc. My condolences go out to the rank and file employees of all of these companies whose savings have been lost in the share price devalution. Hopefully, there is a lesson to be learned here:

- Are the Mortgage Insurers in Serious Trouble? 9/3/2007

- A Super Scary Halloween Tale of 104 Basis Points Pt I & II, by Reggie Middleton -11/13/2007

- Tie-in to the Halloween Story11/21/2007

- Ambac is Effectively Insolvent & Will See More than $8 Billion of Losses with Just a $2.26 Billion in Equity 11/29/2007
- Follow up to the Ambac Analysis 12/4/2007

More on Insurers and Insurance

- The Commercial Real Estate Crash Cometh, and I know who is leading the way!

More on Commercial Real Estate

- Lennar Insolvent: Enron redux???

More on Residential Real Estate

- Banks, Brokers, & Bullsh1+ part 1
- Banks, Brokers, & Bullsh1+ part 2
- Money Panic
- Bear Fight
- The Breaking of the Bear
- The Riskiest Bank on the Street
- Here comes the CRE Bust (Quip on Lehman Brothers)

- Is Lehman a Lemming in Disguise (from a conributing individual investor)
- Liquidity vs Insolvency
- Bear Stearns Bear Market, Revisited

More on Investment Banks

As you can see, the path was not impossible to determine as practically all of these companies shared the same catalyst to their downfall - excessive leverage at the top of an asset and credit cycle bubble. Now, the Fed is attempting to lend directly to institutions that it has no jursidiction over. If I am not mistaken, the Fed's balance sheet is only good for $400 billion dollars or so. There are a lot of potential "runs on the non-bank" coming down the pike, enought to drain the coffers. This is an ingenious, albeit very risky endeavor. Moral hazard abounds. I know the Fed believes that they have nixed the moral hazard argument in the butt by wiping out the Bear Stearns shareholders, but this is an imperfect argument. The shareholders have to approve this $2 buyout deal, and $2 is low enough to risk a battle with the Fed and their agents. This is a major flaw in the plan that I see as coming back to bite the markets. If this happens when the next shoe drops, I can see the Fed getting overwhelmed.

As an investor and analytical pundit, I will be looking for the next shoe to drop, which I believe I have found. I will keep you posted.