Lecture 15

FINANCE CAPITAL & DEVELOPMENT
Finance Capital & Development

I.  • Business Finance

II.  National Finance

III.  Financial Frenzy
I. Business Finance

A. • Industrial Finance

B. Models of Finance

C. Financing Consumption
Banking on business

- Business needs capital
  - Long-term investment
  - Short-term commercial credit

- Finance capitalists provide it
  - Bank loans
  - Stock issues

- Internal vs. external finance
  - Esp. big corporations
Financial oversight

- Financial discipline
  - Internal budgeting
  - Bank evaluation
  - Capital market (prices)

- Reports & audits
  - Accounting firms
  - Making finances public

- Long-term relations
  - Beyond lending
Ties that bind

- Finance-industry ties
  - Specialist financiers
    - E.g., Mellon Bank & steel, Montgomery Securities & electronics, Bank of America & agriculture, etc.
  
- Regional clusters
  - Financing the region & recycling surplus (savings)
  - E.g., Pittsburgh, Bay Area, Hollywood
Venture capital

- Specialized firms
  - Finance start-ups
  - Put together business
  - Channel risk-seeking capital

- Silicon Valley focus
  - High tech
  - High risk
I. Business Finance

A. Industrial Finance

B. Models of Finance

C. Consumer Finance
National Models of Finance

- Anglo-American
  - Capital markets > banks
  - ‘Arms-length’

- European
  - Close bank ties
  - E.g., Germany
    - Strong cooperative & regional savings banks
Asian Models of Banking

- **Japan**
  - Banks & industrial groups

- **Korea**
  - Chaebol cannot own banks
  - Private + State Banks
    - Industrial Bank of Korea, Korean Development Bank

- **China**
  - State banks & industry
Liberalization

- Banking change
  - Growth & flourishing
  - Internationalization
  - Neoliberal openings
- Germany
  - Universal banks
- France
  - Denationalization
- Korea > 1997, 2008
- Taiwan > 2001
I. Business Finance

A. Industrial Finance

B. Models of Finance

C. • Consumer Finance
Financing consumption

- Promotes sales
  - Major goods

- Business loans to customers
  - Subsidiaries
    - GMAC, GE Capital
  - Tied credit cards
    - Airlines, dept. stores
Government & consumption

- Government guarantees
  - Mortgage finance
  - Promotes building industry

- Government & infrastructure
  - Consumer side of infrastructure
    - Supporting residential life
  - Bonded debt
Finance Capital & Development

I. Business Finance

II. • National Finance

III. Financial Frenzy
II. National Finance

A. • Internal Finance

B. External Finance

C. Financial Power
Internal financing

- Most places finance own development
  - Regions (California)
  - Nations (US, Japan, China)
  - Continents (EU, East Asia)
Savings & investment

- Steps to high capital formation
  - Surplus
  - Savings
  - No leakage
  - Reinvestment
  - Capital formation
National savings rates

- Past its peak?
  - Japanese savings rate peaked at 23% of HH income in 1973 and fell to under 3% by 2006.
II. National Finance

A. Internal Finance

B. • External Finance

C. Financial Power
External capital

- Types of external capital
  - Corporate investment
  - Government loans
  - Bank loans
  - Securities (portfolio)

- Neo-liberal model
  - Open up to all external finance
    - It’s all good

- East Asian model
  - Selective FDI
    - Learning by doing & studying
  - Capital controls
    - Influx & outflow
  - Walking on two legs
Foreign Direct Investment

- FDI = Investment by foreign firms

- Is it helpful?
  - Industry & jobs
  - Major projects
  - Profit repatriation?
  - Reinvestment
  - Technology transfer
  - Worker training
International loans

- Most to governments
  - State to state
    - World Bank, Int’l Aid banks, IMF
  - Bank to state
    - Explodes in 1970s
- What do states do?
  - Infra. projects
  - State loans & banks
  - Corruption
  - Debt repayment
    - Short term debt trap

Chart 4: Shortening of debt maturities and crises in developing countries

Ratio of short-term debt to total bank debt

Note: Oil crisis 1 and oil crisis 2 refer to the crises that followed the raising of oil prices by the Organization of Petroleum Exporting Countries in 1973 and 1979.
Portfolio investment

- Non-bank investors
  - Government bonds
  - Corporate stocks & bonds

- Growth in 1990s
  - Eclipses bank lending
Hazards of external finance

- Bank loans
  - Growing debt burden
  - National defaults
    - Mexico 1982, etc.

- Portfolio investment
  - Bubble effects
  - Flight from trouble
II. National Finance

A. Internal Finance

B. External Finance

C. • Financial Power
Capital & currency

- Trade & currency value
  - Fall with trade deficit
  - Rise with trade surplus
- Capital flows & currency value
  - Rise with influx
  - Fall with outflow
- Disconnect
  - Depends on interest rates, stock markets & risk
  - Upward & downward spirals
US Dollar

- The world’s banker
  - Dollar = gold
  - World puts savings in US
  - US financiers (NYC) recycle global funds
  - Keeps capital abundant & interest rates low in US

- Savings flow to US
  - K should flow from rich countries to poor, but goes the other way
    - Because K less secure in poor countries
  - Easy to borrow to fund US deficits (everyone trusts the bank)
    - China & Japan hold $1.5 trillion in US assets (mostly T-bills)
Ironies of the dollar

- Trade deficit & US external debt
  - Dollar should fall hard
  - IMF should step in!

- Financial crisis
  - Dollar rose!
  - Influx of capital
  - Global fear & dollar
End of the dollar era?

- **Economic causes**
  - Trade deficits & devaluation (inflation)
  - Risk to creditor nations
  - Weakening of US economy

- **Political causes**
  - Resentment
  - Competing currencies
  - Weakening of US hegemony

- **China challenges US dollar’s dominance**
  - On March 23, China’s central bank governor, Zhou Xiaochuan, threw down the gauntlet in an essay posted on the Web site of the People’s Bank of China challenging the global hegemony of the US dollar and proposing its gradual replacement with a super-sovereign currency, based on the International Monetary Fund’s (IMF) Special Drawing Rights (SDR), created in 1969 and managed by the IMF.
  - This currency would be "... disconnected from individual nations and ... remain stable in the long run, thus removing the inherent deficiencies caused by using credit-based national currencies." Without mentioning the US dollar explicitly the essay, titled "Reform the International Monetary System," indirectly blamed the dollar’s hegemony for the current global financial crisis. The challenge re-emerged on March 26 in the report of a UN advisory committee of economists chaired by Nobel laureate Joseph Stiglitz.
Internal Power of Finance

- Finance *versus* industry?
  - Growth of financial sector
    - As % of GDP
  - Finance for its own sake
    - Pursuit of quick profits
  - Parasitic side of finance
Political Power of Finance

- Who rules?
  - Populist fear of bankers
  - FDR & the bankers
  - Neoliberal deregulation
  - Obama & the bankers
Finance Capital

I. Financing Growth

II. International Finance

III. • Financial Frenzy
III. Financial Frenzy

A. • Financial Follies
B. Bank Crisis of 1980s
C. Stock Bubble of 1990s
D. Housing Bubble of 2000s
Glorious history of bubbles

- Tulip Mania
  - 1630s Holland
- South Sea bubble
  - 1720s Britain
- RR & Mining Bubble
  - 1870s NY & SF
- 1920s bubble
  - NYSE & LA oil
Logic of bubbles

- Buildup of surplus
  - In upswings
  - Lack of outlets for K
- Shift into finance
  - Quick returns
  - Assets prices rise
- Bubble grows
  - Promotion
  - Innovation
  - Leverage

Figure 17.1
Daily South Sea Share Prices, 1720. Data courtesy of Larry Neal.
Long-term shift?

- End of an era?
  - US industrial weakness
  - Slow growth
  - Short time horizons
  - Push into finance
  - Parasitic capital?

- Kevin Phillips, Bad Money

- Giovanni Arrighi, The Long 20th Century

- Finance in command?
  - Shift to finance capital
  - Sets the agenda
  - Corrupts government
  - No one minding the collective interest of capital
III. Financial Frenzy

A. Financial Follies
B. Bank Crisis of 1980s
C. Stock Bubble of 1990s
D. Housing Bubble of 2000s
Bank bubble of 1970s

- Profit fall of 1965-75
- Petro-dollar pile-up
- Inflation & low real interest rates

» wild lending spree
  - Domestic
  - International
Bank crisis of 1980s

- Interest rates rise
  - Fed squeezes inflation
  - Paul Volcker
- Global crisis
  - National defaults
  - US Farm defaults
S&L collapse

- Deregulation c. 1980
  - End of S&L limits
  - Real estate & CDs

- S&L collapse of 1986-90
  - $300 billion vaporized
  - US rescue (RFC)
  - S&Ls sold off
Japanese bank bubble

- Mad lending of 1980s
- Crisis hits 1989
- Stock & real estate bubbles

Renewed worries about the health of Japan’s troubled financial system dragged shares in Tokyo to a 10-year low last week, after the country’s most senior business leader suggested the government might be forced to nationalise insolvent banks.

Trading curbs were imposed on the two weakest of the four main banks, UFJ Holdings and Mizuho Holdings, after the warning by the chairman of the Japan Business Federation, Hiroshi Okuda, that growth is already faltering. Japan’s economy expanded by 0.7% from July to September, down from 1% in the previous three months.

For the first time in a year, the government lowered its assessment of the economy as weak overseas markets hit exporters and deflation of 1.2% created bad loans faster than banks are able to write them off. With the slide of the Nikkei stock index to its lowest level in 19 years, the stock portfolios held by banks are now worth about a fifth of the value they held 12 years ago.

Faced by this combination of rising liabilities and declining assets, investors are abandoning Mizuho Holdings — the world’s biggest bank — and UFJ, another of the big four institutions, driving their share prices down.

The bad loans saga has dragged on for years despite a series of government rescue schemes each touted as the solution to the crisis. Banks have continued lending to dub companies fearing that if they cut off funding, the companies would collapse, questioning the true extent of the financial sector’s bad loans.

Mr Okuda’s reforms are expected to lead to the collapse of many of these so-called zombie companies. Last week Mr Okuda said the failure of some of the largest firms among the walk away corporate deal would be a sign that the government was serious about reform.

Mr Okuda referred to the “fragility” of two of the leading banks — without identifying them — Analysts have been uneasy about the health of UFJ and Mizuho, which have already built up portfolios of worthless loans during Japan’s 10-year-long economic slump.
Bubbles & corruption

- ‘Greed is Good’
  Ivan Boesky, leading Wall Street trader of 1980s, later indicted for insider trading

- On the bubble of the 80s: 'We borrowed a trillion dollars from the Japanese and threw a party'.
  -Lester Thurow
III. Financial Frenzy

A. Financial Follies
B. Bank Crisis of 1980s
C. Stock Bubble of 1990s
D. Housing Bubble of 2000s
1990s stock bubble

A quote from WorldCom is seen on a Nasdaq board as the firm became the first stock to trade more than 1 billion shares in a single day as it plummeted Monday to 6 cents from 83 cents.

High-tech bubble just a memory
Nasdaq drops to 5-year low

> STOCKS
From Page 1

The bubble has burst. What happens now, I don't know, but all that money from the bubble is gone.”

Investors, worried about the rising tide of corporate and accounting scandals, sent other stock indexes lower yesterday. The Standard & Poor's 500 index fell 2.1 percent to 968.65, and the Dow Jones industrial average, composed of 30 blue-chip stocks, slipped 1.4 percent to 9,109.93.

WorldCom became the first stock to trade more than 1 billion shares in a single day as it plummeted yesterday to 6 cents from 83 cents. Although 1.5 billion WorldCom shares changed hands, they didn't account for much of the day's downturn, since each share is worth so little, Massocca said.

The market's sell-off was driven more by market mechanics and a chronic lack of confidence than by any one piece of bad news, experts said.

Stocks typically rise at the end of June as portfolio managers bid up the value of their holdings at the end of the first half. Stocks then declined a corresponding amount in early July.

In that sense, yesterday's fall was not expected. Still, the stock market is clearly in crisis.

The number of accounting scandals — WorldCom, Xerox, Arthur Andersen, Enron, Tyco — is rising rather than abating.

Meanwhile, foreign investment is leaving the country, a trend that both deflates the stock market and raises fears that the Federal Reserve will boost interest rates to retain capital.

Political instability overseas is worrisome to investors, and fears of a potential terrorist attack on Independence Day are hitting even closer to home.

On top of that, corporate profits continue to fall short of expectations, a serious problem since stock prices are supposed to reflect future earnings.

"People are reassessing their portfolios for the second half of the year, and they're getting rid of stocks — tech stocks in particular," said Jeremy Siegel, a finance professor at the Wharton School at the University of Pennsylvania. "They're weeding those out."

Corporate profits matter more to investors than disasters like the Sept. 11 attacks, he said. In a sense, Enron is more frightening to stockholders than al Qaeda.

"I'm not surprised" the market is lower now than last fall, Siegel said. "Tech companies don't pay dividends. Everything is the trust of earnings, and we all know trust of earnings is in a very tenuous state."

Because business spending is so anemic, tech company profits aren't expected to begin recovering until next year, according to Siegel. But David Blitzer, chief investment strategist with Standard & Poor's in New York, cautioned that the tech rout was temporary and said there were a few bright spots.

Last month, Microsoft's market capitalization — the value of its publicly traded stock — passed that of General Electric for the first time in several months.

That was still true yesterday, as Microsoft accounted for 3.206 percent of the S&P 500, while GE made up 3.173 percent.

Also last month, Redwood City's Oracle Corp. enjoyed the biggest price increase of any S&P stock, Blitzer said. "I guess nobody told those guys about the demise of tech stocks," he said.

E-mail Carol Eamett at cemert@sfchronicle.com.
Venture capital flood
National IPO binge
(Initial Public Offerings)

IPOs OVER THE PAST DECADE
The number and value of initial public offerings have increased dramatically since 1990, fed by the myth that IPOs provide investors with instant wealth.

$69 billion in 1999

546 IPOs in 1999

Number of IPOs
Value of IPOs

Source Thomson Financial Securities Data

Figure 7.2: Number of Venture Backed IPOs and Amount Raised, 1978-2000

Source: Venture Economics
Corruptions of capital

- Insider trading
- pre-issues
- misrepresentation, etc.

"Enmeshed in scandal"
Stewart convicted

Founder of homemaking empire faces prison time

Mutual fund crackdown widens

State officials add their proposals to SEC's call for industry reforms

Former hedge fund broker pleads guilty

The Fastows plead guilty

Andrew Fastow and his wife, Lea, leave the federal courthouse in Houston after both accepted plea bargains in exchange for pleading guilty in the corporate scandal. See story on Page B3.
International bubbles & crises

- Mexico
  - Peso Crisis 1994

- Asian Crisis
  - Crash 1996-97

- Argentina
  - Crash 2001

Chart 1: Mexico Is Crisis-Prone
(Real GDP per capita, 1993 prices)
Bubble by the Bay
Flood of venture capital to Bay Area

- Nearly $30 billion in 1999
Bay Area IPO boom

Bay Area led pack of IPOs in 1999

124 companies went public, raising $11 billion, about one-sixth U.S. total

By Vincent Mee of the Examiner

IPOs in 1999: Wall Street gave a showout to Internet and technology companies that led the way during a year when the total public offering volume reached a record of $14.4 billion. Of that total, about $15 billion went to Bay Area companies.

Aglant Technologies Inc., a testing and measurement equipment and business software from Subsidiary Inc., and the Bay Area pack with $11 billion raised in an offering last November. Agilent was followed by shares of software and online systems companies that raised $10 billion in public offerings.

Characteristics of companies:

- 124 companies went public, raising $11 billion, about one-sixth U.S. total
- 1999 was the year of the IPO boom in the Bay Area

Biggest IPOs in 1999

<table>
<thead>
<tr>
<th>Company</th>
<th>IPO Price</th>
<th>Total Raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yahoo!</td>
<td>$12.50</td>
<td>$1.5 billion</td>
</tr>
<tr>
<td>eBay</td>
<td>$13</td>
<td>$1.4 billion</td>
</tr>
<tr>
<td>Netflix</td>
<td>$13.50</td>
<td>$1.3 billion</td>
</tr>
<tr>
<td>Juniper</td>
<td>$17</td>
<td>$1.1 billion</td>
</tr>
</tbody>
</table>

Top-performing IPOs

<table>
<thead>
<tr>
<th>Company</th>
<th>IPO Price</th>
<th>Price Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google</td>
<td>$28</td>
<td>$1000+</td>
</tr>
<tr>
<td>Amazon</td>
<td>$17</td>
<td>$1000+</td>
</tr>
<tr>
<td>Facebook</td>
<td>$22</td>
<td>$1000+</td>
</tr>
</tbody>
</table>

Marketing engineer Steve Cash says some of Copper Mountain's technology at the firm's Palo Alto headquarters is used in the biggest IPOs.

At the time, every investor had the high expectations for a recent Bay Area offering. An online travel company, Intuit, is one that's been doing well in recent months. With the business climate improving, investors are seeing opportunities in technology companies with strong management teams.

 outras informações sobre/a empresa.
SF investment banks

- Specialized in High Tech IPOs

- Leaders of the pack
  - Montgomery Securities
  - Hambrecht & Quist
  - Robertson Stephens
Bay Area companies’ stock values soar - 3X vs NASDAQ 2X in 1999

Value of Chronicle 500 Firms Nearly Triples to $3.5 Trillion

Bay Area benefits from hot IPOs,
unprecedented rise of stock market

By Peter Sinton
Chronicle Senior Writer

Capitalizing on a wild bull market and an insatiable appetite for initial public offerings, the top 500 publicly traded companies in the Bay Area turned in an incredible performance in the past year.

The market value of this year’s Chronicle 500 mushroomed to nearly $3.5 trillion — almost triple the $1.3 trillion combined value of last year’s top 500 companies. That far outpaced the performance of the technology-heavy Nasdaq index, which didn’t quite double during the same period, and the Dow Jones industrial average, which rose a modest 6 percent.

For readers who have a hard time relating to trillions, $3.5 trillion is almost $10.2 trillion in billion-dollar amounts.

In compiling the list of 500 most valuable public companies this year, companies needed a market value (shares outstanding times share price) of at least $75.5 million. A year ago, the No. 500 ranked company was worth just $2.8 million.

Venture and corporate capital continue to combine with great ideas and engineering and management talent to create new companies. Many will likely show up on next year’s Chronicle 500, passing or replacing other companies that get acquired, move away or can’t keep up. More than a dozen IPOs, including those by Palm, UTStarcom and VA Linux Systems that took place after March 1, will be included on next year’s list.

The center of corporate power and creation continues to be the Peninsula and South Bay. This year, 251 of the top 500 companies are headquartered in Santa Clara County, 11 more than last year. San Mateo County ranks second with 83 companies, up 10 from last year. Alameda County comes next with 70 companies, down 8 from 1999, followed by San Francisco with 53 companies, down 2.

Each year, The Chronicle produces this section to provide up-to-date information to investors, job hunters, salespeople, fund-raisers, entrepreneurs and anyone else seeking information about Bay Area companies.

And there is a wealth of information...
Cisco Passes Microsoft In Worth
San Jose firm is now world's most valuable

By Todd Wallack
Chronicle Staff Writer

Silicon Valley's Cisco Systems yesterday overtook Seattle's Microsoft as the most valuable company in the world, a landmark shift that highlights the explosive growth of the Internet as well as concerns that Microsoft could be hobbled or even broken up by an antitrust suit.

San Jose's Cisco, the biggest maker of equipment to direct bits of data on the Internet and similar networks, finished trading on Nasdaq yesterday with a stock market value of $59.5 billion, compared with $54.2 billion for Microsoft, the world's largest software maker for personal computers.

Cisco's stock has more than tripled over the past year, compared with just a 17 percent gain for Microsoft. In 1996, Cisco was the youngest company to hit $100 billion in market value, although Yahoo has since claimed that title.

"Cisco has really been on a tear, and it doesn't look like there is anything to stop them," said David Baell, chief executive of Upside Media and author of "Making the Cisco Connection," a corporate biography that hit bookshelves last month.

Microsoft's stock, meanwhile, has slipped a bit because of anxiety over the antitrust suit by the U.S. Justice Department and 19 states. Published reports in recent days suggest that antitrust regulators are seeking an 11th hour settlement offer from Microsoft as inadequate.

Company Now Most Valuable Firm in World

How the Companies Stack Up

<table>
<thead>
<tr>
<th>Cisco Systems</th>
<th>Microsoft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value</td>
<td>$59.5 b</td>
</tr>
<tr>
<td>Revenue</td>
<td>$11.2 b</td>
</tr>
<tr>
<td>Number of Employees</td>
<td>48,000</td>
</tr>
</tbody>
</table>

Last year, the government looked into whether Cisco violated any laws when it approached two rivals about splitting the market for telecommunications gear but did not file charges or accuse the company of wrongdoing over the line in its discussions.

Cisco's meteoric rise is in part due to its dominance in the market for routers, devices that direct data across computer networks and route it to its proper destination, and for its investment in the Internet infrastructure that supports it.

Cisco, which was formed in 1984, has grown rapidly in recent years by making acquisitions and entering new markets, including the telecommunications industry.

Microsoft, which was founded in 1975, has been a slower grower but has maintained its lead in the software market with products such as Windows, the operating system that runs most personal computers, and Office, the suite of productivity software.

Both companies have been hit by competition from upstarts, with Cisco facing challenges from rivals such as Juniper Networks, a Mountain View company that has competed with Cisco by coming out with a cutting-edge router, capable of handling trillions of bits of data per second.

Microsoft has also been hit by competition from giants such as Amazon and Google, which have developed their own search engines.

"Cisco has been able to capitalize on the growth of the Internet and the need for more sophisticated networking equipment," said John Chambers, Cisco's chief executive, in a statement. "We are proud of our employees, our customers and our partners for their commitment to innovation and excellence."
BAY AREA BEARS THE BRUNT

Local firms hard hit by market downturn

By Kelly Zito
CHRONICLE STAFF WRITER

Three interest rate cuts in as many months couldn’t stop a bear market from shredding Bay Area stocks in the first quarter.

For the three months ended yesterday, share prices of firms with headquarters in the Bay Area swarmed 15.6 percent, mirroring perceptions drops in the Dow and Nasdaq indexes, according to a report by San Francisco’s Davis Staggs Investment Management. On a weighted basis—which takes the companies’ market caps into account—local stocks sagged 21.4 percent.

The Dow Jones in-

First-quarter Bulls & Bears

<table>
<thead>
<tr>
<th>TOP 10</th>
<th>BOTTOM 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>Yesterday</td>
</tr>
<tr>
<td>SunTel Inc.</td>
<td>8461</td>
</tr>
<tr>
<td>First Technologies Inc.</td>
<td>1179</td>
</tr>
<tr>
<td>RadNet Inc.</td>
<td>8240</td>
</tr>
<tr>
<td>Adobe Corp.</td>
<td>7432</td>
</tr>
<tr>
<td>NetworkAssist Inc.</td>
<td>625</td>
</tr>
<tr>
<td>Intel Corp.</td>
<td>2454</td>
</tr>
<tr>
<td>Intergraph Corp.</td>
<td>586</td>
</tr>
<tr>
<td>SunCiti Telecom Inc.</td>
<td>728</td>
</tr>
<tr>
<td>Fiserv Inc.</td>
<td>1024</td>
</tr>
<tr>
<td>Elect. for Imaging Inc.</td>
<td>2683</td>
</tr>
</tbody>
</table>

Source: Davis Staggs Investment Management

Collapse of 2000

BAY AREA STOCKS WATCH

FRANKLIN CALIF. 250 GROWTH INDEX

The 250 largest publicly traded companies with headquarters or major operations in California. The index is equally weighted, meaning each company represents 0.4 percent of the total index. The index was set at 250 on Dec. 31, 1990.

<table>
<thead>
<tr>
<th>Month</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 12</td>
<td>2.12595</td>
</tr>
<tr>
<td>Percent change:</td>
<td>-7.10%</td>
</tr>
</tbody>
</table>

FRANKLIN BAY AREA 100 INDEX

The 100 largest publicly traded companies in the 415, 408, 510, 650, 925 and 707 area codes. The index is equally weighted, meaning each company represents 1 percent of the total index. The report is based upon an index value of 100 as of Dec. 31, 1990.

<table>
<thead>
<tr>
<th>Month</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 12</td>
<td>1.59405</td>
</tr>
<tr>
<td>Percent change:</td>
<td>-8.56%</td>
</tr>
</tbody>
</table>
Investors flee Wall Street's bloodbath as tech debacle wreaks havoc on major stock indexes — with accounting scandals erupting almost daily, experts see little reason for optimism

**POINT OF 10 RETURNS**

**CHIPS:** Woes multiply as demand declines

By Matthew Stil Communique Street News

Chip stocks headed south again on Tuesday after an analyst downgraded National Semiconductor sending its shares plummeting nearly 17 percent. Solomon Smith Barney analyst Jonathan Joseph lowered his rating on the company's stock from "buy" to "neutral," reiterating the price target for the stock at $27.50, down 34.6 percent.

Salomon Smith Barney doesn't have investment banking business with Nat Semi.

Chip stocks have been hit hard in recent weeks at some of the largest companies in the industry, including Intel Corp. and Advanced Micro Devices, who have reduced their revenue expectations for the second quarter. These stocks also fell Tuesday, 5.5 percent and 3.2 percent, respectively.

**STOCKS:** Nasdaq bust like 1929, analyst says — S&P at 4½-year low

By Carol Emmert Chronicle Staff Writer

The rout on Wall Street grew uglier on Tuesday, with the Standard & Poor's 500 falling below the Nasdaq composite index in a market wide.

Nasdaq, which on Monday caved in after its bubble-era gains by hitting its lowest level since June 21, 1997, fell no more than 4.99 percent, to 1,359, the lowest reading since May 19, 1997.

The S&P dropped 28.56, or 2.3 percent, sliding through the panic line set after Sept. 11 terrorist attacks and settling at 964.99, its nadir since Jan. 15, 1995.

The Dow Jones industrial average of 30 large stocks lost 128.88 points to close at 8,287.75, and it remains 3.97 percent above its post-Sept. 11 bottom.

The Nasdaq bull is "not a bubble, everything we're seeing now," said Fred Charney, chief market analyst at Standard & Poor's New York research firm. "There was no such demand for hardware and software created by the Internet, and it's not fad-based, its fad-based, destroying the tech sector.

The only comparison to Nasdaq you can make is 1929," said Charney, adding that 9.8 percent.

Many major tech stocks are trading at levels not seen for four or five years.

Intel Corp. of Santa Clara, the Bay Area's largest tech company in terms of revenue, closed at $163.75 Tuesday, its lowest since June 1999.

Stern's JDS Uniphase Corp. dropped to $2.24.

**ECONOMY:** Spending helps West, but job growth lags, Fed says

By Sam Zuckerman Chronicle Business Writer

Consumer spending, especially on housing, pulled California and the rest of the West out of recession this year, the Federal Reserve Bank of San Francisco concluded in its quarterly study of the regional economy, issued Tuesday.

At the same time, though, technology and other related sectors are not growing as quickly, dampening job growth in the region, the San Francisco Fed says.

That's leading to robust economic growth, with high unemployment lingering.

"The West Coast has a longer economic recovery in which job growth is not immediate," said Fed senior economist Mary Daly, the report's principal author.

Past rising housing prices are stimulating a home building boom in California and other Western states. Despite costs that are out of reach for many buyers, California home prices are expected to be a big driver of supply-sensitive to demand.

From 1993 to 2001, the state added a whole added 1.15 million jobs to every home built. But in California, there were 1.73 jobs for every new house, creating a backlog of demand.

"The housing market looks relatively stable in terms of the rates of jobs to housing," said Daly. But housing and consumer spending are not suf

**Local Stock Performance**

How the stock prices of selected local companies have fared:

<table>
<thead>
<tr>
<th>Yesterday's close</th>
<th>52-week high</th>
</tr>
</thead>
<tbody>
<tr>
<td>$14.08</td>
<td>$64.66</td>
</tr>
<tr>
<td>13.75</td>
<td>77.00</td>
</tr>
<tr>
<td>13.25</td>
<td>46.47</td>
</tr>
<tr>
<td>14.06</td>
<td>140.50</td>
</tr>
<tr>
<td>27.41</td>
<td>68.09</td>
</tr>
<tr>
<td>20.24</td>
<td>69.75</td>
</tr>
<tr>
<td>11.38</td>
<td>177.25</td>
</tr>
<tr>
<td>25.00</td>
<td>75.81</td>
</tr>
<tr>
<td>40.13</td>
<td>115.00</td>
</tr>
<tr>
<td>30.69</td>
<td>93.88</td>
</tr>
<tr>
<td>5.65</td>
<td>31.19</td>
</tr>
</tbody>
</table>

**Chips:** Page B84 Col 6

**Economy:** Page B84 Col 4
Bay Area firms lose $2 trillion out of $4.5 trillion lost in 2000-01. That’s 45%.

Tech firms’ $2 trillion paper loss

By Michael Liedtke
ASSOCIATED PRESS

Hard times in high-tech are turning Silicon Valley from a financial Shangri-La to a land of lost fortunes.

Since the technology-driven Nasdaq stock index peaked on March 10, 2000, Northern California’s 100 largest publicly held technology companies have lost about two-thirds of their combined market value, wiping out $2 trillion in shareholder wealth, an Associated Press analysis shows.

The region’s three largest tech bellwethers — Cisco Systems Inc. of San Jose, Intel Corp. of Santa Clara and Oracle Corp. of Redwood City — accounted for $686 billion of the staggering p...
And another 1/2 trillion in 2002

Top firms lose $409 billion in market capitalization

Intel sheds nearly half its value but still tops Chronicle 200 list

<table>
<thead>
<tr>
<th>Top market cap</th>
<th>Trade Date</th>
<th>Market Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apple Inc.</td>
<td>1999-08-30</td>
<td>$409 billion</td>
</tr>
<tr>
<td>Microsoft</td>
<td>1999-08-30</td>
<td>$300 billion</td>
</tr>
<tr>
<td>Intel Corp.</td>
<td>1999-08-30</td>
<td>$200 billion</td>
</tr>
</tbody>
</table>

Source: Chronicle 200
Total loss

- Bay Area companies lose 75% of stock value, 2000-2002

- Bay Area companies lose $2.63 trillion of $7 trillion in US -- over 1/3 of total
III. Financial Frenzy

A. Financial Follies
B. Bank Crisis of 1980s
C. Stock Bubble of 1990s
D. • Housing Bubble of 2000s
Housing bubble

- Price surge
- Low interest & Fed
- Mortgage pushers
- Subprime slime
- Refi’s
- Mortgage gushers
- Secondary thoughts
- New instruments
- Promo & leverage
Consumer credit binge

- Pump up the volume

**HELL TO PAY?**
Consumer credit as a percentage of personal income has never been so high

**Household Debt per Person**
Grandfather Economic Reports
http://mw/hodges.home.att.net/
data: Fed Reserve

- $38,756 per person
- Constant 2005 dollars

Source: Commerce Dept.; Federal Reserve
The bubble bursts

- Stocks
- Housing
- Banks