Sand Spring Advisors LLC

The Jig Is Up:

The Current Market & How Freddie Mac Likely Speculated

by,

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June 29, 2003

This month's subscriber-only letter is going to come in two parts. As a first part, I wish to comment today it on the current technical position of the markets and reiterate some of my ongoing concerns as the market moves into what should begin a cyclically rough period beyond the July 4th holiday weekend.

I am also going to offer some insights into the accounting problems at Freddie Mac that have recently been making headlines in June.

Then, as July transpires, a second brief update to this letter will follow. This latter correspondence will be released once it becomes more apparent what the specific catalysts are that may be used by the news media to explain sudden financial market weakness. In other words, I currently expect certain events to transpire in the near future that will sprinkle a dose of cold water onto investor euphoria, but I cannot predict exactly what these news events will be. Perhaps they will be as simple as a whole host of second quarter earnings misses, or perhaps something more geo-political in nature occurs.

If that sounds a bit confusing or twisted, let me give readers an example of a prior time that I used such an approach of recognizing a technical setup ready to explode, but did not know the exact cause of the potential explosion. This occurred all the way back in March 1985. I was trading gold at the time, and gold had been in a steady bear market. But each thrust lower in gold to an eventual $285 low was losing momentum in a "three thrusts to a low" type pattern; there was positive divergence on RSI indicators; and sentiment numbers on gold were below 27% bullish. In addition, option volatility had declined precipitously to the low end of its range at around 10% and more importantly, out of the money gold calls were trading with next to no added implied volatility skew. In very simple terms, hardly anyone believed that gold could possibly launch a rally back to 320 or above.

At the time, I could not anticipate what news event might come along to precipitate a gold rally, but I certainly could "smell" a technically positive setup in the making. I bought a boatload of both at-the-money gold option volatility, as well as a fairly hefty number of 20-day .15 delta $320 calls as a pure low premium upside punt.

In actuality, a small bank failure in Ohio (that would have been ignored had the market not already been primed to rally) was the precipitating news event that sparked an initial $15 pop in gold's price. Thereafter, it quickly became apparent that a "local" trader on the floor of the Comex exchange named Jeffrey Westheimer had sold too many naked out-of-the-money calls and was having financial difficulties meeting variation margin calls. His clearing firm, Volume Investors Inc., was soon in violation of exchange minimum capital requirements, and Westheimer's positions went into forced liquidation as he reputedly tried to leave the country, but was stopped by authorities at Kennedy Airport. On the back of the forced liquidation, gold spiked from $312 to $338 in 24-hours and gold option implied volatility traded up to 25%. It was the first time in my trading career that I was able to make a million dollars in a single day for my employer – JP Morgan at the time. The second time would be during the Crash of 1987 (by then trading at PaineWebber), and later on a more regular basis while at Goldman Sachs with expanded position sizes.

The point of this story is that a market can change its outward complexion ever so quickly, and the job of a good technical analyst is almost that of a doctor spotting telltale hints that a change of market health and temperament is coming. Once the pre-existing signs of change are there, and the technical and psychological setup near complete, then all that is really needed is the "excuse" or the catalyst to occur before a new trend becomes obvious. The excuse itself can be anything -- big or small – even an event that in different circumstances might be deemed insignificant. Although I'm certainly not as much of a "Socionomics" specialist as Bob Prechter, the following words that he once told me still ring true in my head:

"When a bomb goes off outside the NYSE, the average market analyst and commentator will attribute the subsequent action of stocks – presumably a decline in most instances – to be caused by that event. But in terms of socionomic thought, the bomb likely goes off because stocks have already been going down – the populous is upset for some reason, and the bomb is merely the manifestation of a social trends and pressures already in place. The market will use that event to do what it wants to do anyway – decline, or perhaps conceivably even rally if the explosion is the last terminal expression of social angst precipitating some sort of change. The bomb explosion may appear as a surprise to most, but to a good socionomic thinker, it is not by itself that important of an event."

Thus while mutual fund managers (currently worried about falling behind their long-only benchmarks) and the naïve public currently rush to buy stocks in an effort to believe that nothing in the long-term has really changed in America, inwardly the seeds of discontent in our society are already brewing, waiting for certain events to trigger more mass recognition that something is now different – that conventional investment thinking from the 1990s must be changed.

Most specifically, at the current time, we face the following technical evidence:

- The major equity indices have rallied in a "throwover" fashion above our long espoused 972-974 Fibonacci target on the S&P 500, but the market has now come back to this level within two weeks of it first being reached. We like to think of 972-

974 as a “natural attractor” area that has obviously been exceeded for a bit, but has eventually pulled prices back down. If the current high on the S&P near 1015 is exceeded, we will have to admit to the possibility that yet another Fibonacci fractal region of resistance up at 1069 will be reached, but we think this is a very low probability at this time.

- Recently, the S&P VIX index has languished near 20% -- the low of its range over the past three years and equivalent to levels last seen in September 2001 and April/May 2002 just prior to major equity market declines. Investment complacency currently reigns.

- Investor sentiment numbers, which became exceedingly bearish in March and remained low through early April, have popped significantly since then. Market Vane’s Bullish Consensus reading for the S&P currently stands at 50% (coming down from levels closer to 60% in the prior week), and sentiment numbers on the 30-year bond and 10-year note were both recently registering above 85 for multiple consecutive days – before the bonds finally broke lower last week. Financial paper – both in equities and fixed income – have grown overly popular. Corporate credit spreads have likely tightened more than economic fundamentals justify. Even more worrisome is that Investor Intelligence released sentiment numbers in mid-June that were higher than those seen at the absolute high of the equity market in Jan-March 2000 and also higher than those prior to the Crash of 1987. This is another sign of complacency awaiting an accident.

- From an Elliott wave perspective, recent equity strength points us at two potential counts: Either we are in the final leg of a corrective 4th wave that started back in July 2002 within an ongoing 1-wave decline (our preferred view), or we are in a 2nd wave rally after an already complete 1-wave decline that will soon be followed by a very nasty 3rd wave down (Bob Prechter’s preferred view). Either way, the implication for a break to the downside from the current chart pattern is the same.

- Fundamentally, the average consumer’s sense of wealth and the consumer’s proclivity to spend has been buoyed over the past two years by continued strength in fixed income investments and mortgage refinancing receipts. But both of these supportive elements slowly appear to be playing themselves out. While the recently enacted Bush tax cut may help perpetuate consumer spending a bit longer, it could also cause fixed income markets to become marginally less attractive to investors, and thus provide an unintended “pin-prick” to the current debt bubble (See May article “Debt Bubble & Islamic Threats”). A hot messy summer in Iraq is also currently further eroding consumer confidence in the Bush Administration. In many ways it feels as if we are just one major event away from U.S. sentiment deeming Iraq a new Vietnam. How quickly the fickle public can criticize when wallets and pocket books are less than full!

- From a cyclical point of view, we have previously pointed to the fact that July 8, 2003 is a date 6,282 days (2 * pi* 1000) removed from the April 26, 1986 nuclear explosion at Chernobyl. We also know that July 27, 2003 is a PEI cycle date, and July 29, 2003 is a date being focused upon carefully by market analyst Christopher Carolyn in term of lunar cycle relationships that tie back to the Crash of 1987, the Crash of 1929, and the nuclear explosion at Hiroshima at the end of World War II.

- Astrologically, we know that Saturn entered Cancer on June 4, 2003 and that it will remain there until July 16, 2005. As we previously espoused in a public article on the Sandspring.com website:

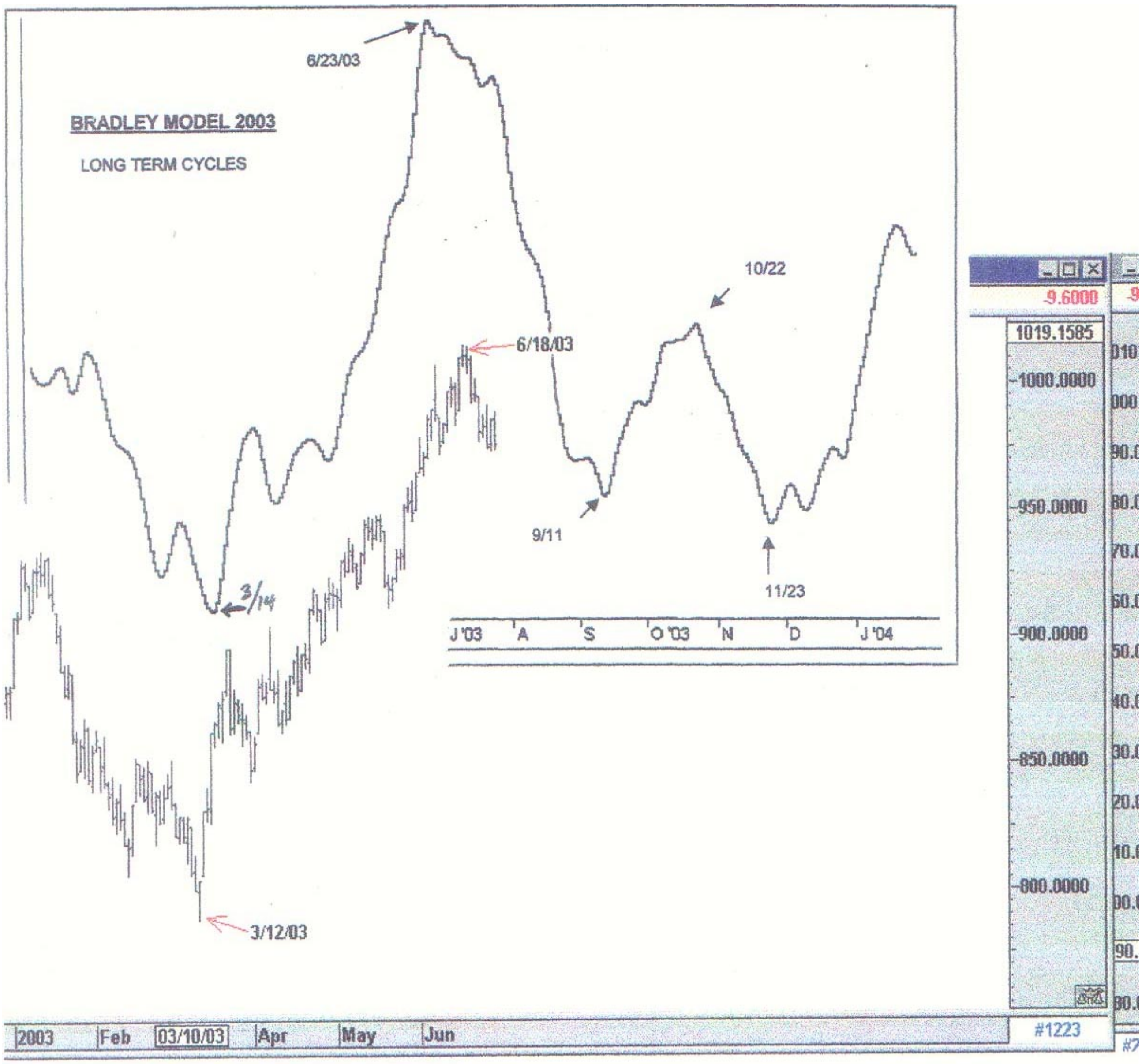
  > Saturn in Cancer periods have in the past typically come at *the end of difficult period*s -- the last days of WW1 (from May 11, 1915 to June 24, 1917 - with the exception of a short 6-week interlude in the 4th quarter of 1916), the end of WW2 (June 20, 1944 to August 2, 1946), and the end of the Vietnam War and Watergate (August 1, 1973 to Sept 17, 1975).
  >
  > Basically, the sign of Cancer is associated with the home and with endings, and Saturn with difficulties and limitations. The U.S. is also a Cancer country, being founded on the 4th of July 1776. Thus, Saturn in Cancer periods often bring fear or difficulty with the home (property markets) and to the U.S. With President George Bush also holding a July Cancer birthday, Saturn in his sign may prove further constricting and frustrating to him personally.

  For those particularly inclined toward financial astrology (of which we have at least a few knowledgeable subscribers), Arch Crawford has made some truly prescient market calls in the past. Further to our own generalized astro thoughts above, he writes this month:

  > The two largest astro-events of this period occur on the New Moons of June and July. The June New Moon sports 4 bodies within 7 degrees, 5 within 14 degrees. This is not itself that close, but they are in Trine aspect (120 degrees) to Mars and Uranus. The TOP day in 1987 had 5 bodies in 2 ¼ degrees and Trine to Jupiter. The June 29th configuration is nowhere near as strong as the TOP before the CRASH of '87, but strong enough for cautionary concern!
  >
  > The July New Moon coincides with the Retrograde Station of Mars which is squaring (90 degrees) the Solar Eclipse position of May 30-31. Uranus is on the Midheaven for Washington, both squaring the coming Eclipse point of November 23. Need we mention that the Mars Station also opposes the birth Mars of our President, which in addition is being closely approached by his secondary progressed Sun. He will be furious! He may be attacked, or attack someone else. He should be kept in the deep bunkers during this period, for his own safety, and Congress should not allow him to start another war without considerable deliberation! Mars will repeat this position November 5-8.

  Arch has made some great calls in the past few years, but we particularly remember Arch sounding just about this forceful and specific as he does above when he predicted something along the lines of "Tragic accident. Love unrequited. Great public sadness" for the very day that Princess Diana would be killed in her August 31, 1997 car accident.

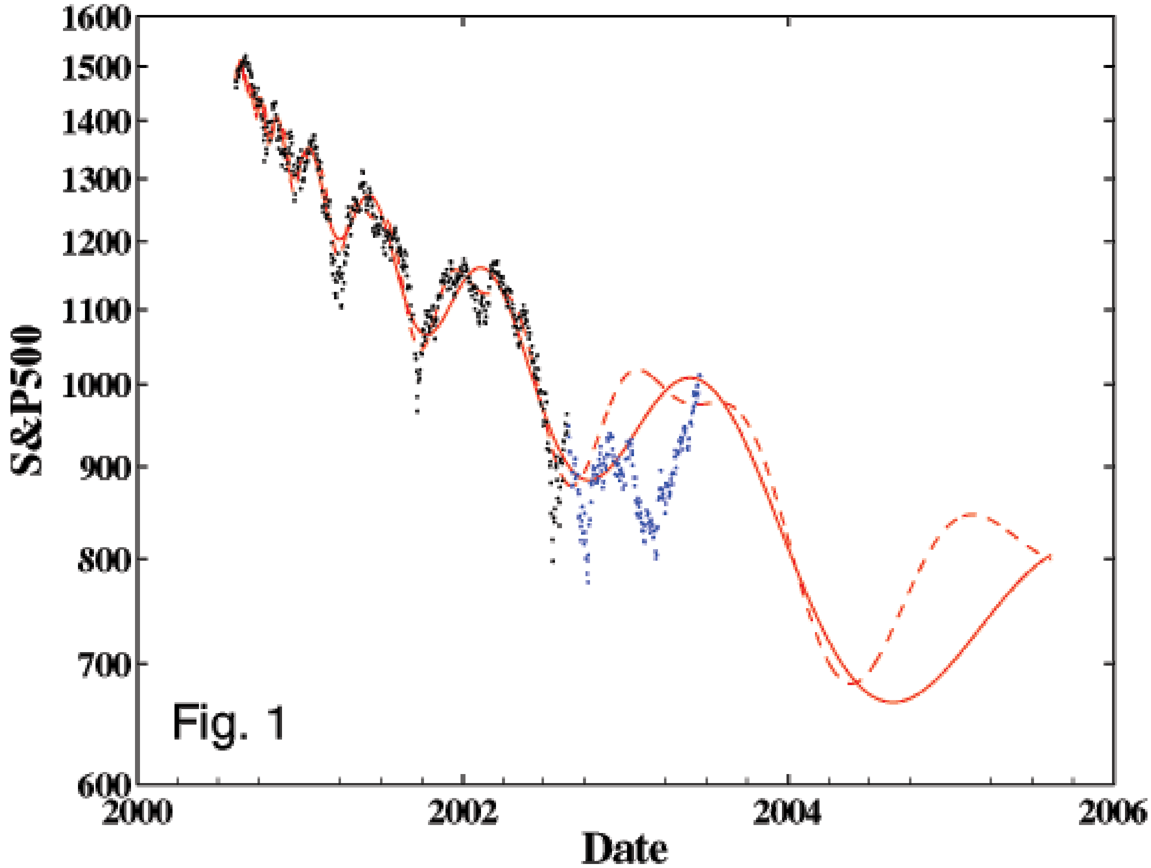
- Now let's consider the following pattern match setup between the current astro Bradley Cycle for 2003 and the current chart formation of the S&P. For those not familiar with the Bradley Cycle, it represents a composite prognostication of anticipated market behavior given every possible planetary alignment in our solar system. It is not a technical tool that we ourselves are capable of constructing, but certainly appears to be one that we should have paid closer attention in the early spring.



Source: Crawford Perspective & Advanced GET End-of Day

From here, a strong downdraft into the fall appears to be implied – a pattern match fully consistent with work that we have previously referred to from UCLA professor Didier Sornette. This latter individual has constructed a mathematical model to predict the rhythm of the current S&P price pattern. Indeed, Sornette's work appears bearish all the way until early 2005 – generally in line with the late Dec. 2004 PEI cycle and also the end of our above-mentioned Saturn in Cancer period.

Sornette's Expected Rhythm Projection



Source: Safehaven.com. The above figure shows the predictions of the future of the US S&P 500 index performed on Aug.24, 2002. The continuous line is the fit and its extrapolation, using Sornette's theory capturing investor herding and crowd behavior. The theory takes into account the competition between positive feedback (self-fulfilling sentiment), negative feedbacks (contrariant behavior and fundamental/value analysis) and inertia (everything takes time to adjust). Technically, Sornette uses what he calls a "super-exponential power-law log-periodic function" derived from a first order Landau expansion of the logarithm of the price. The dashed line is the fit and its extrapolation by including in the function a second log-periodic harmonic. The two fits are performed using the index data from Aug.9, 2000 to Aug.24 2002 that are marked as black dots. The blue dots show the daily price evolution from Aug.25, 2002 to June 19,2003. The large (respectively small) ticks in the abscissa correspond to January 1st (respectively to the first day of each quarter of each year).

Taken together, all of the above presents a composite technical and cyclical picture that one must be very concerned about. July is simply not a period of time when one wants to think in traditional or conventional terms, but instead, a time to be psychologically ready for almost anything to occur.

Freddie & Fannie

In addition, on a purely fundamental basis, we have of course recently had Freddie Mac and Fannie Mae in the headlines, with Freddie Mac's past accounting policies under particular attack.

Mortgage and derivatives accounting is a singularly messy business, particularly post the implementation of new FAS-133 rules in 2001, but let us take a stab at what may have been going on here.

First, with regard to Fannie Mae, I agree wholeheartedly with Professor Dwight Jaffee of UC-Berkeley (actually my former faculty advisor at Princeton University in 1981) when he stated in the *New York Times* recently that hedge fund manager Laurence Kam of Sonic Capital likely has Fannie Mae pegged "exactly right" with the following description:

> "When you don't properly hedge, and interest rates move in a direction faster and more brutally than you expect, then you incur economic losses. …[Fannie] is trying to make something that was a calamity into some sort of positive. It's disingenuous." *New York Times, June 23, 20023*

Indeed, when we spotted a more upbeat article on Fannie Mae by *Fortune* magazine's Janice Revell, we were so incensed by her cavalier and superficial reporting, that we shot off the following Letter to the Editor (previously shared with existing subscribers):

Dear FORTUNE:

Janice Revell's article "Fannie Future Is Still Bright" that appears in your July 7th issue, misses a few key points.

I would assert that Fannie has only been able to maintain its earnings growth rate over time by using more leverage and ballooning its balance sheet. In addition, buried in the footnotes of Fannie's annual report, and as recently discussed in the June 20th edition of *Grant's Interest Rate Observer*, one can note that the current fair market liquidation value of Fannie's portfolio is significantly less than the value of its portfolio reported to the public under GAAP accounting standards. On a mark-to-market basis, some even argue that Fannie actually made no money in 2002.

How can this be?

As Ms. Revell may or may not understand, but many readers surely do, Fannie's basic trade is to buy long-dated mortgages that are financed primarily via the short-term discount note market (with little regard, by the way, to what once happened to Continental Illinois in a financing liquidity squeeze). It then uses derivatives to swap out a significant portion of the resulting yield curve risk.

In the past several years, as interest rates have plunged, this has resulted in the mortgage portfolio portion of this package going up in value, the short-term financing rates for Fannie becoming more attractive, but its derivatives hedges having lost huge amounts of money.

I will admit that if the entire package could be held to maturity over the next 20 or so years, Fannie could potentially do just fine as the real derivatives losses already suffered are eventually offset by future borrowing/lending spread income.

But what happens if a certain portion of Fannie's portfolio either defaults for some reason (perhaps caused by a major earthquake in California?) or, as has already been the case, starts prepaying at a faster rate than Fannie's quantitative gurus anticipate? Or Fannie experiences both phenomena at the same time?

As a second concern, what happens if bond market volatility increases (as it did most recently in November 2001, October-November 2002, and now again in late June 2003) and Fannie's hedging costs in order to maintain some semblance of a matched asset-liability book start to increase? Fannie Mae is after all a net seller of volatility, so if its cost of hedging goes up, Fannie's profitability comes down.

This may indeed have already tempted Fannie's management to adjust their hedges less and leave their mortgage portfolio more exposed to interest rate shifts. According to many experts, the very size of the hedges Fannie now needs to periodically transact are, in any case, quickly becoming too large for the market's available liquidity.

On the mortgage default front, delinquent mortgages and defaulted mortgages are of course already creeping higher, although in absolute terms, they are still a very small percentage of total mortgages outstanding. But there is also an implicit and perhaps incorrect assumption in the mortgage pass-through market that Fannie will always remove from the pools that it sells any mortgages that subsequently become problematic. Fannie has always done this historically, but is under no contractual obligation to do so in the future should default rates rise. Sloppy assumptions now could cause careless consequences for mortgage investors later.

In addition, as mortgage prepayments accelerated in recent years, Fannie was left with derivatives hedges that it no longer needed. Instead of buying back these hedges at a loss, it simply issued more new long-dated mortgages to become rebalanced. By definition, as interest rates came down, it had to do so at a tighter and tighter net spreads to hedges already established. As a result, while in 1999, Fannie Mae had an asset to equity ratio near 60-1, today the firm is levered at approximately 83-1. The last time we saw that type of leverage, it came with four initials: LTCM.

Overall, and on a personal basis as the manager of a pool of hedge fund investments, let me offer you a potential analogy in my world to Fannie Mae's current behavior. Consider a fund of funds manager who initially uses no leverage in allocating to hedge funds so long as the underlying hedge fund managers are clipping along at an average monthly return of 1%. After a year, a 12% annual return is produced. But when the hedge fund business gets tougher, and underlying managers are only able to produce an average of 50 basis points per month, the fund of funds manager starts to get nervous that he will lose his clients (In Fannie's case let that read: the praise and affection of Wall Street analysts). The fund of funds manager thus compensates by using two times leverage in his hedge fund allocation. Net of current interest costs, an 11% annual return still results. The investor hardly notices. The following year, hedge fund returns drop again, and yet more leverage is added by the fund of funds manager. Maybe a 10% return is still reported. The investor still snoozes.

But then, inevitably, some event comes along, and all the leveraging causes a sudden drawdown. A light bulb goes off in the investor's mind that a problem exists, and a rush for the exit ensues.

This has not happened to Fannie Mae yet, but it easily could given the recent expansion of their balance sheet leverage. And while Fannie is likely too big in the end for the government to allow them to fail, the *mere process* of going through a workout/bailout would be highly disruptive to the U.S. and global economy.

While Janice Revell is certainly no dummy, and I have enjoyed some of her articles in the past, her conclusion about Fannie Mae being an attractive investment at the current time is unfortunately seriously flawed.

Yours sincerely,

Barclay Leib
Sand Spring Advisors LLC

Why is Freddie Reporting an Added Gain Then?

But wait a second, you say, if Fannie has losses on its over-the-counter derivatives, how is it that Freddie Mac is currently restating past earnings higher to the detriment of future revenues?

The answer to this question goes back to a howl of protest that emanated from both Fannie and Freddie back in 2000 when FAS-133 was being put into place. Both entities have long carried "trading positions" or "available for sale positions" that are regularly marked-to-market, but both have also maintained a far more substantive portion of their portfolio as "held to maturity" using accrual accounting. But suddenly FAS-133 came along and mandated (at least in Fannie's case) that if a derivatives hedge could not be demonstrated to be "effective" versus the asset being hedged within a 80-125% band, or an option had added time value above its intrinsic value (intrinsic value being the only portion of an option's price that could be deemed an "effective" hedge), then these derivatives (or portions thereof) would have to be marked-to-market instead of accounted for on an accrual basis.

At the time, Fannie and Freddie protested because these mandates would potential impinge upon the smoothed performance returns both institutions had historically delivered to investors. I first examined this issue in March 2001 for *Derivatives Strategy* magazine in an article entitled "The 12 Unintended Consequences of the New Accounting Standard." In that article I stated:

> Historically, as Fannie Mae's total assets under management increased, the firm's earnings climbed smoothly and linearly under hedge accounting. But that phenomenon has become a thing of the past. Now the firm is planning to start releasing two sets of financial performance numbers: one using its old methodology, and another using FAS 133's newly mandated approach. "I think the Wall Street community is aware of our stance on this issue," says Jonathan Boyles, VP of financial accounting standards at Fannie Mae. "And the analysts will appropriately discount the earnings volatility FAS 133 may create."

Two years later, it would appear that Fannie generally fell in step with the FAS-133 mandate, and despite losing money on its derivatives hedges, have kept most of their hedges sufficiently "effective" to allow for accrual accounting under GAAP standards. But Freddie appears to have largely ignored many of the FAS 133 mandates, and engaged in accrual accounting for derivatives positions as well as for cash mortgage positions that did not deserve accrual accounting, but instead should have been marked to market.

One important side note here is that even today Freddie Mac doesn't technically have to report under GAAP or SEC standards, having voluntarily shifted to more of a bank regulatory capital approach under OFHEO capital guidelines in late 2000.

But per Freddie Mac's June 25th press release, a significant portion of the derivatives that it gave accrual treatment to included "forward commitments to acquire mortgage securities." But wait a second. Doesn't Freddie already buy enough mortgages in the cash market? Why would they need to enter into more forward contracts in addition to the ones they were buying from banks in the cash market each day?

As a matter of further background, it is a fact that as of 2000, before Freddie Mac hired Blackrock to help them manage their risk exposures, senior management at Freddie Mac only knew their net mortgage exposures on a monthly basis with a multi-week lag. This is an amazingly scary thought for an institution of this size and importance, and while Blackrock may have greatly helped rectify this situation, it is indicative of a certain historical sloppiness by Freddie Mac management. It is also a fact that over the past two years, both Fannie and Freddie have started to encounter new mortgage competition from the Federal Home Loan Banks eating into their total market share. It is also a fact that interest rates were plunging dramatically in 2001 as Fed Chairman Greenspan engaged in multiple rate cuts. And then, of course, as discussed above, there was FAS 133 going into effect in 2001 and exposing Fannie and Freddie for the first time to more fair-market value fluctuations in their earnings.

Given the context of this environment, might there not have been some pressure on Freddie executives to cheat a little bit with some "anticipatory hedges" placed in a slow-moving hedge account where gains or losses could be accrued?

Our guess is that Freddie may have started with other pre-existing derivatives hedges (namely interest rate swaps), the cost of which were being accrued against existing cash mortgages in a "held to maturity" account. Some of these hedges undoubtedly started to become redundant and unneeded as higher-yielding mortgages began prepaying in 2001. But instead of closing these hedges and booking losses, Freddie rushed out and entered into yet further slightly *different* derivatives hedges to buy mortgages in the forward market (implicitly ballooning their balance sheet, but using derivatives to do so). This view is supported by the fact that Freddie's new auditors, PriceWaterhouseCoopers, have since claimed that many of the derivatives hedges ended up being "*synthetic* in nature, created out of multiple instruments, and thus did not qualify for hedge accounting treatment." It is also supported by the fact (as recently reported by *the Wall Street Journal*) that Freddie's derivatives book grew to nearly $700 billion by the end of September 2002, a 46% jump from what it had been in 2000. For every dollar of assets on its books at the end of 2001, Freddie Mac held $1.70 in derivatives hedges – far more than the relatively underhedged Fannie Mae who only had .67 cents of derivatives hedges per $1 of assets at the same time.

In fact, Freddie executives may well have *overbought* these forward mortgage hedges with a view that they *wanted* to be overhedged against pre-payment risks and the clear trend at the time toward lower interest rates. In other words, they may well have aggressively *speculated* (ironically with some astute success) under the guise of hedging. According to a recent *Wall Street Journal* article, Freddie management may also have moved certain cash mortgages out of "held to maturity" accounts and "sold" them to reserve accounts, and called such internal transactions "financings."

This practice may have all started with a rather innocent attitude that: who can tell what the exactly correct prepayment assumptions are on a given mortgage pool as interest rates plunge. And if these added anticipatory or reserve account hedges could be treated under hedge accounting in some convenient manner, then even if these added "hedges" (let that read in reality "speculations") ended up going awry, the losses could be amortized over time. Let's call this "the art of the heavy hedge" and as things turned out, it resulted in added gains for Freddie, not losses.

In our opinion, and given public information currently available, Freddie executives thus relied upon overly generous and *purposefully* sloppy derivatives hedge accounting and reserve accounts to hide their speculation – to create a cushion of future earnings upon which management could eventually become well compensated as their astute speculative foray was released over time into GAAP-equivalent numbers.

But management had to hide this foray because Freddie is not supposed to be a speculator. That is why senior management apparently did not cooperate fully with audit attempts and eventually saw their heads roll -- the COO being fired, and the CEO and CFO both resigning in early June. That is why certain pages of a Freddie President and Chief Operating Officer David Glenn's dairy were altered and other pages appeared to be missing by the time that diary was turned over to Freddie Mac's in-house counsel in connection with the PWC audit. Perhaps that dairy said something to the effect of: "Decided to get ahead of the curve and buy forward mortgage contracts as an anticipatory hedge. Move other cash mortgages into a reserve account. P&L from these added hedges to be accrued." Alternatively, perhaps that diary showed that Freddie Mac had been speculating behind the scenes for years.

One is reminded a bit of some cross between Nick Leeson using his Barings error account to hide substantive futures and option trading positions, and corporate America hiding behind FAS 87 accrual accounting in their equity investing. Except in this case, Freddie appears to have made extra money, not lost it.

Something to this effect must have happened, but at present Freddie Mac and its new PWC auditors are scrambling to attribute current problems to simple accounting sloppiness as opposed to admitting to any speculative intent. Perhaps they will get away with this, or perhaps not.

More immediately, perhaps another question arises. Once these transgressions were fully discovered, did Freddie have to dump out some extra long hedges in June? Did this help exacerbate the recent fixed income market reversal? There is little way of really telling on this. It is just a musing on my part.

But moving forward from here, one thing is clear: As a penalty for these recent accounting transgressions, and under the law, Freddie Mac must now mark *all* of its positions to market -- at least temporarily. This means that Freddie's earnings are going to be swinging around far more violently than they used to, and it is not going to be feasible to hide any anticipatory hedges any longer. Thus, it's also going to be far easier for investors and analysts to spot potential hedging missteps by Freddie, and the smooth earnings stream that Freddie delivered in past years will no longer transpire. The true risks of running a massive mortgage arbitrage book are soon going to start to become clearer to investors.

Combine this fact with the assertion by Bianco Research's president James Bianco that Fannie and Freddie have "already gotten all the low-hanging fruit," and that Fannie and Freddie face "the mathematical inevitability of market saturation," and we truly face a malaise in the two single most significant financial entities in this country.

Anyway, the above thoughts represent Sand Spring's best "read" on all the Freddie events that have recently transpired. Having previously commented on Fannie Mae in some depth, we thought we owed our subscribers an explanation of how Freddie could end up at almost the opposite end of the "hidden gain" instead of "hidden loss" spectrum.

And it all truly makes us wonder: Was it just a coincidence that this news broke just after Saturn entered Cancer?

It is indeed a strange and fascinating world in which we live.

Send us your comments at information@Sandspring.com.

AN IMPORTANT DISCLOSURE