

Option Overload: How to Deal with Choice Complexity

Arbitrage and Risk

Arbitrage involves identifying and exploiting price differences between two or more markets. This is often done by buying and selling the same asset in different markets simultaneously. Arbitrage is a risk-free strategy that can generate a profit without the need for capital.

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Real Options and Shadow

Real options are financial instruments that give the holder the right, but not the obligation, to invest in a real asset. They are often used to model investment opportunities that have the characteristics of financial options.

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Traditional V Shadow

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- Traditional business expenses and capital structure and on books
- Shadow for the dependent on the investors of the net value
- Rates dependent on risk

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Institutionalized Fraud

- Ireland - easy cheap money light reg.
- Jim Stewart calls financial engineering
- Frank Quattrone jury ruling
- RBS/Lehman - clearing house got overwhelmed
- Leadenham - risk of loan book via shadow system unsafe unregulated huge consequences



Traditional V Shadow

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- Traditional loans and deposits under regulation and on books
- Shadow bundles deposits, sells onto investors at low int rates
- Rates dependant on risk



Ireland V United States

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- United States
- Reg. T loan up to 50%
- Ireland
- No equivalent, unlimited leverage
- Utilities, commercial energy (M&C Energy)
- The National American Bank (NABank)
- Financial services contributing 40% GDP



Case Study: Depla Ireland

Thecasesolutions.com

- Of a regulation of Irish banks, dept of finance
- Squared worth 225 billion
- Taken over by German Hypo Real Estate in 07
- Lehman collapsed liquidity crisis
- Nationalized by Germany for 145 billion



Case: Orpington Structured Finance

Thecasesolutions.com

- 4 Arbutusmaster Pore
- One of Ireland's most valuable companies
- Risk no employee's no machinery



DCB loans to Irish registered financial institutions

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Entity	DCB	DCB
Bank of Ireland	100%	100%
Bank of Ireland	100%	100%
Bank of Ireland	100%	100%
Bank of Ireland	100%	100%
Bank of Ireland	100%	100%
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The fundamental difference

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- Government Involvement
- US safety net, checks and balances
- Shadow- no safety net, demand post Bretton Woods
- Now 60% of loans shadow and unregulated- central to economy -banking collapses .
- Recycling ,no actual wealth created

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Ireland V United States

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United States

- Reg T borrow up to 50%

Ireland

- No equivalent, unlimited leverage
- 'Entrepreneurial energy' (McCreavy)
- Tax haven, unwritten laws (Shakson)
- Extractive, non contributing (Mc Cabe)



Case Study: Depfa ,Ireland

Thecasesolutions.com



- 90's regulation of irish bonds,dept of finance
- Securities worth 225 bil in 05 .
- Taken over by German Hypo Real Estate in 07
- Lehman Collapsed,liquidity crisis
- Nationalized by Germany for 145 billion

ECB loans to Irish registered financial institutions

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Kurzfristkredite der EZB an irische Banken

Bank	Kredite in Euro
<u>Depfa</u>	35 Milliarden
Anglo Irish Bank	28 Milliarden
Allied Irish Bank	27 Milliarden
Bank of Ireland	20 Milliarden
Irish Life & Permanent	11,7 Milliarden
Educational Building Society	5 Milliarden
Irish Nationwide	3 Milliarden

Quelle: Barclays Capital

Case : Orpington Structured Finance

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- 5 Harbourmaster Place
- One of Irelands most valuable companies
- File, no employee's, no machinery

The Central Issues

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- Central issue- extractive ,parasite analogy (Mc Cabe)
- Free riders
- Regional benefit from national policy
- Anglo constantly borrowing to service debt
- No real wealth being created, no growth
- Convergence of retail and commercial- Citi, AIB.

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