

The Risk of Not Investing in a Recession



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The Great Recession
The global financial crisis led to the largest loss of market value in U.S. history, with the S&P 500 index falling from 14,164 on 29th Sept 2007 to 7,871 on 29th Oct 2008.

The credit crunch led to the Subprime Mortgage Crisis
The credit crunch led to the Subprime Mortgage Crisis, which caused the housing market to collapse and led to the loss of millions of jobs.

Debt Ceiling
The debt ceiling was raised to allow the government to continue to pay its bills, but this led to a period of uncertainty and a loss of confidence in the government.

Oil Prices
Oil prices rose sharply in 2008, leading to a loss of confidence in the economy and a decline in consumer spending.

Banking Crisis
The banking crisis led to the failure of several major banks, including Lehman Brothers, and caused a loss of confidence in the financial system.



Looking up to Great
The economy began to recover in 2009, with a decline in unemployment and a rise in consumer spending.

Real Estate
The real estate market began to recover in 2009, with a decline in foreclosures and a rise in home sales.

Market Outlook
The market outlook is positive, with a decline in unemployment and a rise in consumer spending.

Investment
Investment in the economy is expected to rise, leading to a recovery in growth.

Stocks
Stock prices are expected to rise, leading to a recovery in the stock market.

Consumer Spending
Consumer spending is expected to rise, leading to a recovery in the economy.

Unemployment
Unemployment is expected to decline, leading to a recovery in the labor market.

Government
The government is expected to continue to support the economy, leading to a recovery in growth.

Global
The global economy is expected to recover, leading to a recovery in international trade.

Future
The future is bright, with a recovery in growth and a decline in unemployment.

Thank you!

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The Sub-Prime Mortgage Crisis

Introduction

The subprime mortgage crisis was a major financial crisis that began in 2006 and led to the global financial crisis of 2008-2009. It was caused by a combination of factors, including the widespread use of subprime mortgages, the rise of mortgage-backed securities, and the failure of rating agencies to accurately assess the risk of these securities.

Background

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Causes

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Impact

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Leading up to Crash

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Bear Steep

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Recovery

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Conclusion

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The Start of the Collapse

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The Great Recession

The 2008 stock market crash is the worst stock market crash in U.S. history since the Great Depression. U.S. stock prices fall by 55 percent from October 2007 to March 2009 (Uygur, 2014).

Through this presentation we will argue how an unsustainable increase in the housing market pooled with an unregulated CDS system was the key factor that led to the crash of the United States economy.

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The Sub-Prime Mortgage Crises

Securitization

Financial institutions then pooled these mortgages into Mortgage Back Securities (MBS). MBSs are just one form of Collateralized Debt Obligation (CDO) that were packed with Credit Default Swaps. (Class Notes)

Investment firms and other financial institutions would then purchase CDS's for either monthly payments or a lump-sum payment if the loan goes into default. (Class notes)

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On Mainstreet

Pre-2008 America saw substantial economic growth, mostly impart due to the easily accessible *Sub-Prime Mortgages*.

Sub-Prime Mortgages are loans given to low-income individuals who otherwise wouldn't be able to afford the payments on the loans. The most lethal of the sub-prime mortgages were Adjustable Rate Mortgages (ARMS). These adjustable Rate Mortgages would be set at 1-2 percent interest rates for the first year or so, but would then adjust to regular, prime-mortgage rates over time. (Class notes)

Individuals receiving sub-prime mortgages did so under the assumption a sustainable increase in housing prices would provide them with enough equity in their home for financial independence. (Class notes)

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Visual Representation of Sub-Prime Crisis



(Investopedia, 2013)

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Securitization: the American Dream?

For a while, securitization appeared to be a win-win situation.

- ✓ Lower-income individuals could purchase homes they wouldn't regularly be able to afford
- ✓ Investors and financial institutions (like Fannie Mae and Freddie Mac) profited off these pooled mortgages.

Unfortunately, the reality of the situation was far worse...

- ✗ Lower-income individuals couldn't afford the adjusted rates.
- ✗ The Credit Default Swap was deregulated and, consequently, highly volatile.

(In-class notes)

The Housing Bubble



Bubble Definition:

A surge in equity prices, often more than warranted by the fundamentals and usually in a particular sector, followed by a drastic drop in prices as a massive selloff occurs. (Investopedia, 2014)

As the housing bubble inflated, the US economy grew at a very fast rate (DOW up 23% in a three year period) - hitting all-time highs (Staff, N/A)

- Dow Jones: Record High 14,000
- S&P 500: Record High 1,500