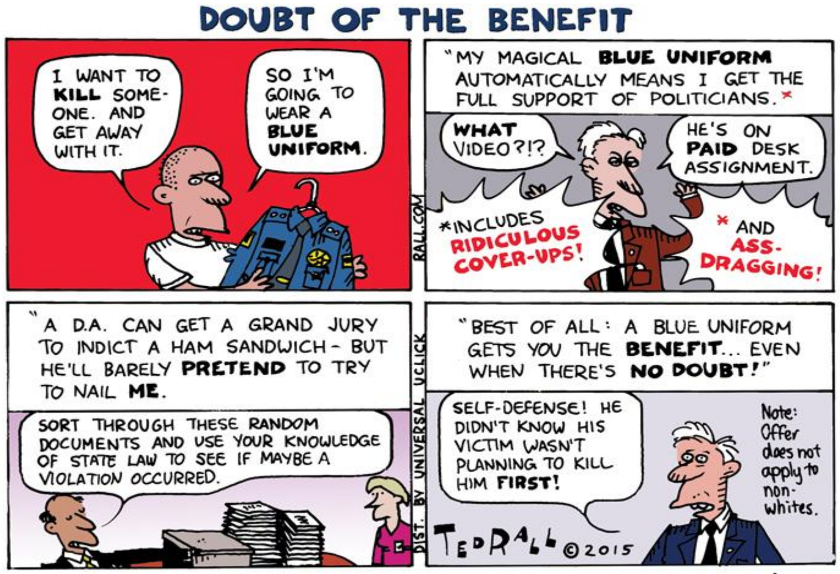
Military Resistance 14B7



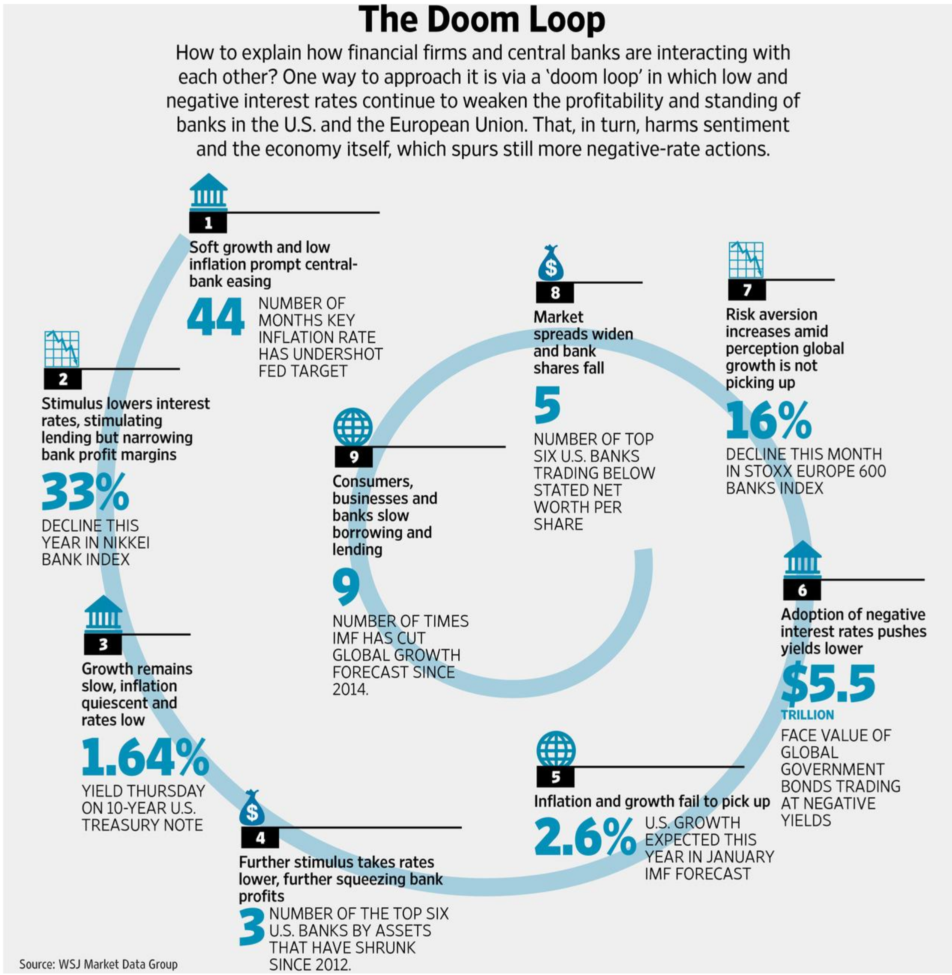
Wall Street Journal Cries Financial "Doom"

Warns Of "Doom Loop" Disaster For International Banks:

"Central Banks Have Few Levers To Escape That Doom Loop"

"An Intensifying Rout In Financial Markets" As Fear Trashing Bank Shares;

"Battered Banks In Europe And Beyond"



Feb. 11, 2016 By Tommy Stubbington and Margot Patrick, Wall Street Journal [Excerpts]. Christopher Whittall and Madeleine Nissen contributed to this article.

Bank stocks led an intensifying rout in financial markets, amid concerns that global central banks struggling to boost growth will worsen an already tough environment for lenders.

The recent pressure reflects concerns that investors have wrestled with for months, including falling commodity prices, a slowdown in China and heavy debt loads in emerging markets. What is new is that investors are now worrying that banks are being caught in the middle as central banks in Europe and Japan turn to negative interest rates to spur growth.

Those policies, which charge lenders for reserves they keep on deposit with central banks, are crimping lenders' profits and amplifying fears of a wide economic slowdown.

At the heart of the concerns is an alarming conundrum: While hobbled banks may not be able to tolerate rates this low, limping economies may not be able to tolerate them any higher.

The "doom loop" that sent eurozone banks and countries into a spiral of mutual deterioration four years ago could now be encircling central banks and lenders.

"The markets see this club of central bankers barreling down this path, which is really experimental for a number of reasons and doesn't seem well thought out in terms of the impact it could have," said Scott Mather, chief investment officer U.S. core strategies at Pacific Investment Management Co., or Pimco.

For battered banks in Europe and beyond, negative rates come at the worst possible time. Regulations implemented after the financial crisis are making banks simpler and more resilient, but revenue streams have been cut off, and stock, bond and commodity trading is less profitable.

Large fines at many banks for past misdeeds have held back capital building.

Now, subzero rates are threatening their most traditional source of income: the difference between what a bank earns from lending and the amount it pays for deposits. Instituting a negative deposit rate drags down other interest rates in the wider economy, making borrowing cheaper.

Investors said the recent rate moves into negative territory by central banks in Europe and Japan are an important ingredient in the cocktail of fears hammering bank stocks around the world.

At the heart of concerns that European banks could stop paying interest, or coupons, on their riskiest debt, or will need to raise new equity, is a sectorwide decline in profitability that shows no signs of easing.

Economists at J.P. Morgan Chase & Co. warned this week that banks might respond to negative rates by hoarding cash and cutting lending, although that hasn't been the case yet in countries with negative rates, including Switzerland, Denmark and those in the eurozone.

The European Central Bank cut rates further into negative territory in December, while the Bank of Japan introduced a negative rate last month. Some smaller nations have gone further, with Sweden's central bank lowering its main interest rate to minus-0.5% on Thursday.

Meanwhile, on Thursday, Federal Reserve Chairwoman Janet Yellen said the U.S. central bank is studying the feasibility of pushing short-term interest rates into negative territory should it need to give the economy a stronger boost.

In a way, the move below zero was a gamble. The theory went like this: Banks would take a hit, but negative rates would get the economy moving. A stronger economy would, in turn, help the banks recover.

It appears that wager isn't working.

The consequences are deeply worrying.

Weak banks may now drag the economy down further. And with the economy weak and deflation—a damaging spiral of falling wages and prices—looming, central banks that have gone negative will be loath to turn around and raise rates.

Moreover, central banks have few other levers to escape that doom loop.

The ECB has instituted a bond-buying program, but President Mario Draghi last month indicated he was ready to launch additional monetary stimulus in March. Japan's decision to implement negative rates follows three years of aggressive monetary easing, aimed at ending two decades of low inflation and stagnant growth.

The pushes into negative territory also amount to a sort of competitive currency war that no one seems willing to call off.

Major economies around the world are desperate to spur inflation; one way to do that is to cut interest rates, which typically would make their currencies less attractive. Lower currencies raise the prices of imported goods and boost the fortunes of exporters.

Switzerland, Sweden and Denmark have all used negative rates to help ward off inflows of foreign funds that push up their currencies.

Economists said an aim of the Bank of Japan's move to negative rates last month was to weaken the yen.

It hasn't worked:

The yen shot up Thursday and is stronger than it was before the rate cut.

The move below zero compounds the miseries for lenders in those countries. Banks traditionally make a profit by lending at higher interest rates than the rates they pay on deposits, a difference called the net interest margin. Low rates have already squeezed that margin, and banks' funding costs from other sources, such as bond markets, have surged this year.

German banks earn roughly 75% of their income from the margin between rates on savings accounts and the loans they make, according to statistics from the Bundesbank, the country's central bank. Plunging rates dragged German banks' interest revenue down to €204 billion ($230 billion) in 2014 from €419 billion in 2007, according to the Bundesbank.

More deeply negative rates would force banks to make a choice: Either suffer an even greater hit to their margins or risk scaring off customers by passing on negative rates to them. Either outcome would mean more pain for the banking sector.

<u>MORE DOOM:</u>

“A Wave Of Haven Buying Swept Government-Bond Markets, Worsening The Gloom”

“The Bond Market Is Signaling That Something Really Bad Is Going On”

“Financial-Market Stress Moving From One Market To Another”

“Efforts Of The ECB, Bank Of Japan And Federal Reserve To Absorb Shocks Increasingly Ineffective”

“Investors Stunned By Scale Of Buying In Markets Valued At Tens Of Trillions Of Dollars And Whose Rates Underlie Trillions More In Loans And Bonds Around The Globe”

Feb. 11, 2016 By Min Zeng, Wall Street Journal [Excerpts]

A wave of haven buying swept government-bond markets, worsening the gloom that many investors said could push bond yields to fresh lows.

Yields on U.S. Treasurys tumbled Thursday to levels last seen in 2012, approaching lows set before European Central Bank President Mario Draghi promised at that time to do “whatever it takes” to end a rout in debt issued by economically stressed European nations, such as Spain and Portugal.

Government-bond yields in Europe also slumped, sending the 10-year U.K. gilt to its lowest level ever and pushing the 10-year German bond within 0.12 percentage point of its all-time-low yield, set last year at 0.07%. Yields fall when prices rise.

The purchases underscore the anxiety rattling markets at a time when the outlook for the world economy is perceived to be at its lowest since the financial crisis. Growth in the U.S. has failed to take off as expected, and some economists warn a recession could be at hand. Plunging oil prices are raising concerns about the health of the global economy.

Meanwhile, banks are under stress amid questions about their capacity to withstand a long period of low interest rates. And some investors fret that a slowdown in China could presage a fresh wave of deflation—a spiral of falling wages and prices—and a further unwinding of emerging-markets investments.

While government-bond markets have been subject to large swings in recent years, investors are now stunned by the scale of buying in markets that are valued at tens of trillions of dollars and whose rates underlie trillions more in loans and bonds around the globe.

“A lot of people are in awe of what’s going on in the bond market,’’ said David Coard, head of fixed-income trading in New York at Williams Capital Group, a brokerage for institutional investors.

“It is uncharted territory for the global bond markets,” said Zhiwei Ren, managing director and portfolio manager at Penn Mutual Asset Management Inc., which has about $20 billion in assets under management.

Financial-market stress, he said, is moving from one market to another, but the efforts of the ECB, Bank of Japan and Federal Reserve to absorb shocks are increasingly ineffective.

The yield on the 10-year U.S. Treasury note at one point fell to 1.53% during Thursday’s trading, which was the lowest intraday level for the yield since August 2012, according to Tradeweb. The yield closed at 1.642%, the lowest close since May 2013, down from 1.706% Wednesday.

The global yield declines continue to defy Wall Street, as major investment firms have been predicting for years that rates would rise as the economy gathered steam.

“Negative yields in Germany and Japan are like a black hole dragging U.S. yields lower,’’ said Jonathan Lewis, chief investment officer at Fiera Capital Inc. which has about $10 billion assets under management in the U.S.

Many investors said they are retreating from risk because of negative signals about global growth. Mr. Ren said he has bought Treasury debt in recent weeks to hedge against a further decline in stocks. In previous years, he often saw a pullback in stocks as a buying opportunity, but now he plans to use any bounceback rally in major stock indexes to sell shares.

Adding to investors' anxiety: A shrinking yield premium of the 10-year Treasury note over the two-year note, a warning sign that U.S. growth is slowing. The premium fell to 0.99 percentage point Thursday, the slimmest since 2007.

Some analysts pointed to structural factors. The bond market already is suffering from limited liquidity and heavy momentum trading, analysts said, and more daily trades are conducted via high-frequency trading firms and algorithmic trading programs.

A scramble to unwind negative wagers on bonds or pile into positive bets could spark sharp yield moves in a short span, said some traders.

"The bond market is signaling that something really bad is going on, but this move seems to be irrational,'' said Charles Comiskey, head of Treasury trading at Bank of Nova Scotia in New York. "I struggle for answers."

Many traders said the sharp price gains in bonds suggest positioning is becoming crowded, raising the risk of a sharp rise in yields if sentiment turns, as happened following last year's European bond rally sparked by ECB easing plans.

Even so, money managers and analysts said the 10-year yield could set new lows if investors continue to shed stocks and seek shelter in haven assets. Some said the yield could even fall to 1% or lower, a prospect some said last year would never happen.

MORE DOOM:

"People Are Afraid, They Don't Understand What's Going On"

"A Cautious Tone From The Federal Reserve, Further Falls In Bank Shares, And A Fresh Decline In Oil Prices Fueled

Anxiety About The Global Economy"
"Market Forces Are Overwhelming Central Bank Efforts"
"Investors Around The World Fled Stocks And Piled Into Traditional Havens Like Treasurys And Gold"
"A Flight To Anything That Has Historically Performed Well In Times Like This"

Feb. 11, 2016 By Ira Iosebashvili, Anjani Trivedi and Chao Deng, Wall Street Journal [Excerpt]

The yen rose sharply on Thursday, as investors poured into the safe-haven Japanese currency, a sign that market forces are overwhelming central bank efforts to weaken their currencies.

The dollar recently traded at ¥112.42, its lowest level against the Japanese currency since November 2014. The euro, another currency that has shown strength during recent market uncertainty, was up 0.3% against the dollar at $1.1325. The Wall Street Journal Dollar Index, which measures the U.S. unit against a basket of 16 currencies, was down 0.1% at 88.76.

Investors around the world fled stocks and piled into traditional havens like Treasurys and gold following a cautious tone from the Federal Reserve, further falls in bank shares, and a fresh decline in oil prices fueled anxiety about the global economy.

The yen's rally shows that the Bank of Japan's effort last month to spark growth and weaken the currency through the introduction of negative interest rates for the first time has met with little success. Negative rates have failed to prompt a selloff of the yen in favor of higher-yielding currencies.

Instead, investors have been seeking out the Japanese currency for safety while global market volatility is dulling any appetite for risk.

“People are afraid, they don’t understand what’s going on, and we are seeing a flight to anything that has historically performed well in times like this,” said Christopher Stanton, who oversees about $700 million at California-based Sunrise Capital Partners LLC.

Low interest rates are also adding to pressure on banks as they hit net interest margins. On Thursday, Sweden’s central bank cut its main interest rate further into negative territory, as the European and Japanese central banks test the boundaries of how low interest rates can go.

With rates already at record lows in many economies, investors are concerned that central banks may have few run out of tools with which to stabilize their economies if markets seize up.

MORE DOOM:

Credit Barometer Flashes A Warning Sign On Banks:

Cost Of Insurance Against Bank Defaulting On Their Debts Suddenly Rockets Up;

Sending “Shivers Through Markets As A Closely Watched Measure Of Banks’ Creditworthiness”

“Surge In Price Of Credit-Default Swaps Adds To Forces Pummeling Confidence”

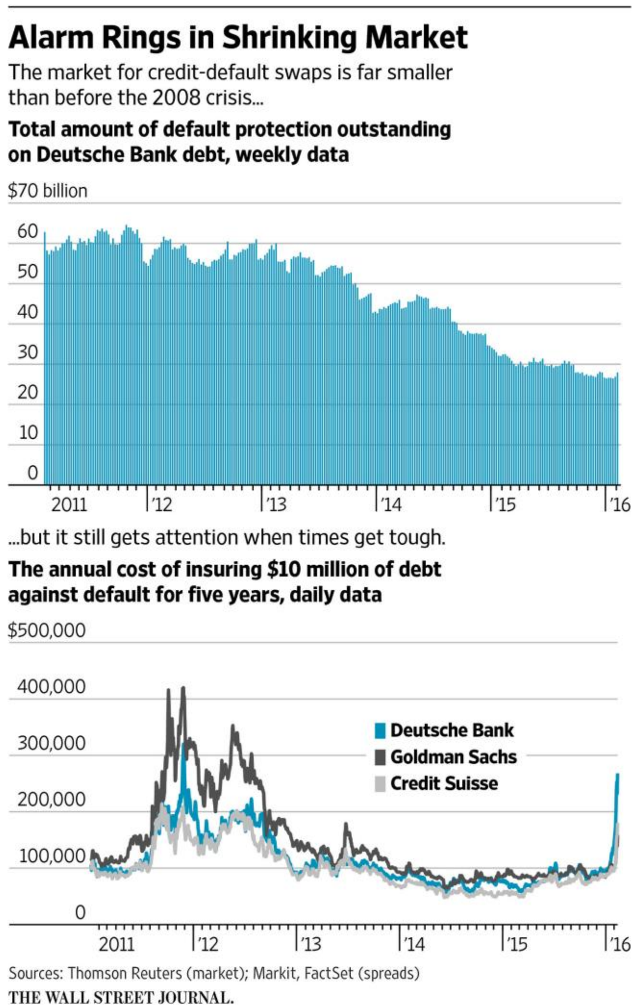
Feb. 11, 2016 By Christopher Whittall, Wall Street Journal

For banks, credit derivatives are back in the spotlight—and flashing warning signals.

The market for credit-default swaps has shrunk to a fraction of the size it was before the financial crisis. But these securities, created to insure against default, still can send shivers through markets as a closely watched measure of banks’ creditworthiness.

This week, that happened.

On Thursday, the average cost of insuring senior European bank debt against default increased to its highest level since October 2013, according to data provider Markit. In the U.S., the cost of insuring against default on banks from Goldman Sachs Group Inc. to Wells Fargo & Co. also has shot up.



Credit-default swaps have become another negative marker in a market swoon that is pummeling shares, debt and commodities around the world amid concerns over global growth.

Those worries on growth, coupled with fears about persistently low or negative interest rates, are pressuring banks now, triggering the sudden rise in the cost of insuring against their default.

Now, the CDS market itself is adding to the turmoil, as it feeds into the signals that have sent bank shares plummeting this week.

"CDS drives market sentiment," said Antoine Cornut, head of investment manager Camares Capital. "In a bull market, people don't really use CDS. Now that things are bad, it's become very fashionable again."

Credit derivatives gained notoriety for their contribution to the 2008 credit crisis. Then, credit-default swaps were used to insure against everything from subprime mortgages to corporate credit and were packaged into complex products that helped spread and amplify risks throughout the financial system.

After the crisis, these products all but disappeared along with investor appetite for such complexity.

The more standardized market for buying and selling protection against corporate debt defaults also shrank. Postcrisis regulations forced banks to lay aside more capital against riskier trading businesses, making it expensive for banks to hold large amounts of credit-default swaps on their books.

At the end of June, the global CDS market was $14.6 trillion, as measured by the total amount of default protection outstanding, according to the Bank for International Settlements. It was $57.9 trillion at the end of 2007, ahead of the crisis.

But while the market's size shrank, its role as a barometer of credit risk did not. Some traders buy the securities not as a hedge against default, but to bet that corporate fundamentals and market sentiment will decline, causing the credit-default swaps to rise in value.

"Bank CDS is a pretty important gauge of overall financial risk sentiment," said Aritra Banerjee, a credit-derivatives strategist at Citigroup.

Now that risk is seen as rising, these instruments are reacting and investors one again are taking note.

In the U.S., the cost of insuring against a default on $10 million worth of Goldman Sachs debt for five years rose $20,000 to $159,000 a year on Thursday, according to Markit.

The cost of insuring against a default from other major lenders such as J.P. Morgan Chase & Co. and Wells Fargo also rose.

Among the biggest movers in this market has been embattled German lender Deutsche Bank AG.

On Thursday, the cost of insuring against a default on $10 million worth of Deutsche Bank debt for five years rose $36,000 to $268,000 a year, according to Markit, its highest level since November 2011.

That compares with $95,000 at the start of the year.

Deutsche has been among the worst-hit banks in the recent tumult, amid long-standing worries that the bank is too thinly capitalized and, more recently, weak financial results.

This week, credit concerns also pushed the German bank's shares down.

Investors were worried it wouldn't be able to pay a coupon due in April on a type of new risky debt.

Deutsche Bank now is considering buying back billions of euros worth of its own bonds, a move that would be aimed in part at lowering the price of its credit-default swaps to send a signal of confidence to investors and reduce its funding costs.

"Now you have the CDS driving the equity on the bank side," said Pierre Lagrange, who heads up global equities at hedge-fund firm Man Group's GLG unit.

As concerns mount, trading in these securities has risen, analysts say. Two of the three most traded investment-grade credit-default swaps last week were Barclays PLC and Deutsche Bank, according to Mr. Banerjee, citing data from the Depository Trust & Clearing Corporation.

Still, nobody is predicting a full resurgence in this market.

Prices are volatile, and some investors don't see the securities as a completely reliable hedge against default risk. In the past, the contracts haven't always paid out following a debt default.

"There's a fundamental issue about whether CDS is attractive or not as a product," said Chris Telfer, a portfolio manager at ECM Asset Management.

MORE DOOM:

"Another Piece Of Bad News For Bank Stocks"

Oil Companies Nearing Lurching Towards Bankruptcy Grabbing Billions From Banks They Can Never Pay Back:

"Drawing Down On A Revolving Loan Can Signal A Company Is Building Up Its Cash Reserves Ahead Of A Bankruptcy Filing"

“Bonds That Recently Traded For Less Than 10 Cents On The Dollar, Indicating That Investors Perceive A High Risk Of Default”

Feb. 11, 2016 By Matt Jarzemsky, Wall Street Journal

Struggling oil and gas companies are maxing out revolving credit lines typically used to cover short-term funding gaps, raising fresh concerns about banks’ exposure to the decline in energy prices.

Midstates Petroleum Co., Linn Energy LLC and SandRidge Energy Inc. in recent weeks drew down the full balance of their revolving credit lines, they said, collectively borrowing more than $1.5 billion to build up cash cushions as the oil slump heads into its second year.

Other producers also are weighing such a move, said bankers and lawyers who advise energy companies.

Fully drawing down on a revolving loan can signal a company is building up its cash reserves ahead of a bankruptcy filing or that it is worried lenders may at some point cut off access to credit.

Some banks have started to explore selling revolving loans at a discount to distressed-debt funds, said people familiar with the matter, a sign they don’t expect to get paid in full on the loans, typically seen as safe.

Distressed-debt trading desks at Goldman Sachs Group Inc., J.P. Morgan Chase & Co., Bank of America Corp. and other banks have been quoting prices for some of the loans, though it is unclear if any have traded yet, the people said.

The shift represents another piece of bad news for bank stocks, which have been hammered lately on a number of worries, including the direction of interest rates and how exposed loan portfolios are to the energy sector.

The KBW Nasdaq Bank Index is down 23% this year, more than twice as much as the S&P 500.

Revolving loans are typically considered unlikely to lead to losses because they are first in line for repayment in a bankruptcy. They essentially function like credit cards that companies use to cover small or infrequent expenses, such as equipment purchases. Companies typically carry little or no balance on the loans to avoid paying interest on borrowings they don’t immediately need.

An increase in drawdowns of revolving loans could become problematic for banks because the drastic drop in oil and gas prices has left some companies with few assets valuable enough to fully cover the loans in bankruptcy.

“Lenders are concerned that as prices fall and liquidity is burned by operations and interest payments, at one point do the revolvers, in fact, become impaired?” said Damian Schaible, a partner in law firm Davis Polk & Wardwell LLP’s bankruptcy group.

Bank executives have played down fears that energy loans are leading to severe losses, with many describing the situation as manageable.

Still, in the final months of 2015, a number of those banks increased the reserves they hold in case their energy loans go bad.

Wells Fargo & Co. last month said that oil and gas borrowings accounted for 2% of its total loan book, and it said the vast majority--90%--of its problem oil-and-gas borrowers were current on their interest payments at the end of 2015.

The bank said it lost $118 million to defaults on loans to oil and gas companies during the fourth quarter, $90 million more than in the previous period.

Citigroup Inc., meanwhile, has added $250 million to its reserves to account for soured loans to energy companies.

Standard & Poor’s Ratings Services on Tuesday downgraded by one notch the credit ratings of four U.S. regional banks that have significant exposure to energy: BOK Financial Corp., Cullen/Frost Bankers Inc., Comerica Inc. and Texas Capital Bancshares Inc.

The ratings firm said it believes debt restructurings in the energy industry will increase in the coming months and that banks broadly will have to boost their energy loan-loss reserves.

“We are in the early innings of the downturn, in our view, and we expect loan losses to rise over the next two years, even if energy prices rebound modestly from current levels,” S&P said.

Oil-and-gas company defaults have reached 14.5%, compared with the broader high-yield default rate of 3.1%, according to Moody’s Investors Service.

As many as a third of American oil-and-gas producers could tip toward bankruptcy or restructuring in the current downturn, according to Wolfe Research.

In some energy bankruptcies, companies’ assets weren’t even worth enough to cover the highest-ranking debt.

In the oil-and-gas industry, revolving loans often are secured by a producer’s assets, and borrowing limits fluctuate with the value of its oil and gas reserves.

Banks are next due to reassess the value of those reserves in April.

If their value has fallen—a likelihood after a further decline in energy prices—companies that maxed out their credit lines may find themselves over their borrowing limits.

Midstates on Tuesday said it borrowed the remaining $249 million available under its $750 million credit facility, led by SunTrust Banks Inc. Linn last week borrowed the remaining $919 million on its $4 billion credit line, led by Wells Fargo, while SandRidge last month drew the $489 million available on its $1 billion revolver, led by Royal Bank of Canada.

All three companies have bonds that recently traded for less than 10 cents on the dollar, indicating that investors perceive a high risk of default.

MORE DOOM:

Finance Companies With Many Billions Of Dollars In Business Loan Debt Faking Value Of Their Property Holdings:

"Assets Under Pressure Amid A Collapse In Oil Prices And Rising Corporate-Loan Defaults"

"Questions Come Years After The Financial Crisis Unveiled Issues With Valuations Of Securities Pegged To Real-Estate Loans"

"This Time The Spotlight Is On Securities Pegged To Business Loans"

Feb. 11, 2016 By Ianthe Jeanne Dugan, Wall Street Journal

Publicly traded finance companies are coming under scrutiny for how they value obscure assets tied to business loans, at a time when market turbulence is motivating some firms to mark down securities faster than others.

Prospect Capital Corp., a Nasdaq-traded company that finances midsize businesses, is among the largest of this group, known as business-development companies.

It said in securities filings this week that its investments have a "fair market value" of $6.1 billion.

But the assets are largely tied to securities that don't trade on public markets and loans to private businesses.

And some of its calculations have been at odds with peers recently.

The company didn't respond to requests for comment.

In its filings, it said that it enlists an independent valuation firm and an audit committee. "Most of our portfolio investments are recorded at fair value as determined in good faith by our Board of Directors and, as a result, there is uncertainty as to the value of our portfolio investments," the company wrote.

Prospect owns a security called CIFC Funding-2014-IV, for example, composed of more than 100 pieces of loans to companies, including offshore drillers, sporting-goods stores, media outfits and airlines.

Prospect in September wrote it down to 85% of its original $41.5 million face value. In new filings this week, the asset was further written down to 73% of face value.

That would seem a substantial write-down, except that the same security took a bigger chop at one of Prospect's peers, Eagle Point Credit Co. in Greenwich, Conn. That firm marked down its piece to 57% of the original $7 million face value. Eagle Point hasn't updated its figures yet.

The difference underscores the imperfect system by which billions of dollars in securities are valued by business-development companies such as Prospect. Those companies have become popular among small investors and an important source of corporate financing.

Their collective assets have more than doubled in three years to over $63 billion, according to public filings.

Those assets, though, have been under pressure amid a collapse in oil prices and rising corporate-loan defaults. Federal regulators and investors are exploring whether those problems are adequately reflected in the assets of these firms.

The Securities and Exchange Commission recently began examining the values these firms put on some of their securities, according to people with knowledge of the fact-finding mission.

Several shareholder lawsuits have been filed recently against some business-development companies raising questions about their valuations.

Prospect's shares, which sold for $15 in its 2004 initial public offering and rose above $18, closed Thursday at $5.90 a day after the firm posted better than expected fourth-quarter results.

The questions come years after the financial crisis unveiled issues with valuations of securities pegged to real-estate loans.

This time the spotlight is on securities pegged to business loans.

Business-development companies are required to value their assets quarterly based on what they could sell them for in an arm's length transaction. But because some of the securities aren't generally traded, the firms have a lot of leeway.

"We've got an industry in which the standards of valuation still haven't been addressed even since the crisis—even though we know that was one of the problems during the crisis," said John Cole Scott, chief investment officer at Closed End Fund Advisors, an investment manager in Richmond, Va.

Prospect pays itself fees of 2% of assets. It has an investment-grade credit rating, which is, in part, hinged to the value of its assets.

The firm is a major buyer of collateralized loan obligations, pieces of business loans that are bundled by Wall Street and sold to insurance companies, big investment banks and other buyers.

The securities are sold in buckets according to the amount of risk they carry and the seniority of the investor in case of a bankruptcy or default.

CIFC Funding 2014-IV, the security that Prospect holds along with Eagle Point, is made up of hundreds of loans to companies, including energy companies Paragon Offshore PLC, Fieldwood Energy LLC and Seadrill Ltd. , according to a document reviewed by The Wall Street Journal. It also holds pieces of loans to United Airlines Inc. and other airlines as well as retailers including Party City Holdco Inc. and PetSmart Inc.

Another CLO, called Halcyon Loan Advisors Funding 2014-2 Ltd., contains pieces of loans to energy companies, including Southcross Energy Partners, some technology companies such as BMC Software Finance Inc. and an array of other borrowers, including Sea World Parks & Recreation.

Prospect holds a piece with a principal value of $41.1 million and marked it to $36 million—or about 88% of its face value. This week, Prospect marked it down to $31.7 million.

TICC Capital Corp. , a Greenwich, Conn., based publicly traded investment fund, marked down a piece of Halcyon with a face value of $8 million to $5.5 million, just 69% of the original.

Critics said Prospect should have marked down the security more last year.

"There is no way that there can be this much room between the two," said Jonathan Bock, an analyst at Wells Fargo & Co.

More than $200 billion worth of CLOs were originated in the last two years, according to the Federal Reserve. Business-development companies have about $3 billion worth on their books, according to securities filings.

Prospect holds more than $1 billion in CLOs. It reduced the fair value of the portfolio to about 76% of face value from 85% last quarter.

That compares with 67.6% for peers last quarter, according to Mr. Bock, who lowered his rating on Prospect's stock in January to underperform, citing valuation issues.

If Prospect were to value its CLO portfolio similarly to other business-development companies, investors should have seen $250 million to $300 million in additional write-downs last year, he said.

Prospect has said publicly that it has a low exposure to energy-company loans and a diversified portfolio full of first lien notes at the front of the line to collect. Top management purchased more than $50 million in stock recently.

DO YOU HAVE A FRIEND OR RELATIVE IN THE MILITARY?

CHANGE WE CAN BEREAVE IN

Forward Military Resistance along, or send us the email address if you wish and we'll send it regularly with your best wishes. Whether in Afghanistan or at a base in the USA, this is extra important for your service friend, too often cut off from access to encouraging news of growing resistance to injustices, inside the armed services and at home. Send email requests to address up top or write to: Military Resistance, Box 126, 2576 Broadway, New York, N.Y. 10025-5657.

FORWARD OBSERVATIONS

“At a time like this, scorching irony, not convincing argument, is needed. Oh had I the ability, and could reach the nation’s ear, I would, pour out a fiery stream of biting ridicule, blasting reproach, withering sarcasm, and stern rebuke.

“For it is not light that is needed, but fire; it is not the gentle shower, but thunder.

“We need the storm, the whirlwind, and the earthquake.”

“The limits of tyrants are prescribed by the endurance of those whom they oppose.”

Frederick Douglass, 1852

The development of civilization and of industry in general has ever shown itself so active in the destruction of forests, that everything done by it for their preservation, compared to its destructive effect, appears infinitesimal.
-- Karl Marx; Capital: A Critique Of Political Economy; Volume II; The Process Of The Circulation Of Capital

“The Fate Of Every Revolution At A Certain Point Is Decided By A Break In The Disposition Of The Army”

[Excerpt from: The History of the Russian Revolution By Leon Trotsky, Volume One: The Overthrow of Tzarism: February 23-27, 1917]

“The Fate Of Every Revolution At A Certain Point Is Decided By A Break In The Disposition Of The Army”

There is no doubt that the fate of every revolution at a certain point is decided by a break in the disposition of the army.

Against a numerous, disciplined, well-armed and ably led military force, unarmed or almost unarmed masses of the people cannot possibly gain a victory.

But no deep national crisis can fail to affect the army to some extent.

Thus along with the conditions of a truly popular revolution there develops a possibility – not, of course, a guarantee – of its victory.

However, the going over of the army to the insurrection does not happen of itself, nor as a result of mere agitation.

The army is heterogeneous, and its antagonistic elements are held together by the terror of discipline. On the very eve of the decisive hour, the revolutionary soldiers do not know how much power they have, or what influence they can exert.

The working masses, of course, are also heterogeneous. But they have immeasurably more opportunity for testing their ranks in the process of preparation for the decisive encounter. Strikes, meetings, demonstrations, are not only acts in the struggle, but also measures of its force.

The whole mass does not participate in the strike. Not all the strikers are ready to fight. In the sharpest moments the most daring appear in the streets. The hesitant, the tired, the conservative, sit at home.

Here a revolutionary selection takes place of itself; people are sifted through the sieve of events.

It is otherwise with the army.

The revolutionary soldiers – sympathetic, wavering or antagonistic – are all tied together by a compulsory discipline whose threads are held, up to the last moment, in the officer’s fist. The soldiers are told off daily into first and second files, but how are they to be divided into rebellious and obedient?

The psychological moment when the soldiers go over to the revolution is prepared by a long molecular process, which, like other processes of nature, has its point of climax.

But how determine this point?

A military unit may be wholly prepared to join the people, but may not receive the needed stimulus. The revolutionary leadership does not yet believe in the possibility of having the army on its side, and lets slip the victory. After this ripened but unrealized mutiny, a reaction may seize the army.

The soldiers lose the hope which flared in their breasts; they bend their necks again to the yoke of discipline, and in a new encounter with the workers, especially at a distance, will stand opposed to the insurrection.

In this process there are many elements imponderable or difficult to weigh, many crosscurrents, collective suggestions and autosuggestions.

But out of this complicated web of material and psychic forces one conclusion emerges with irrefutable clarity: the more the soldiers in their mass are convinced that the rebels are really rebelling – that this is not a demonstration after which they will have to go back to the barracks and report, that this is a struggle to the death, that the people may win if they join them, and that this winning will not only guarantee impunity, but alleviate the lot of all – the more they realize this, the more willing they are to turn aside their bayonets, or go over with them to the people.

In other words, the revolutionaries can create a break in the soldiers' mood only if they themselves are actually ready to seize the victory at any price whatever, even the price of blood.

And the highest determination never can, or will, remain unarmed.

ANNIVERSARIES

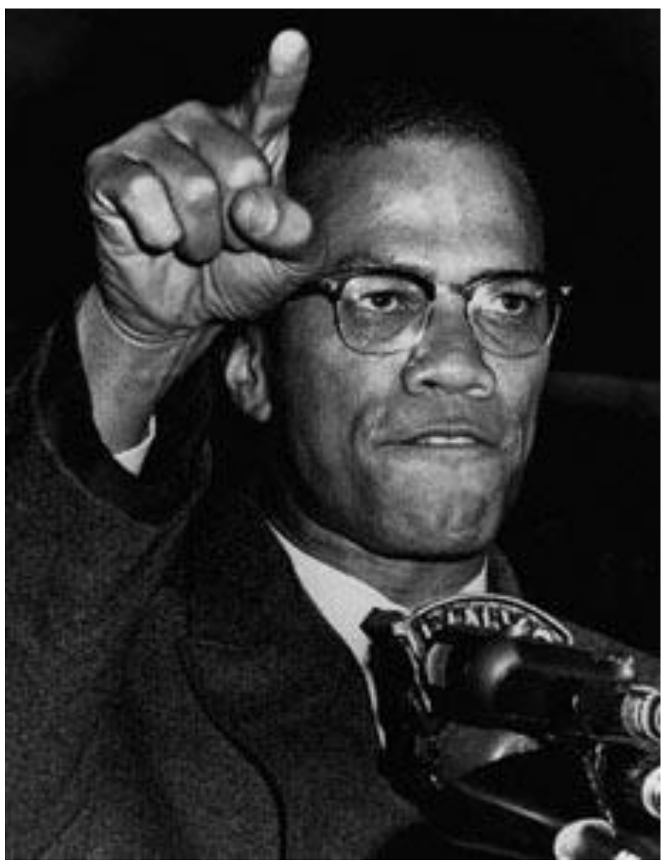
February 21, 1848:
World-Shaking Anniversary

Carl Bunin Peace history February 18-24

“The Communist Manifesto,” written by 29-year-old Karl Marx with the assistance of Friedrich Engels, was published in London (in German) by a group of German-born revolutionary socialists known as the Communist League.

The political pamphlet — arguably one of the most influential in history — proclaimed that “the history of all hitherto existing society is the history of class struggles,” and that the inevitable victory of the proletariat, or working class, would put an end to class society forever.

February 21, 1965:
A Brilliant And Courageous Soldier For The Cause Killed In Action



Carl Bunin Peace History Peace History February 18-24

Malcolm X was shot and killed by rival Black Muslims in New York City, as he was about to address his Organization of Afro-American Unity at the Audubon Ballroom in New York City’s Washington Heights. He was 39. **[He was killed not long after**

announcing his new politics: that working class whites and African-Americans can join together to fight those who own and control the society for their own wealth and privilege. T]

MORE:

The House Negro And The Field Negro:

"The Slavemaster Took Tom And Dressed Him Well, And Fed Him Well -- Gave Him A Long Coat And A Top Hat And Made All The Other Slaves Look Up To Him"

"Then He Used Tom To Control Them"

"The Same Strategy That Was Used In Those Days Is Used Today, By The Same White Man"

Malcolm X, Message To The Grassroots, 10 Nov, 1963 in Detroit, MI:
http://www.americanrhetoric.com/speeches/malcolmxgrassroots.htm

[Excerpts]

First, what is a revolution?

Sometimes I'm inclined to believe that many of our people are using this word "revolution" loosely, without taking careful consideration what this word actually means, and what its historic characteristics are.

When you study the historic nature of revolutions, the motive of a revolution, the objective of a revolution, and the result of a revolution, and the methods used in a revolution, you may change words. You may devise another program. You may change your goal and you may change your mind.

A revolution is bloody. Revolution is hostile. Revolution knows no compromise. Revolution overturns and destroys everything that gets in its way. And you, sitting around here like a knot on the wall, saying, “I’m going to love these folks no matter how much they hate me.”

No, you need a revolution.

Whoever heard of a revolution where they lock arms, as Reverend Cleage was pointing out beautifully, singing “We Shall Overcome”?

Just tell me.

You don’t do that in a revolution.

You don’t do any singing; you’re too busy swinging.

To understand this, you have to go back to what young brother here referred to as the house Negro and the field Negro -- back during slavery.

There was two kinds of slaves.

There was the house Negro and the field Negro.

The house Negroes - they lived in the house with master, they dressed pretty good, they ate good ‘cause they ate his food -- what he left.

They lived in the attic or the basement, but still they lived near the master; and they loved their master more than the master loved himself.

They would give their life to save the master’s house quicker than the master would.

The house Negro, if the master said, “We got a good house here,” the house Negro would say, “Yeah, we got a good house here.”

Whenever the master said “we,” he said “we.”

That’s how you can tell a house Negro.

If the master’s house caught on fire, the house Negro would fight harder to put the blaze out than the master would.

If the master got sick, the house Negro would say, “What’s the matter, boss, we sick?” We sick! He identified himself with his master more than his master identified with himself.

And if you came to the house Negro and said, “Let’s run away, let’s escape, let’s separate,” the house Negro would look at you and say, “Man, you crazy. What you mean, separate? Where is there a better house than this? Where can I wear better clothes than this? Where can I eat better food than this?”

That was that house Negro. In those days he was called a “house nigger.”

And that's what we call him today, because we've still got some house niggers running around here.

This modern house Negro loves his master.

On that same plantation, there was the field Negro.

The field Negro -- those were the masses. There were always more Negroes in the field than there was Negroes in the house. The Negro in the field caught hell.

He ate leftovers.

In the house they ate high up on the hog. The Negro in the field didn't get nothing but what was left of the insides of the hog. They call 'em "chitt'lin'" nowadays. In those days they called them what they were: guts. That's what you were -- a gut-eater. And some of you all still gut-eaters.

The field Negro was beaten from morning to night. He lived in a shack, in a hut; He wore old, castoff clothes.

He hated his master. I say he hated his master. He was intelligent.

That house Negro loved his master. But that field Negro -- remember, they were in the majority, and they hated the master.

When the house caught on fire, he didn't try and put it out; that field Negro prayed for a wind, for a breeze.

When the master got sick, the field Negro prayed that he'd die. If someone come to the field Negro and said, "Let's separate, let's run," he didn't say "Where we going?" He'd say, "Any place is better than here."

You've got field Negroes in America today. I'm a field Negro. The masses are the field Negroes.

When they see this man's house on fire, you don't hear these little Negroes talking about "our government is in trouble."

They say, "The government is in trouble." Imagine a Negro: "Our government"!

Just as the slavemaster of that day used Tom, the house Negro, to keep the field Negroes in check, the same old slavemaster today has Negroes who are nothing but modern Uncle Toms, 20th century Uncle Toms, to keep you and me in check, keep us under control, keep us passive and peaceful and nonviolent.

That's Tom making you nonviolent.

It's like when you go to the dentist, and the man's going to take your tooth. You're going to fight him when he starts pulling.

So he squirts some stuff in your jaw called novocaine, to make you think they're not doing anything to you. So you sit there and 'cause you've got all of that novocaine in your jaw, you suffer peacefully. Blood running all down your jaw, and you don't know what's happening. 'Cause someone has taught you to suffer -- peacefully.

There's nothing in our book, the Quran -- you call it "Ko-ran" -- that teaches us to suffer peacefully.

Our religion teaches us to be intelligent.

Be peaceful, be courteous, obey the law, respect everyone; but if someone puts his hand on you, send him to the cemetery.

That's a good religion. In fact, that's that old-time religion.

That's the one that Ma and Pa used to talk about: an eye for an eye, and a tooth for a tooth, and a head for a head, and a life for a life: That's a good religion.

And doesn't nobody resent that kind of religion being taught but a wolf, who intends to make you his meal.

The slavemaster took Tom and dressed him well, and fed him well, and even gave him a little education -- a little education; gave him a long coat and a top hat and made all the other slaves look up to him.

Then he used Tom to control them.

The same strategy that was used in those days is used today, by the same white man.

He takes a Negro, a so-called Negro, and make him prominent, build him up, publicize him, make him a celebrity.

washingtonpost.com

February 21, 1942:
A Day That Will Live In Infamy:
“112,000 Citizens Of Japanese Ancestry Were Relocated, Losing Their Businesses, Homes, And Belongings To Whites”

Bookmice.net

Carl Bunin Peace History Peace History February 18-24

Executive Order 9066 was signed by President Franklin D. Roosevelt 10 weeks after the Japanese attack on Pearl Harbor, ordering all Japanese Americans (Nisei) evacuated from the West Coast of the U.S. and forcing them to live in concentration camps.

The document authorized the Secretary of War and military commanders “to prescribe military areas...from which any or all persons may be excluded.”

There was strong support from California Attorney General Earl Warren (later U.S. Supreme Court Chief Justice), liberal journalist Walter Lippmann and Time magazine—which referred to California as “Japan’s Sudetenland”

112,000 citizens of Japanese ancestry were relocated, losing their businesses, homes, and belongings to whites.

In the entire course of the war, 10 people were convicted of spying for Japan, all of whom were Caucasian.

February 23, 2011:
Benghazi Liberation Day:
"Now He Has To Explain Where All The Bodies Are"

Carl Bunin Peace history February 18-24

Benghazi, Libya's second largest city, fell to rebels after three days of violent clashes with the forces of brutal dictator Col. Muammar Qaddafi.

"He is gone. A dragon has been slain," cried Ahmed Al-Fatuuir outside the secret police headquarters. "Now he has to explain where all the bodies are.

DANGER: CAPITALISTS AT WORK

[Thanks to Robert Smith for posting.]

DANGER: POLITICIANS AT WORK

Military Resistance Looks Even Better Printed Out

Military Resistance/GI Special are archived at website

http://www.militaryproject.org .

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