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Anatomy of a Bubble

The real estate bubble has burst, what does that really mean to us? The important issue regarding any bubble bursting in a market is that it is contained to that specific sector.

The first industry affected by the bursting of the real estate bubble has been the sub-prime mortgage business. The sub-prime business sells mortgages to people with less than good credit. As long as housing prices continue to rise these borrowers, many of whom have stretched to purchase their house are content. But, as we have seen real estate prices have begun to fall and in some areas of the country they have fallen a lot. These falling

prices put some of these mortgage holders in a position where they owe more on the house than it is worth. Their incentive to continuing paying this mortgage is diminished and they are more likely to default and walk away from the mortgage liability. The defaults rise and the ability for the mortgage lenders to pay back the lenders they borrowed money from becomes more difficult and they default. This happened to New Century Financial, a sub-prime mortgage lender. Other mortgage lenders see the problems that New Century is having and they tighten the qualifications for getting a mortgage. This tightening in the mortgage

industry could turn into a crisis because lenders are no longer willing to loan money. If borrowing becomes difficult I might not be able to put that addition on my house or buy that new car with a line of credit against my house. It is easy to see how a problem in the sub-prime mortgage sector could have a snowball effect and hurt our entire economy.

As of this writing this particular bubble is being fairly well contained in the mortgage and housing market. If signs develop that signal a slow down in retail sales or car purchases look for economists to begin to talk about a possible recession.

Tip of the Quarter

Thinking of selling your home, run from these types of buyers

1. *The Zero Percent Down Buyer*—a mortgage company will find it hard to appraise your house for a buyer with little or no money down.
2. *The Bully Buyer*—First he'll hit you with a list of things that are wrong with the house while presenting the offer. The inspection will be a nightmare and a prelude to endless negotiations
3. *The Sight Unseen Buyer*—He wants to take your home off the market and make a decision later.

Credit to Marshall Loeb MarketWatch.

1st quarter 2007 Performance of Various Asset Classes

SPY (S&P500)	-0.17%
QQQQ (Nas100)	0.9%
DJIA	-1.25%
Russell 2000	.037%
Hang Seng	-.13%
10yr. Treasury Interest Rate	-.13%
Oil Futures	9.16%

Like Kissing Your Sister

The stock market was just about flat for the first quarter of 2007. Every so often a client will ask us why invest in fixed income instruments, they don't move too much. The first quarter performance

of the stock market gives us some of the answer. Most of our fixed income investments gained in the 1.25% to 1.5% range in the first quarter. This was far greater than the return in the market and

helped keep our clients' portfolios moving in the right direction. Remember the tortoise and the hare, next time your wonder why invest in fixed income, think tortoise,