

## Taking Stock: There may be peril in Merrill

by Malcolm\_Berko

Dear Mr. Berko: I bought 400 shares of Merrill Lynch at \$88 last July and now its \$55. What do you think of Merrill now that John Thain is taking over the company? If you are positive about Merrill do you think it would be a good idea to average down my costs and purchase 400 more shares, which would give me an average price of \$71.50 My son, who has been a Merrill employee for the past 16 years, tells me that there are a lot of "nervous Nellies" in the home office and some of them think that they may get the ax because it's rumored that Thain wants to clean house and staff the company with his people who are loyal to him. And as you say when there's blood in the street its time to buy. Merrill is down 33 points. Do you think that's enough of a blood loss to buy the stock?

E.B.

Bend, Ore.

Dear E.B.: A friend of Richard Grasso (former head of the NYSE) told me that the New York Stock Exchange couldn't wait to get rid of John Thain, who is also an active member of the Trilateral Commission. Thain is a brilliant technocrat who is more comfortable romancing computers than visiting with people. He learned to read income statements and balance sheets before he could talk and was designing organizational charts before he could walk. As a numbers man, Thain is so smooth that he can steal the stink from a rotten fish without getting the smell on his hands.

Thain is leaving the Big Board with kudos. But his departure is also a relief to some insiders who tell me he's a cold fish, a lousy communicator lacking in people skills and with a personality like dry ice.

Merrill's first choice for the top spot was Larry Fink the chief executive officer of (49 percent owned) Black Rock. But Fink declined because Merrill was reluctant to disclose its entire subprime exposure. It's interesting that the NYSE didn't try one bit to discourage Thain's departure, even though he did a superb job putting round pegs in square holes.

Merrill is getting a technocrat as its CEO, a man who eschews friendships and a man who may be anathema to Merrill's sales force. Former CEO Stan O'Neal was not well-liked by the sales force and Thain may be even less well-liked than O'Neal. Thain assumed his new duties Dec. 1 and there are rumblings that Merrill may lose some of their top executives in 2008 some of whom are not comfortable with Thain.

If that wasn't bad enough, Thain, with zero retail sales experience, may also lose some top sales people who are roiling at his appointment.

This is a bad time to buy Merrill Lynch & Co. Inc. (MER-\$54.64) the price of which is down from a 12-month high of \$98. MER's earnings could be in big trouble if the current problems in the mortgage and housing markets begin to affect the economy and contaminate the financial markets. Meanwhile, members of MER's risk management team are yowling like cats in a spin dryer and there are serious doubts concerning MER's proprietary trading and investing schemes.

MER's entry into the private equity business has created a deep divide between the firm's investment banking business and its own investment concerns. And of course there's significant concern about MER's real exposure to the subprime mortgage fiasco because some insiders believe that the final numbers could be significantly higher than reported losses.

Some Merrill observers are concerned that Thain, whose focus is on international investing, will move assets and support from its U.S. retail business to its European and Mideast and Pacific Rim divisions. This doesn't sit well with MER's U.S. team whose morale has been badly bruised during the past few months. And this especially problematic because Thain is a spreadsheet manager, not a consensus builder.

I believe that MER will snap back but I'm concerned that the way back may be a slow snap. I'm concerned that Thain's ascension to the top spot may have a rocky beginning and possibly a stumbling tenure. I'm concerned that there may be some major defections at MER because some important MER players hold Thain in low esteem. I'm concerned that Thain, to whom a retail sales force is a pain in the butt, may treat this division with benign neglect. And finally, I'm concerned that MER's collateralized debt obligation and subprime exposure may not have been fully disclosed as of yet.

I'd be concerned for you if you were to purchase 400 shares of the stock. If you must purchase MER I recommend that you buy 200 shares today and wait six months to purchase the remaining 200 shares - possibly at a much lower price.

Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@comcast.net.

Â© Copley News Service

*Taking Stock: There may be peril in Merrill by Malcolm\_Berko*