

## General Motors' Market Leadership Has Come Courtesy of the Plunge Protection Team

by [Eric Englund](#)

 [SAVE THIS](#)  [EMAIL THIS](#)  [PRINT THIS](#)  [MOST POPULAR](#)  
[DIGG THIS](#)

Two hedge funds, managed by Bear Stearns, are on the [verge of liquidation](#) due to making highly leveraged bets on securities backed by subprime mortgages. Bear Stearns' woes have investors worried that any negative developments in the credit markets will also drag down the stock market – which has become quite volatile since the bad news, from Bear Stearns, surfaced. To be sure, the ripple effects of the subprime-mortgage implosion will continue to roil the credit and stock markets. But is the subprime-mortgage bust truly large enough to drag down Wall Street, and its precious Dow Jones Industrial Average, with it? If the recent performance of General Motors' stock is an indicator, the [Working Group on Financial Markets](#) (aka: the Plunge Protection Team) is answering this question with a resounding "yes."

As Karen De Coster and I asserted in our essay [General Motors, Market Engineering, and "Confidence" Protection](#), the Working Group manipulates General Motors' stock in order to prop up the Dow Jones Industrial Average so as to maintain investor confidence in the stock market, Wall Street, and the economy in general. Indeed, based upon our assertion, General Motors' stock definitely has big shoes to fill. In light of GM's stunning performance, during the exact period of Bear Stearns' hedge fund catastrophes, the "General" is strutting up and down Wall Street as if he is Sasquatch...with members of the Plunge Protection Team peering from behind the curtain in delight.

This past quarter – April 1, 2007 to June 30, 2007 – has been a barnburner for GM's stock. Through this period, the Dow Jones Industrial Average was [up by 8.5%](#) while GM was up by nearly 23%; talk about market leadership. During the trading week of June 25<sup>th</sup>, when Wall Street was really feeling the heat of Bear Stearns' meltdown, General Motors' stock closed the [week up by 6.6%](#). This isn't just leadership; no, the General is fearlessly spearheading the stock market's charge upward. And it gets even better; for during this hard-charging week, GM's stock hit a 52-week high which tallies up to nearly a 43% gain from its 52-week low. General Motors' stock, most certainly, closed this last quarter with a magnificent performance that served to steady a jittery stock market.

Interestingly enough, this magical week began with an upgrade from a Wall Street brokerage powerhouse. On June 25<sup>th</sup>, Goldman Sachs analyst Robert Barry put out a "[buy](#)" [recommendation](#) on General Motors citing his rather dull insight that "GM can make a compelling case to UAW members that material wage and benefit cuts are needed... And we suspect members and retirees are increasingly amenable to such cuts." Although this won't go down as an awe-inspiring recommendation, the reasoning is much less important than putting the prestige of Goldman Sachs' name behind General Motors' stock. And this is where, in my opinion, the heavy hand of the Plunge Protection Team has been exposed yet again.

So let's connect a few important dots here. For openers, the four key members of the Plunge Protection Team (which reports directly to the President of the United States) are the Secretary of the Treasury, the Chairman of the Federal Reserve, the Chairman of the Securities and Exchange Commission, and the Chairman of the Commodity Futures Trading Commission. [Henry M. Paulson](#) is the current Secretary of the Treasury. Before being sworn in as the Secretary of the Treasury last year, Mr. Paulson was the Chairman and Chief Executive Officer of – you guessed it – Goldman Sachs. Thus, Henry Paulson was once the aforementioned Robert Barry's boss. In light of this, it is highly plausible that Goldman Sachs' buy recommendation – regarding GM stock – was a political favor to help the Plunge Protection Team do damage control on Wall Street.

Now, let's look a little deeper into the company whose common stock Robert Barry so uninspiringly recommended to American investors. Upon reviewing GM's December 31, 2006 fiscal year-end audited

financial statement, I certainly can see why Mr. Barry was so bland. To analyze General Motors' 12/31/06 FYE financial statement is to understand that this once great company is likely heading towards bankruptcy. Here are the gruesome details:

- GM's "as stated" net worth is **negative** \$5.4 billion
- By fully discounting intangible assets, which includes deferred tax assets, GM's net worth is arguably **negative** \$48.5 billion (refer to Note 13 of GM's 12/31/06 financial statement)
- GM's as stated working capital is **negative** \$3.7 billion
- By fully discounting current deferred tax assets, GM's working capital drops to **negative** \$14 billion
- General Motors' total liabilities amount to a staggering \$190.4 billion
- GM's net loss, in 2006, was nearly \$2 billion

In spite of the "General's" ill financial health, Robert Barry proclaimed a 52-week target price of \$42 per share. This target price was simply pulled out of thin air. Without earnings and without a tangible net worth, it is impossible to apply basic analytical tools – such as a price-to-earnings ratio and a price-to-book-value ratio – in order to derive a rational target price-per-share for General Motors' common stock. Since most "investors" are financially illiterate, it is easy for Wall Street analysts to get away with making such absurd proclamations.

This is not to say that Robert Barry didn't comprehend the gravity of GM's financial condition. When Barry stated that "GM can make a compelling case to UAW members that material wage and benefit cuts are needed" he clearly understood the grim reality of General Motors' financial situation. In essence, Barry's "buy" recommendation is based upon the bizarre logic that although GM's acute financial weakness may be a "strength" when bargaining for concessions from the UAW, that investors should ignore this extreme financial fragility – but the UAW should not – so go out and purchase GM stock today. After all, this company just may survive if its negotiations, with the UAW, go exceedingly well. And what if the UAW doesn't give an inch? Heck, let's not spoil the convincing case (wink, wink, nod, nod) made by Goldman Sachs' star auto-industry analyst.

There is little doubt that Robert Barry "took one for the team"...the Plunge Protection Team that is. Typically, a "buy" recommendation is accompanied by exciting and positive developments regarding the company being analyzed. All Barry could muster was tortured logic

intertwined into an insipid endorsement of a company teetering on failure. But the deed was done. Goldman Sachs' endorsement, of GM, gave the Plunge Protection Team the cover it desired to continue pushing GM's share price higher; thereby providing market leadership investors yearn for when instability is afoot.

As I see it, the intense manipulation of GM's stock indicates that the Plunge Protection Team is frightfully worried about the damage subprime mortgages will inflict upon Wall Street. In the end, it is quite ironic that General Motors' financial condition really isn't substantially different relative to the financially-strapped individuals who are defaulting on the very mortgages that toppled Bear Stearns' hedge funds.



*July 9, 2007*

*Eric Englund [[send him mail](#)], who has an MBA from Boise State University, lives in the state of Oregon. He is the publisher of [The Hyperinflation Survival Guide](#) by Dr. Gerald Swanson. You are invited to visit his [website](#).*

Copyright © 2007 Eric Englund

**[Eric Englund Archives](#)**

**[Back to LewRockwell.com Home Page](#)**