

APM Class Summary **April 23, 2007**

Our first two guests were CEO John Dicus and CFO of Capitol Federal Financial.

Why did they become a mutual holding company?

They wanted to maintain control. They raised 370 million in the mutual holding conversion. They could have had 8-9 billion if they went with the full conversion. But they did not have a legitimate reason to invest that much money. They could raise an estimated 2 billion if they sold the MHC shares to the public. Until they get a legitimate business reason to make this conversion and are able to earn a return on this money they will not convert.

Credit margins have really shrunk in the past few years.

They pay interest on checking and savings account where as many commercial banks do not.

HSBC very big in sub prime lending with 10 billion in reserves shows that they believe they have very high credit risk.

CFFN does not take very much credit risk because they can manage the interest rate risk.

620-680 credit score or below is considered sub-prime lending.

This has been a very long period of time for having a flat or inverted yield curve but not the longest period ever.

Capitol Federal Foundation

-Education

-Affordable Housing

-United Way

-Traditional Giving

-Started with 30 million back in 1999 and has grown to over 75 million by 2006

-Given away about 15.5 million so far

Most of the time banks generally trade at around 1-2 P/B value

39+12.37-10

CAGR=19.42%

The yield curve should normalize but it may take an event for this to happen.

We all believe that the economy should stay pretty steady because of consumers still buying along with foreign investments in our treasuries.

Must watch the short interest rate on companies such as Garmin and Joseph A Bank

Things to vote on:

CFFN

TTO

TYN

TYY

TYG

JOSB-covered call

Ammonia prices were soft able to buy ammonia at less than 360

Ammonium Nitrate prices are going up in the southern plains from 310-320 Midwest
320-325

CHINA Risks

-Government (Intrusive?)

Laws

Economy

-Corruption

US is more corrupt than China but Russia is probably #1

When you invest in a company make sure that the company has a good friend in the organization (ex. Sohu has a friend in the information technology sector)

This may come down to a lack of information

-Internal Controls

Management misstating estimates of financial statements

Auditors of the company are supposed to go into the company to make sure that the internal controls are in place, you can check on an auditor by looking at their client list

-Financial Statement Control

-Lack of Information

You must work a whole lot harder to find good information on these Chinese companies. We must be aware that they may not be very experienced in talking with investors. (Ex. LaunchTech)

The companies that we have invested in are not state owned entities state owned businesses don't have as much infrastructure to make good decisions.(Ex. Banks 10 years ago). Entrepreneurs must have a large stake in the company. They must be started recently because all old companies have been state owned firms in the past.

In 1997 the British gave Hong Kong back to China but China has not messed with the economy of Hong Kong mainly because of the world class financial center that Hong Kong has created with the hope that they may be able to help them into the 21st century.