

BUSINESS SUNDAY

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Anatomy of a credit crisis, from subprime to prime time

BY SAM ALI
 STAR-LEDGER STAFF

Anyone who lived through the dot-com bust of 2000 knows that when really big bubbles pop, the sticky goo tends to fly everywhere.

Seven years ago, stock investors had to mop up their mess; today, it's the debt and credit markets.

Years of low interest rates and easy access to cheap money are the culprits behind the housing market's boom and bust, which has battered cash-strapped borrowers, led to record defaults on so-called "subprime" mortgages, and rolled financial markets, experts agree.

And now? It's clean-up-the-goo time.

Steven Roach, chief investment strategist for Morgan Stanley, believes there are striking parallels between the dot-com crash and subprime mortgage meltdown. Both were the proverbial needles that ultimately popped much larger "asset bubbles," Roach said.

When the stock market bubble burst in 2000, a handful of Internet stocks were the first to go down. But pretty soon, the carnage widened from the tech-heavy Nasdaq stock market to the broader markets, and before long the rest of the economy was caught in the mudslide.

"This time, it's the U.S. housing bubble that has burst," Roach said, "and the immediate repercussions have been concentrated in a relatively small segment of

that market — subprime mortgage debt."

But as the stock market's recent craziness makes clear, the problem is a lot bigger than a handful of risky subprime mortgages gone bad.

Despite assurances from Federal Reserve Chief Ben Bernanke that the subprime mess would not spread, experts say the current global financial turmoil is no longer just a subprime issue confined to a narrow corner of the U.S. mortgage market.

This past week, central bankers around the world infused billions of dollars into the banking system in order to make cash available for lending and restore confidence in the markets. And in a

surprise move Friday, the Federal Reserve approved a half-percentage point cut in its discount rate on loans to banks.

For the time being, the abyss down which Wall Street bankers and investors had been peering so tremulously appears to have narrowed.

Now, the riddle facing Wall Street is: What happens next?

"The Federal Reserve's move (Friday) is partially intended to address that psychological issue," said Peter Morici, a professor at the University of Maryland School of Business and former chief economist at the U.S. International Trade Commission. "If markets fail to respond positively . . . and hold those gains

Behind the tremors

The credit crisis has caused breathtaking volatility on Wall Street that is expected to continue for weeks, if not months. Here's everything an investor needs to know to understand the problem — and ride out the turbulence. **Business 101, Page 4**

through next week, the economy will be in a crisis of confidence that is truly threatening to our prosperity."

Although the Dow on Friday surged 233 points, or 1.8 percent, to 13,079, it is [See **CREDIT**, Page 5]

Science, teamwork, hope



For the scientists at Wyeth's research building in South Brunswick, working on a cure for Alzheimer's disease is a group mission.

Lured by prospect of a cure, Wyeth toils on drugs that fight Alzheimer's

BY SUSAN TODD
 STAR-LEDGER STAFF

The clipboard hanging on the door outside Lab 1403 in Wyeth's neuroscience research building in central New Jersey said a lot about the company's quest to find a cure for Alzheimer's disease.

Holding a crude sign-up sheet, the clipboard went up in April as scientists were preparing to test a promising molecule in animals to see if it would shrink amyloid plaque, one of the hallmarks of the devastating illness. The compound was the latest in a steady stream of prospects for attacking Alzheimer's, another shot at success for the big pharmaceutical company.

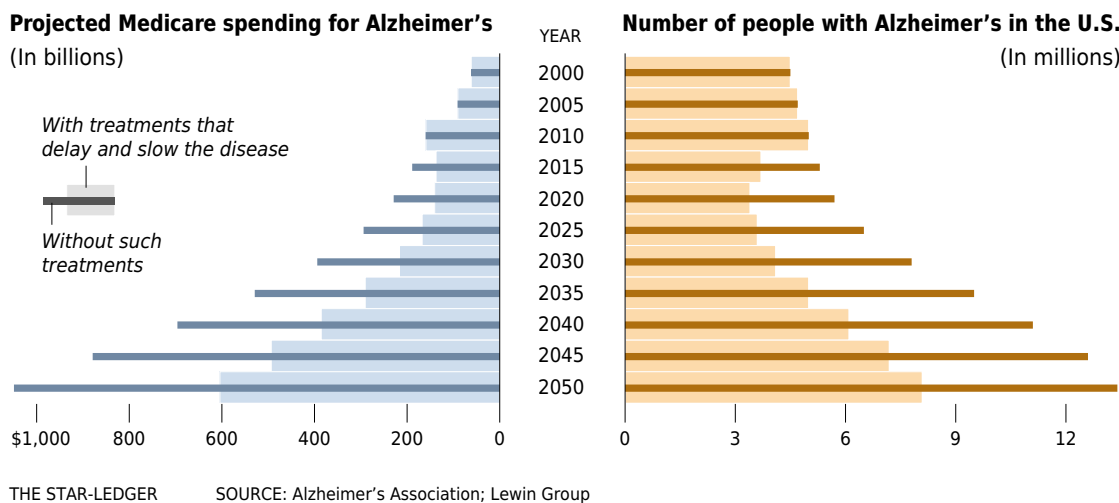
But drug development rarely proceeds without a hitch, and it didn't take long for Peter Reinhart, a senior scientist responsible for shepherding experimental drugs, to hear about the latest snag: A staffing shortage in the animal quarters would postpone his team's experiment for six crucial months.

Reinhart was determined to keep the project moving, so he gathered his scientists for a brainstorming session. To get around the staffing crunch, perhaps they could administer the drug with Kool-Aid. Or perhaps they could recruit help from other parts of the building.

After a flurry of e-mails, the clipboard was posted and employees began signing up to help carry out the animal tests. Executives, biologists, chemists, technicians — everyone, it seemed, offered to help fill [See **WYETH**, Page 3]

The cost of Alzheimer's

As the population ages, the number of Americans suffering from Alzheimer's disease is projected to nearly triple, adding billions to Medicare spending on the disease. Treatments that delay the onset of the disease and slow its progression could trim those numbers.



Peter Reinhart, formerly a professor, joined Wyeth three years ago to help with its Alzheimer's treatments: "I thought you could actually make things happen here."

MONEY TIP

The three-month guide to better budgeting

Here's a three-month budgeting plan for reducing overspending, freeing up money for savings and building up cash reserves:

Month 1: Add up your salary and any other money you've received in the past year.

Month 2: Calculate what percentage of your income goes to each of your expenditures, from groceries to commuting costs. Ideally, you want to allocate no more than 65 percent of your pay for regular monthly expenses. Allow 20 percent for occasional outlays and put an additional 10 percent away for irregular expenses.

Month 3: Re-evaluate your income and expenses, and make changes so you can live on your budget. Once you've created a budget and conquered debt problems, start saving a fixed amount each month.

— Marshall Loeb/MarketWatch



SCORECARD

HIGH: MARK HURD

A lawsuit by reporters and their families whose private telephone records were secretly obtained as part of Hewlett-Packard's boardroom spying scheme can't take the shine off the technology giant's recent earnings report. Third-quarter sales and profit easily beat Wall Street expectations.



LOW: ROBERT ECKERT

By putting the Mattel brand on its toys, the giant toy maker was telling us its products were of the best quality. But Mattel's second recall of some toys is making the company seem more like a distributor of Chinese-made products. The safety of our children is nothing to be toyed with.

