

Quarterly Magazine of Nyenroodiaanse Handelsvereniging
De Zilveren Rijder

Den Silvervloot



Economic Winter



Vol. 1, Year 13



The XIIIth Board of *De Zilveren Rijder*

C O L O F O N

EDITED BY

Nijenroodiaanse Handelsvereniging 'De Zilveren Rijder'

Straatweg 25

3621 BG Breukelen

The Netherlands

www.dezilverenrijder.nl

dezilverenrijder@nyenrode.nl

WITH SPECIAL THANKS TO

Prof. dr. Haico Ebbers, Prof. dr. Eric Melse, Sabri Riahi

Index



3

Roy Poeze
TIMES CHANGE

Other

17 Humor

4

Jasper van Loon
CHAIRMAN'S WORD

5

Oscar Maaswinkel
FUND UPDATE

6

Thomas Paardekooper
FUND MANAGERS

8

Patty Koot
WHAT IS TO COME

9

Prof. dr. Haico Ebbers
*THE US-CHINA
TRADE IMBALANCE*



12

Dr. Eric Melse MBA
INTERVIEW



T I M E S C H A N G E

Dear wealthy reader,

The previous Zilveren Rijder board integrated the finance committee 'Fiduciair' and Theo Schilder as Commissioner Fiduciair resurrected Den Silvervloot. As his successor, it is an honor and a challenge to take over the responsibility for this quarterly magazine.

It is now our duty to continue on this resurrected path. Just as the economic environment changes, De Zilveren Rijder and Den Silvervloot will also change and get a rejuvenated look and feel. An example of this rejuvenation is shown below¹. I am looking forward to work on the next edition of Den Silvervloot. For now, enjoy reading this issue.



D E Z I L V E R E N R I J D E R

Roy Poeze
Commissioner Fiduciair

1: Designed by Sabri Riahi

Ter Zake!

CHAIRMAN'S WORD

Wealthy member,

In front of you lies the first edition of 'Den Silvervloot' 2009. For me, the first chairman's word is an opportunity to give a short impression of our goals for the coming year as the XIIIth Board of 'De Zilveren Rijder' and our accomplishments so far.

For the coming year we strive to continue the successful path of last year and develop the Nijenrodiaanse Handelsvereniging 'De Zilveren Rijder' even further into the leading student investment association in the Netherlands. We will organize several attractive activities to create a learning environment for students and shareholders regarding the exciting world of investments. In the first few months as the new board the course to success is set out based on our core values of Friendship, Wealth and Trust. Although the economic conditions are appalling, we promise you great activities with a fascinating peak in the third quarter.

Last year the worldwide stock markets showed a strong overall downward movement. Nevertheless, the previous board managed to create an excess return on their portfolio compared to the market. Concerning 'De Rijders' our goal is, as every year, to outperform the AEX with a great return. Therefore we selected a group of five potential Warren Buffets who deserved the trust to analyze our portfolio and give advice on how to increase the wealth of all investors. Together with them we're looking forward to the coming months, which will be dominated by recovery of the financial markets and exceptional investments opportunities.

At the day I'm writing this word the AEX went through the critical value of 218, due to the release of the USA Treasury's bank rescue plan. Nowadays, it seems, every time Mr Geithner opens his mouth the stock markets head in the right direction. So, we encourage Mr Geithner to keep shouting from across the ocean. Besides that, there is a package of measures for suppression of the economic crisis from the Dutch government coming up. Another two actions to believe that an interesting year lies ahead of us!

To end with, I would like to thank all the people who contributed to this edition of 'Den Silvervloot' and our new team of fund managers and analysts for their efforts and their advice.

Jasper van Loon
Chairman

Ter Zake!

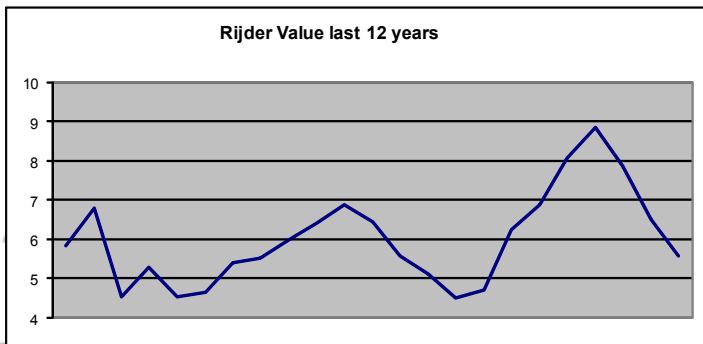
FUND UPDATE

The XIIIth board of De Zilveren Rijder has started off in a period with a lot of uncertainty. The previous board has done a terrific job in minimizing the losses last year. With the uncertainty in the market it is difficult to predict when the market will turn around. With the help of our new group “De Club van Vijf” we hope to seek for opportunities and hopefully improve the value of the “Rijder” again.

The first thing we did the last couple of months is analyzing our current portfolio. We did not look at the price at which we bought the stocks, but we looked at their potential in the future. Our goal is to have a well diversified portfolio with stocks in all different sectors of the market. Eventually we sold off stocks that were not adding any value to the portfolio.

Our next step is to seek for the right moment to step in and buy new stocks. This is of course the most difficult choice we have to make. At this moment the volatility in the market is still too high. But we hope that in the near future the market will stabilize and we can buy stocks without taking too much risk.

The value of the “Rijders” has dropped significantly just like the AEX. This is due to the fact that we have ING and AEGON in our portfolio. The value of the “Rijder” is currently worth €5,58, which is pretty low. The AEX dropped over 21% the first couple of months of the year and the “Rijder” dropped 14%. So we are still doing better than the market. I do think we are on our way to better times and that we have a good foundation to build on. Hopefully this will result in growth of the value of the “Rijder” in the near future.



Oscar Maaswinkel
Treasurer

Ter Zake!

FUND MANAGERS

This year the Zilveren Rijder wanted to have a small and select group of highly motivated and experienced fund managers. After the selection we formed the “Club van Vijf”. Let me first introduce them to you:



From left to right and top down:

Technical Analyst:	Michel Neer
Fund Managers:	Erik Hoekman
	Art van Olst
	Roel Koppes
	Roderik van de Kolk

With these fund managers and our technical analyst we closely follow developments in the market, analyze the wealthy portfolio of the Zilveren Rijder and advise to buy or sell stocks. To do this in an effective way we split up the market and made a distinction between ten different industries. Every fund manager has selected two of those categories to pay close attention to.

In order to obtain a great insight of our inherited portfolio we made an standard format for our analysis of each stock in our portfolio and keep it up to date on a weekly basis. Therefore we meet every once a week to discuss and analyze the current market/stock conditions.

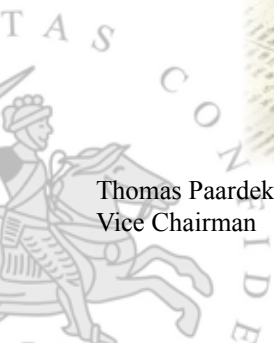
The time has come that the first indications for a bull-market are in the near future. This enables us the coming year to make use of this great opportunity. The strategy of last year was to survive in a bear-market and most money was either invested in strong and stable stocks or was kept cash. This year our strategy will be contrary due to changing market developments. The market is showing indications for the rock bottom. Therefore, to benefit most from the cash we stocked last year we will invest it wisely in healthy companies that have a adequate upwards potential.

Yet we still haven't bought new stocks due to the high uncertainty and volatility, but we are making a selection of stocks to buy when the time is more favorable. Our strategy on the short term is to buy good stocks in small parts during the coming months to create high return on the long term. The fund managers and I are confident that we will outperform the AEX again this year and get an ultimate high return!



Thomas Paardekooper
Vice Chairman

Ter Zake!



WHAT IS TO COME

With more financial pain in store, 2009 is set to be a challenge. Although the outlook for the coming year concerning the stock exchange market is perhaps not what we hoped it would be, we need to adjust to the rapid changes and learn from the crisis. As Robert Frost stated 'In three words I can sum up everything I've learned about life:

"It goes on".

This spirit is exactly the drive of 'De Zilveren Rijder' in which we want to give all students at Universiteit Nyenrode a chance to have a first experience with the dynamic investment world.

Whether you favor cash, bonds or in our case stick with the stock markets, investing this year will carry a risk. You could end up missing out on a recovery if you play it too safe, in case of speculation there's a danger you will lose more money.

De Zilveren Rijder will elaborate on these changes and developments by organizing many existing activities related to the stock exchange market. Therefore, we are proud to announce that we will plan a master class by one of the leading independent global arbitrage groups 'Optiver'. A company who has been trading over 40 exchanges and is still growing. Moreover, the business game by ABN-AMRO will also be a big challenge for all MSc17 students.

Other activities in 2009 include an old stock exchange tradition of NYSE Euronext, in which we are invited to sound the opening bell to mark the opening and closing of the trading session in Europe.

This year we will make sure that everyone will get hands-on experience on investment through our activities. So give yourself a good kick-off and feel the adrenaline from investing and the discipline of fundamental analysis!

Patty Koot
Commissioner Events



Ter Zake!

US - CHINA TRADE IMBALANCE

C O L U M N



prof. dr. Haico
Ebbers

Most economists are very worried about the effect of the US trade deficit. It is believed that the increase in foreign debt to finance the trade deficit cannot go on forever. If the Americans do not begin reducing their deficit, there will come a time when foreigners will become less willing to hold dollar denominated assets. This in turn will weaken the US dollar. As a result, the United States (and the other countries in the world) will be forced to increase interest to continue to attract foreign capital. Consequently, higher interest rates in turn will push the (world) economy into recession. This increase in interest rates is particular a problem if there is an economic recession as we have today.

The absolute figure of the US trade deficit is above imagination and even as percentage of GDP very high. But, the trade deficit came down in the previous months due to lower oil prices

and lower imports in the course of the sharp economic slowdown. Despite lower exports, the gap between the value of imports and exports narrowed to about \$40 billion in December 2008.

The economic recession and lower oil prices may continue for some time, but if nothing changes with respect to the American consumption and saving habits, the trade deficit will grow again. The trade deficit with China was \$23 billion in December 2008 and accounted for almost 60% of the total trade deficit.

In today's financial and economic crisis, Keynesian policy with its emphasis on demand for domestically produced products is back in fashion. A consequence is that the US trade deficit is seen as a Keynesian problem: countries that exporting demand (i.e. trade deficit countries) are not so eager to do this any more. Anything that brings imports closer into balance with exports is likely to have a demand-enhancing impact; in this way creating higher demand. The same can be done through fiscal expansion, but in that case the government creates a fiscal debt.



From 2004 onwards, there are negotiations between the two countries to solve this trade imbalance. But little progress is made, even after China implemented a floating exchange rate system in the Summer of 2005. Despite a relatively small appreciation of the Chinese currency, the US bilateral trade deficit increased further and now and then there are first signs that it could escalate into a trade war.

There is consensus among economist that in the long term, the US-China

trade imbalance will be solved. Due to its increase in welfare, Chinese citizens will grow richer and domestic consumption will rise. As a result import will increase creating a more balanced balance of payment. But be aware of the fact that there is still the issue of US debt and related to this, the heavy interest burden. While in the long run, the bilateral trade imbalance may disappear, there is a lot of tensions today on this issue. The discussion is centered around the issue of unfair competition.

China has been blamed for contributing to the growing US trade deficit by continuing to support its export sector through unfair practise such as the artificially low yuan and direct government support to export oriented companies. In particular in today's recession the negative effects of the trade

deficit with China was highlighted again during the previous months. The new US president Obama is under pressure to discuss a future appreciation of the Chinese currency with president Hu Jintao during the G20 meeting in London on April 2. As indicated earlier in this article, the hypothesis behind this is that the trade deficit with China is hurting US jobs and manufacturing and that consequently, an apprecia-

"It has been calculated that 10 percent of the US trade deficit with China is attributed to Wal-Mart."

-tion of the yuan will help the US economy.

However, I do not share this view that its trade deficit with China is extremely negative for domestic production. I will built my argument on two pillars. Firstly, the trade discussion is blurred by the fact that we focus too much on national borders. Secondly, the trade discussion is emphasizing the value of the product instead of the money flow associated with it.

First, the national border argument. It has been calculated that 10 percent of trade deficit of the US with China is attributed to Wal-Mart. Low production costs in China is essential for Wal-Mart's low price strategy in the US. Most of its Chinese production is exported to the home country. If Wal-Mart would be a country, it would rank in the top 10 of China's main trading partners. Statistically, export from China is measured as Chinese ports,

but clearly it is produced by an American company in China. Clearly, in today's world, export is driven by location decisions of multinational enterprises. In 2007, more than 60% of all Chinese exports were from foreign affiliates in China. The example of Wal-Mart makes clear that the focus on export from China is one sided. There are many advantages for the US economy related to this Chinese export. Prices for the American consumers are much lower than what they would be otherwise and also there are profit flows from American companies in China back to the home country. An increase in the value of the yuan would also hurt the American economy.

Secondly, a word of warning is needed if one focus too much on the value of Chinese export to the US. A large share of China's export consists of imported components and materials. In most cases only the assembling is done in China. Assume that a product from China is entering the US at a price of 100 US\$, but that the total value added (the assembly) in China is only 10US\$. The rest are the expensive components which are imported from the United States and used in the production process in China. The focus of today's discussion is on China's export of 100, but in that case we miss the positive spill over effects for the American industry.

The bilateral trade deficit discussion in the United States is therefore a bit one sided. Consequently, an appreciation of the yuan will not only have advantages for the US economy, but will also affect the US economy, the US consumer and companies such as Wal-Mart negatively.

Prof. Dr. Haico Ebbers, chairman Europe China Institute of Nyenrode Business University



Ter Zake



INTERVIEW WITH ERIC MELSE



dr. Eric Melse
MBA
MSc. Program
Director

How did you end up in Nyenrode?

I did my PhD. at Universiteit Maastricht but I was not affiliated as a student there. I have a career in business, in my last job I was responsible for the ICT department and managing a group of 25 persons. Before that in my whole career I have been active in management and management of ICT. I always was interested in the added value of ICT for managers and business in general. Out of that interest I also have developed an academic interest over the years and in one of my former functions as a KPMG consultant we were encouraged to be active as a teacher in various courses and we were able to develop our own courses. I have been active for a long time in the post-graduate programs. I've also been lecturing at various Universities and Higher Education Schools.

I have always seen myself as someone with a scientific academic interest and felt that in the latter part of my career the step from business to

Academia was a viable thing to do, hence my PhD. research to make this possible. Besides all this, I always was involved in various methodologies to deal with data analysis and data visualization. Our current Dean Prof. de Groot also worked at Randstad in 2000 and he knew about my skills and interests, so he approached me. If I would be interested to join Nyenrode with a particular emphasis on bringing this data analysis tools and methods into our curriculum. So this is where I started.

What goals have you set as the new Program Director of the MSc.?

It is not so much about what I want, it is more reflecting on the status of the program as such and listening very carefully to the various stakeholders. To start with the students. That is where I like to get my inspiration from. Then of course the faculty. Their ideas about where we are and where we possibly should go. Also important is the market in general. What is higher education in management science aiming at in the business world and what are companies looking for? It is a dynamic world like anything else in the economy. What are the expectations from students who graduate from institutions like Nyenrode. It all changes rather quickly these days.

We are in an extremely good position nowadays to increase our value added in the program. When you are in the middle of the program both as a student as well as faculty, you tend to look at things that are not possibly going all that good. You see people more talking about things they don't like and feel disappointed about compared to what is going right and what we can be proud of. I think the problems on a whole can be dealt with quickly. There are many good things, the Nyenrode MSc. still ranks first among students in the Netherlands.

I personally think that the demands of industry and commerce these days are much more increasing and students need to be much more agile in their ability to deal with these things. So from my perspective, I see lots of opportunities to improve the program and make it a more exciting experience. My long term ambition, if I have one, would be to see our population of students grow and I certainly would like to see the overall experience enhance which results in writing a thesis of high quality.

The overall idea is that everybody performs at their best of capabilities and that they are able to grow their competencies to a higher level. Of course it is important that the students get a good job after graduations soon. The demands in the market are changing, certainly with the credit crunch crisis.

Companies will be even more critical about their new employees, so we really need to bolster ourselves up to meet those demands.

About your PhD. Could you explain the key of triple entry-bookkeeping and Momentum Accounting?

There are basically 2 main objectives. The first one is to extend the current financial accounting system which has two dimensions. The first one accounts for wealth which is reported on the balance sheet and the second one for the change of wealth is typically reported in the income statement.

To extend this system, a third dimension called momentum or force is introduced. This dimension is basically to account for the rate of new wealth creation. It sounds a bit cryptically, but you could say that triple-entry bookkeeping is the administrative system that allows you to report at any point in time how fast the company is moving towards profitability.

It ties into a whole spectrum of changing reporting requirements in the business world. Due to ICT and the ever increasing pace of business processes, managers want to have much more data on a timely basis on the one hand but possibly also on the near future with forward looking data. That puts financial accounting in a somewhat problematic position because it does not look into the future.

Now there is an American accounting professor Yuji Ijiri who designed the third dimension on top of the first two to administer for everything that can say anything about future events.

A good example would be a lease contract. If a company signs a lease contract, it is committing expenses for the next couple of years. So that is a future expense you can account for today and you can substantiate the evidence by the lease contract. In that sense, the future is already written. For income you also can have a similar example. A service contract, if you sell products that are being serviced and generates income for a certain time period, you have some certainty about the future cash inflow. So to say a transaction that has expired today but has a bearing the future. Triple-entry accounting is trying to administer that.

Once you have this information you can account the rate of change in a momentum accounting document that will allow the user to make a distinction between expected income which is caused by management actions in the past and compare that from information about expected income that is created by new actions by management today. And that will be tied in the salary framework. So when you decide on a bonus for a manager, you don't only look at realized income but you also look at realized momentum for future income.

To sum it all up in 2 lines, it is a system of accounting that records information of possible future events and it's use is to be able to look into the dynamics of the company and see what actions are undertaken by management and align a proper bonus system.

Could this momentum accounting be a good analysis tool in analyzing the current situation?

Well, it is a big leap from what I have done in my PhD. research to the credit crisis and the effects it had in the finance industry. What I have found in my investigation of Lehman Brothers is that the momentum accounting ratio can give a signal that something is going astray ahead of time and compare that signal to the other classic accounting ratios and see if it makes a difference. To my surprise it actually does.

If you look at the graphical examples which are published on the Nyenrode website you can observe that it is possible to predict two years ahead of today at least the momentum of Lehman Brothers was at a very low level and stable and that is a very strong signal that something has changed in the business model of Lehman Brothers. Compared to the results before it is actually dramatic how low it is. So my cigar box conclusion is that momentum accounting possibly indeed can be a useful additional indicator to inspect the state of the company.

If you compare momentum accounting with car driving the balance sheet is the odometer where you count the mileage, whereas the day meter is the profit and loss statement, but you don't know your speed and that is what momentum accounting shows. Lehman Brothers was driving at almost zero miles per hour for a period of three years before this credit crisis really started hitting the financial markets. But we cannot generalize this example to the whole industry or other companies. It takes a lot more research before we dare to draw such a conclusion. However, in my research I have investigated all the thirty component companies of the Dow Jones Index and it is quite remarkable to observe that for about 85% to 90% of these companies, I can predict their momentum for net wealth quite accurately and I even was able to forecast a trend in the Dow Jones Index itself using this momentum accounting model. I am not sure it will fly in the current market, the whole market is in turmoil. Momentum accounting certainly is an interesting subject for follow up research. Possibly De Zilveren Rijder members are interested in that and if anyone of you guys are interested, feel free to invite me for some participation.

For more information about the research of Eric Melse, read his article on the Nyenrode website or read/download his dissertation: Accounting for Trends from <http://arno.unimaas.nl/show.cgi?fid=13093>

Did you foresee the current Crisis?

I would be arrogant to say that I foresaw this crisis. To be honest, my focus was completely on finishing my PhD. degree. But nevertheless, I think that basically everybody could have known about the risks building up in the financial markets. I remember a front-page article in Elsevier Magazine that was dealing with the intrinsic weaknesses of the American economy, the way America finances its lifestyle. But that's not news.

Everybody knew that there was hanging something above all our heads. You must be very ignorant, especially when you are in business, not knowing that there are rather large risks in the whole structure. When an institution like Lehman Brothers goes down it has implication for banks in Europe. What I think is that most people just turned their back to the problem and just hoping and betting that it wouldn't occur in their lifetime. Which is also of course a rather naïve position to be in. I just recall a famous stock investor, George Soros. Three years ago he publicly announced that he was going to move all his invested capital away from the American Economy and invest it in Europe and Asia because he felt that the American economy was heading for a wall to hit somewhere in the near future.

What impact will not helping the American Car industry have on the current situation?

Here in the Netherlands we always raise our little finger, we know best! Can we condemn hundreds of thousands people to be laid off on a wink? Again there is a moral dilemma. From a purely business economic perspective I think that the American car industry is basically a dying dinosaur.

They had all the opportunities and even all the technology to change that. The problem is larger.

They fought Kyoto eight years ago and had they agreed with those policies then they would have been in a really different position. Then they would have less energy consumption. The landscape would have been very different.

Are we to save those people who have been neglecting the signs for change? That is hard for me to judge, but from a business perspective I would not put any more money in their system. Maybe the government should intervene to do something with all this labor force that will be laid off and use it on a different avenue to the future. There are a lot of voices that say that out of this car industry crash, new car industries will develop rather quickly. The American spirit is very strong. If they put their minds to it, they can survive and probably bypass anything else. Start building windmills and that kind of stuff.

How long do you think this crisis will last?

If I knew, I would get very rich of course. I am just a news paper reader and I watch the news, just like everyone else. What is most important that we don't start to panic. Second thing is there is a lot of soul searching going on at an institutional level, which is very good.

"The American spirit is strong."

Behind closed doors people are working very hard to solve all the

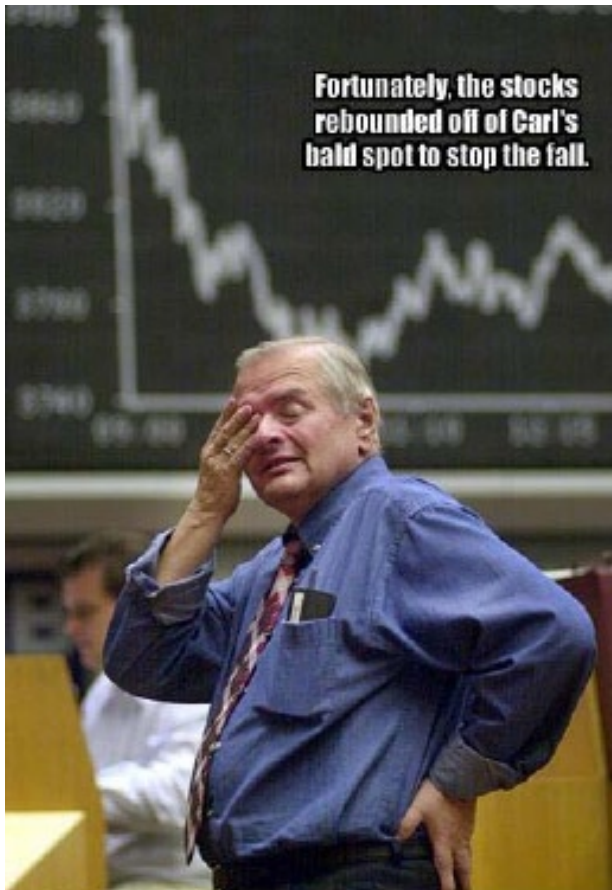
problems and when they are solved, things will start to turn. It will take some more time, that's obvious.

Will this crisis change the world in the way we do business concerning corporate governance and tackling incentive problems?

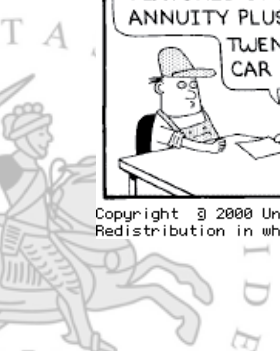
I certainly do hope so. An individual investor must make up his or her mind where to put their money. It is different at the institutional level when you are dealing with the banks that service the public at large. It is really challenging for any regulatory body to audit and when they think there is something wrong: act! Because any act will be translated as a signal for trouble and then you can have a stampede and have a crisis again. So that is a really a large dilemma. Probably the economist who will solve this problem will win the Nobel prize. So I think we will be living with this dilemma for some time to come.

Interviewed at the 15th of December 2008.

HUMOR



Copyright © 2000 United Feature Syndicate, Inc.
Redistribution in whole or in part prohibited





ECONOMY

The spirit must stay strong.

Your Add could be here!

dezilverenrijder@nyenrode.nl

superstock.com



*Nyenrodiaanse Handelsvereniging De Zilveren Ridder
Straatweg 25
3621 BG Breukelen*

