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MARKET WATCH

GRETCHEN MORGENSON

Freddie Mac: Sounds Of Silence

ANGRY shareholders have flexed their muscles in recent months at **Disney, Safeway** and **Hewlett-Packard**. So why the radio silence leading up to the annual shareholders meeting of **Freddie Mac,** the mortgage giant, this Wednesday? It is not as if things have gone swimmingly at Freddie Mac lately.

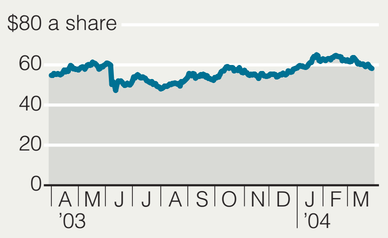
Accounting improprieties beginning in 2000 led Freddie Mac to restate by $5 billion its financial results for that year, 2001 and the first three quarters of 2002. Two former chief executives at the company were defenestrated during three months last year and two investigations concluded that Freddie Mac flouted accounting rules and disclosure standards to smooth earnings growth. The company is still late in its financial reporting.

You would think that shareholders would be howling for the heads of the Freddie Mac directors who were snoring in the boardroom. Instead, the stockholders seem to be the dogs that do not bark.

Gregory P. Taxin, chief executive of Glass Lewis & Company, an institutional advisory firm in San Francisco, says he is puzzled by the apparent lack of outrage from Freddie Mac shareholders. "This is another situation where the deficiencies in the corporate democracy system are quite evident," he said. "This is a board that flubbed it horribly over the last 12 months, and yet they will all be re-elected, maybe with little protest."

Steady Freddie Stock

The stock price of Freddie Mac has changed little from its level a year ago.



Source: Bloomberg Financial Markets

The New York Times

An investigation into Freddie Mac's practices by the Office of Federal Housing Enterprise Oversight, the federal agency that oversees it, was scathing about the board's performance.

Thirteen directors are on the ballot at Freddie Mac, including Richard F. Syron, the company's new chairman and chief executive. Glass Lewis is advising Freddie Mac shareholders to withhold votes from 10 directors who served on the company's board when its oversight was lax.

FOUR of the directors standing for re-election have served recently on Freddie Mac's audit committee, which can certainly be said to have failed in its duties. These directors are Michelle Engler, a lawyer and trustee of JNL Investor Series Trust, an investment company; Shaun F. O'Malley, a former chairman of Price Waterhouse, the accounting firm; Ronald F. Poe, president of a private real estate investment firm; and William J. Turner, founder of Signature Capital Inc., a venture capital firm. If re-elected, all will continue to serve on the audit committee at Freddie Mac. None of them returned phone calls seeking comment.

That directors of Freddie Mac, who failed rather spectacularly in their responsibility to shareholders, would not take themselves out of the running for re-election simply shows that shame is not a dominant gene in corporate America's DNA.

Michael L. Cosgrove, a Freddie Mac spokesman, confirmed that the company had received no shareholder proposals nominating new directors. He defended the board, saying: "I think the board, when it became apparent there were problems, took assertive action."

Major mutual fund companies are among the biggest shareholders of Freddie Mac. The **Capital Research and Management** Company, investment adviser to the American Funds Group, owns 5.8 percent. **Putnam Investment Management** owns 3.6 percent, and **Fidelity Management and Research** holds 2.6 percent. Investors who own shares of funds run by these companies should watch how they vote on Wednesday.

"There seem to be some pockets of change in corporate America, but some things haven't even come close to changing," said Bill Fleckenstein, head of Fleckenstein Capital in Seattle. "How could you be on the board? How could you be sound asleep through all this?"

But, Mr. Fleckenstein blames inert shareholders, too, if they don't kick out the directors. "Is this a case of corporate arrogance or shareholder stupidity?" he asked. "I could argue either side." □

Is Trump Headed for a Fall?

Daniel Adel

His Casinos Face The Prospect Of Bankruptcy

By TIMOTHY L. O'BRIEN and ERIC DASH

IT was another stupendous week for that pop culture sensation, Donald J. Trump. On Thursday, his hit reality television show, "The Apprentice," continued to rack up huge ratings as it neared its nail-biting conclusion. Two days earlier, immediately after its release, his slight new book, "How to Get Rich," popped up to 10th place on the best-seller list of Amazon.com, offering students of wealth invaluable nuggets like Business Rule No. 1: "If you don't tell people about your success, they probably won't know about it."

Mr. Trump, of course, has never been shy about discussing his own success. In an interview, he boasted that "in prime-time television, I'm the highest-paid person."

More than Oprah? "Oprah's not prime time," he shot back.

More than Larry King? "Yeah, and Larry King is cable."

More than the "Friends" cast? Well, collectively, no, he acknowledged. But individually, yes.

Mr. Trump's young television apprentices spent last Thursday evening in what he described then as "the No. 1 hotel" in Atlantic City, the Trump Taj Mahal, vying to lure gamblers into the casino.

In reality, the Taj Mahal needs all the help it can get — as does the rest of Mr. Trump's increasingly troubled gambling empire. His casino holdings are mired in nearly $2 billion of bond debt that they are struggling to repay. They are aging and overshadowed by flashier competitors, and their revenue and profits have been slumping over the last year.

While the winner of "The Apprentice" will get the "dream job of a lifetime" — a year at Mr. Trump's feet, absorbing even more of his business expertise — the master himself now faces an unwieldy group of investors

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A Kerry Team, A Clinton Touch

By LOUIS UCHITELLE

THEY are a motley team, the four members of John Kerry's war room for economic policy.

Remember Roger C. Altman, the high-ranking Treasury official in the early Clinton years, forced out for being too loyal to his boss in the Whitewater investigation? He is one of them. Gene Sperling, a White House insider in all eight Clinton years, is another. Then there are two less-known 30-somethings: Jason Furman, a Harvard-trained economist, hired so recently that he is still working out of his Greenwich Village apartment, and Sarah Bianchi, who was Al Gore's policy adviser in 2000 and is now Mr. Kerry's. Both got their start in the Clinton White House, as young aides barely out of college.

The four are rapidly developing specific proposals to flesh out Mr. Kerry's still-general thrusts into economics. They are also constructing a galaxy of advisers — one that stretches from Wall Street to the A.F.L.-C.I.O. — who vet the proposals and often contribute to them.

The war room's handiwork is evident in Mr. Kerry's first big economic plank: his pledge in a speech on Friday to no longer allow American companies to defer income tax payments on profits earned abroad. The goal is to eliminate an incentive to send jobs overseas.

What is striking about the candidate's economics team is that all of its members — not to mention nearly every adviser they are reaching out to — served the Clinton administration in one way or another. Does that mean Kerry economics will be Clinton redux?

Ask the four team members that question and they hesitate. The challenges are different, they say. Job creation is a much more crucial issue than it was in Clinton's day, particularly the big decline in manufacturing jobs during the Bush years and the growing tendency to send sophisticated work abroad.

"Differing economic circumstances rightly bring out different

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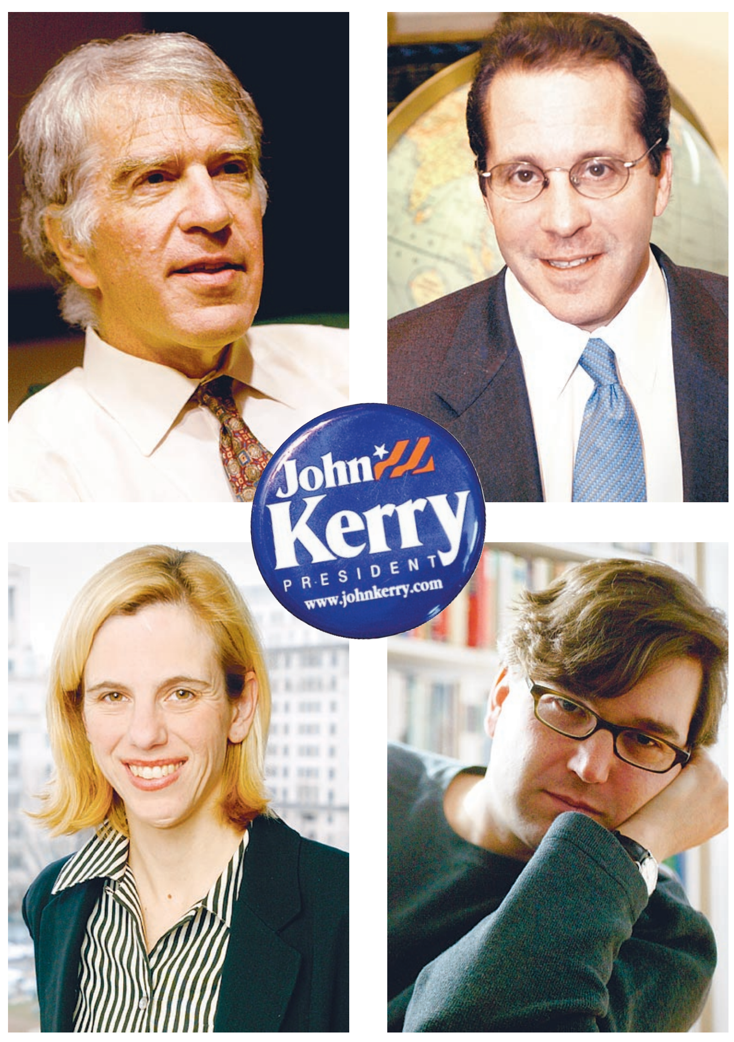

The top economic advisers for Senator John Kerry's presidential campaign all come out of the Clinton administration, and they have drawn from that experience in fleshing out Mr. Kerry's plans. They are, clockwise from upper left, Roger C. Altman, Gene Sperling, Jason Furman and Sarah Bianchi.

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