FACE-OFF

CITIGROUP

*With a new CEO in place and with its stock down 45% this year, **Citigroup (C, $29)** is a big question mark. We asked two fund managers with opposing views to weigh in on what's in store for the nation's largest bank and its stock.* **BY DAVID H. ELLIS**

BULL. We own shares of Citigroup, and we think the outlook is good. All these noncash charges are hitting earnings now. In our opinion, who cares? Sooner or later the securities they are writing down will find a price, they will get valued correctly, and these charges will have to be reversed.

Vikram Pandit is a talented executive and has potential. The decision to bring the $49 billion from the SIVs onto the balance sheet was a huge positive—it creates transparency—and a very decisive move by Pandit. I'm quickly becoming a fan.

We think they need to get rid of at least another 45,000 people to bring the company more in line with other banks in revenue per employee. You could probably spin off the wealth-management division right now and get full valuation, because that business is on fire. Once this stress passes and the credit markets return to normal, Citi's intrinsic value is in the 60s.

WILLIAM B. SMITH

Senior Portfolio Manager
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BEAR. Investors who hope that all the bad news will be out in the open by the time Citigroup announces fourth-quarter numbers in a few weeks will be disappointed. We believe write-downs, losses, and loan-provisioning building will continue well into 2008.

Its recent decision to move $49 billion from its seven structured investment vehicles, or SIVs, onto its balance sheet increases the size of the write-offs that Citigroup will have to take in the fourth quarter and puts more pressure on Citigroup to cut its dividend or switch to a stock dividend vs. cash. We expect to see the dividend cut significantly but not to zero.

With regard to the sale of $7.5 billion worth of interest-paying equity units to the Abu Dhabi Investment Authority, I'm sure Citi looked at all the options and this was the quickest and most palatable. But you have to wonder why Citi ended up having to pay such a high rate [11%] on the units.

JAMES ELLMAN

President
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