Meredith Whitney Scares Us All -- Again

Posted by: Ben Steverman on May 20 BusinessWeek

The credit crisis made Oppenheimer (OPY) analyst Meredith Whitney a star. Today demonstrated she's still a force to be reckoned with.

Last fall, as credit markets froze up and big banks reported huge, unexpected losses, Wall Street had a credibility problem: Its fancy securitized products were self-destructing. Into that credibility vacuum stepped Whitney, the loudest of the analysts predicting disaster for Citigroup (C) and other financial giants.

Now, however, many believe the financial crisis is easing. Financial stocks have bounced back from the Bear Stearns (BSC) debacle.

Others might be optimistic, but Whitney hasn't changed her tune. Today she released another gloomy prediction on the financial sector: "We believe the current credit crisis is far from over," she wrote. "In fact, we believe that what lies ahead will be worse than what is behind us."

The culprit, she says, is the breakdown in the securitization market, which ultimately will cause huge losses for banks on consumer loans. Large banks were hit with $70 billion in losses since July, but she thinks more than $170 billion in losses could be coming. The credit crisis could extend through 2009 and beyond, she said.

Pessimists like Ian Cooper saw the report as confirmation that market bulls have gotten ahead of themselves recently.

But let's hope Whitney is wrong. She's predicting some very tough times ahead for a large portion of the U.S. stock market.

And, yes, Whitney could be wrong: Just because someone was right in the past doesn't mean she'll be right in the future. After so much success predicting the worse, Whitney might be losing her ability to look on the bright side of things. Maybe the banking industry will catch some breaks, like a strong economic recovery.

And yet the market still certainly listens when Whitney speaks. On the day her report was released, banking stocks fell 3.6%.

That's the kind of power you wield when you've earned investors' trust.