

Two Chefs, Two Recipes

In honor of the plethora of cooking shows on television, let us contemplate the master chefs of the business world, the masters of the universe on Wall Street. Even an average cook can whip up a delectable meal every now and then, but it takes an artist to produce the same mundane meal repeatedly and have the patrons believe it is always new and desirable. Here is their infinitely adaptable recipe:

“First, preheat the market ~ you cannot sell anything when people are depressed because the market is down. While you are waiting, turn everything into a product. Sure, investment help is a service, but services are intangible and difficult to sell. Products are tangible, and, when blended with the right emotion-inducing story, easy to sell. The quick way is to use recent performance – the easiest product to sell is the one that will engage the prospect in imagining how rich he or she would be if he had bought the product before the performance, even if your product did not exist then. For example, if real estate has been doing well, start a real estate mutual fund and tout the performance others have enjoyed in the recent past. Sure, the experience of others has nothing to do with your product, but your prospects desire to be rich beyond dreams of avarice. Their coworkers, neighbors or in-laws goad them by claiming to have made big money with similar products. You do not have to link the inapplicable past performance to the new product, just show the performance and the prospects will make the connection.

Second, you need to deal with the issue that we are in a low return environment, while the prospects for your new product want high returns. Accordingly, take low return investments and lever them up with debt so they look like high return investments, regardless of the risk this entails. As long as you are at it, make sure to add enough leverage to pay yourself a nice fee.

Third, you need to hide the fact that your product is just chasing recent performance. Present a “sophisticated” analysis with statistics, assuming that the bell curve, the normal distribution, encompasses all possible outcomes. Sure, a cursory review of history

indicates that financial events are not normally distributed, but if you do away with the assumption that they are, none of the delicate, modern statistical methods you paid so much tuition to learn will work. Better to ignore reality and burnish your model.

Fourth, make sure your analysis only covers a period that does not go back far enough to include any of the multiple periods in history that might invalidate your “model.” Hey, if there is a 30-year flood cycle, is a developer going to tell you the last time your new house on the flood plain was under water? For your new product, cleverly begin your “analysis” just after the bottom of the most recent negative cycle. Nobody is likely to notice – after all, the failed hedge fund Long Term Capital Management raised billions of dollars with models that only considered four or five years of data.

*“Reality is that which,
when you stop believing in it,
doesn't go away.”*

~ Philip K. Dick

Fifth, make sure you change jobs frequently. This maximizes the chance that you will be elsewhere when the blatant mistakes you have been making blow up. This makes everyone happy (except the clients) – the new guys can play the hero to clean up the mess, while you have already cashed your bonus check and translated your “success” into a prime

position at a new firm. In the old days, if you were a young bank officer and made a 30-year mortgage loan, you would live with that loan for most of your career – think of Jimmy Stewart at the building and loan in *It's A Wonderful Life*. Jimmy had to be very choosy to whom he loaned money, and that is no way to build top-line revenue. With our ‘world of tomorrow’ finance methods, make the loan and then sell it days later to an investment bank for packaging into mortgage-backed securities. When it all comes down, nobody is likely to remember (or have the patience to investigate) who made the bad loan in the first place.

Sixth, if you are unlucky and have not yet changed jobs when things fall apart, claim that this is a “once in a million year” event that just happened to have occurred three years into your product’s life. Use statistics or economics jargon like “exogenous” as much as possible. Claim that it is not your model that is at fault, but the totally unforeseeable event that is to blame – like the 30-year flood happening, oh, every 30 years or so. Who could have foreseen that?

Repeat steps 1 through 6 until you have enough wealth to retire on the Riviera. For this recipe, the ingredients can be just about anything – technology stocks, derivatives, real estate investment trusts, mortgage-backed securities – just follow these simple steps and it always seems to work.”

There is another establishment, perhaps not as immediately attractive and glitzy on the outside, where other patrons choose to go. At this place, the chefs know that everyone has their own unique goals and fears and that no “one size fits all” product will work. The recipes here are all different – the chefs listen to the client, determine what they need, and then help them. Sure, this means the chefs live with the patrons for the long term, just like Jimmy Stewart. These chefs know that their approach is not for everyone, certainly not for those seeking excitement rather than financial success, or those wanting to own only what is popular today with the rest of the herd. These chefs know that their classic investment techniques are a skill and a service to master, not a product to be sold. As a result, there is much less chance of subsequent heartburn. If you would like a look at the menu, call (503) 419-3938 or visit www.sigmainvestment.com.