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► GREENSPAN REVISIONISTA

We have just been served up a book of revisionist history from Chairman Greenspan in which he attempts to duck his responsibility for the mess currently raging in the financial markets and spilling over into the economy. For the first time, despite all of the talking heads attempts to persuade the United States and the world to the contrary, we are hearing the, dreaded to some – music to others – word ‘recession’ freely tossed about in the financial press. As the Chinese proverb goes “be careful what you wish for because we live in interesting times”.

It is interesting to note that Mr Greenspan and his successor Mr Bernanke, who drove interest rates down so low over the 2001-2006 period that the architects of securitised subprime and other questionable mortgage and lending instruments were able to run rampant and flood the market with paper which required a surreal world in which interest rates remain ridiculously low indefinitely, are at it again. The Fed’s solution to emerging splits in the financial market fabric has been to pander to day-traders like James Cramer and market speculators who have grown fat on a seemingly endlessly rising market and return to the days of absurdly easy credit. These market players pooh-pooh the possibility of inflation and count on the God of Globalisation to rescue US investors from a serious dent in the

market value of their portfolios. This is particularly reckless in light of the fact that such a large portion of the US investing is done by now aging baby boomers, while the Fed and the Treasury Department roll the dice on their retirement years.

In addition, the major money market banks are trying to move billions of dollars in debt off their balance sheets by participating in vehicles like Mr Paulson’s proposed fund to support these banks and are then moving their deteriorating Structured Investment Vehicle paper into off-balance sheet vehicles funded by the very banks whose paper is being moved. The institutions are also struggling to place billions of dollars of unsyndicated debt lent to support LBO and M&A transactions over the last six to eight months. Indeed, Citibank has had to once again turn to the Middle Eastern sellers of oil, who are not only reaping the benefit of \$100/barrel oil prices, but also enjoying the windfall from the United States’ profligate spending spree, to help support its balance sheet with a \$7.5bn loan.

This combined monetary and fiscal policy stance is designed to push the bogey of financial distress out into the future and avoid the day of reckoning which needs to, and eventually will, come. It reminds one of the comments heard from intelligent and savvy market players as the dotcom boom was starting to implode to the effect that one should expect a never ending string of 30-percent-plus up years because economic cycles were a thing of the past. They also argued that significant drops in the economy and market would be avoided by the clever manipulation of the Fed in the financial markets and continuing sup-

port from governments which would continue to cut taxes to encourage investment regardless of the underlying state of the economy.

Interestingly November and December, following the Fed’s pre-emptive 50 basis point rate cut, have seen extraordinarily volatile markets around the world. The number of days in which there has been a 1 percent or greater move in either direction in worldwide markets is stunning. Volatility is always a sign of uncertainty and the underlying economy has not been robust enough to sustain the boost Mr Bernanke attempted to give it with his rate cut. Indeed, we have seen our restructuring business begin to grow substantially again in the last quarter. Even more interestingly, this growth has come from sectors unrelated to subprime lending, housing and automotive manufacturing and supply. While much of this growth has been in out-of-court work-out situations, the expansion of problems outside of the distressed subprime, housing and automotive markets suggests to us that the economy is slowing down much faster than anticipated and that the restructuring world is about to get much, much busier. Once again we would advise people to watch and try not to fight the tape. As the old Wall Street adage says: Bulls make money, Bears make money while Pigs (*nuff said). ■

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