We are living in "Interesting Times"

The markets that we are witnessing today are special in more senses than just one. The volatility has been unprecedented and has been like the Hailey's comet which comes near Earth once in every 76 years. It has been 78 years since the "Great Depression" and we still remember it. The best that we can hope from here on is that 78 years down the line our successors do not remember 2008 as a greater one. The damage has already been done now it's just a matter of damage control.

We are truly living in interesting times, times which we may never come across again, times we hope we never come across again. The sentiment in the market which sometimes back was upbeat and buoyant is now confused if we may not like to call it pessimistic yet. The general opinion about the market can be best summed up by the following quote released by a well know London based firm State Street Global Markets LLC – "*Market participants do not know whether to buy on rumours or sell on the news, do the opposite, do both or do neither depending upon which way the wind is blowing*" and this is what all the analysts are being paid millions of dollars as salaries for making a fair assessment or judgement on the market. I wonder why people keep on referring the times we are in as "interesting times" as in "we are living in interesting times". May be that's what the analyst call when they have no clue- " interesting" sounds interesting most certainly.

The Genesis

The genesis of this financial crisis of gigantic proportion lies in the subprime bubble. The name itself speaks about the nature of the problem "*subprime*" the loans which are given to individuals who are not prime i.e. whose credit worthiness is questionable. For a change the story is from the land of United States and neither it is a story about the heroics of cowboys ridding on their horse backs nor is it a tale from Hollywood nor is it any where closely related to the sun kissed beaches of San Francisco. Rather it is a story about a Mortgage salesman, a greedy one and a vagabond. Our friend the Mortgage sales man comes around and asks the vagabond whether he would like to have a house, when this person has hardly means to buy a couple of dosage of Dcold when he suffers from flu. What more the Mortgage sales man tells him not to be unduly perturbed about finance as he will arrange loan when neither the vagabond has the intention nor he has the capacity to repay the loan. The vagabond is actually impotent to repay the loans. However it is not like that the mortgage sales man is unaware of the fact but he meticulously pretends as if he has the slightest idea about the financial abilities of the new friend that he has made. The commission of the mortgage sales man will be based on the number of mortgages he manages to sell. So his judgment of the creditworthiness of his new client is completely objective oriented. The objective however is to earn as much commission as possible. He has a plea however he is not a banker that he will be able to assess the creditworthiness of his client.

This mortgage/debt is brought by banks and packaged together with similar debts without going into much detail, i.e. if at all any as to what is it that they actually contain. So from one dodgy debt it has become a pool of dodgy debt. However investment bankers proudly announce these products as "*structured investment vehicle*". One investment banker sells it to an investor, packaged several times and levered a number of times. The credit multiplier effect comes into picture. Every time this dodgy debt is levered the investment banker gets a certain percentage as his mark up fee.

So now the question that you might ask me is ok fine the Investment Banker had the greed to take the best out of them and even the knowledge of a possible default did not restrain them from levering the so called "structured investment vehicle" (read dodgy debt) again and again, but what made the investors so blindfolded that they could not even sense what was wrong with these products and kept on going for such products. The answer that I would like to put forward is quite simple, the investment bankers were shrewd enough not to name them dodgy debt instead they named it SIV. These fund houses basically have appealing names which catches the investor's imagination. Bear Sterns the once stalwart of the Wall Street and now an episode in the Global Financial Turmoil had two specialised Mortgage Fund Houses. Both of them lost so much money that Bear Sterns had to inject 3.2 bn $ just to keep one of them afloat. They were called- "*High Grade Structured Credit Strategist Fund*" and "*High Grade Structured Credit Enhanced Levered Fund". That is some name is not it. Well had the smart Investment Bankers named the products and fund houses something akin to what their real composition is may be the story would not have been same. We can speculate a few names however "Possible Erosion Fund, Loans to unemployed Fund or Bid Good Bye to your investment" may be if these could have been the names then we may not have been living in "*interesting times*".

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