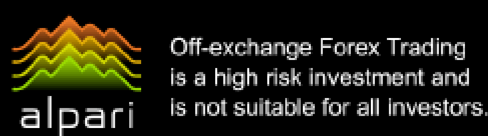

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Greg Richards

Registered: Jan 2009
Posts: 128

04-25-09 02:55 PM

This is a pre-interview to a taped interview with Steve Forbes and Janet Tavakoli that Forbes.com says will be on its web site on Monday. In Tavakoli's interviews she says a large part of the problem was leverage combined with risky fixed income products: a formula for disaster. But she differs from Taleb, since she says it was predictable (and her book gives some compelling evidence that she was specifically talking about this in 2005 and earlier. The early 2007 article she mentions is just one example). Her book talked about fraud by borrowers as well as on borrowers, but the fraud by borrowers does not come out as much in this interview.

What caught my eye was this excerpt (link below to the entire pre-interview) in which she talkes about Taleb. It is interesting, since Forbes has had earlier articles on him that sound like hagiographies.

****

Get Briefed: Janet Tavakoli
FORBES
David Serchuk, 04.24.09, 4:00 PM ET
http://www.forbes.com/2009/04/24/ja...ing-credit.html

AIG wasn't alone in those practices. ACA [Bond Insurance], same thing. We've seen bond insurer after bond insurer bite the dust on these products. And these were people who held themselves out to be sophisticated. And I'm here to tell you, I didn't say that after the fact. I said it before the fact.

And, you know, I even wrote the Global Associations of Risk Professionals that if you are working at an investment bank--and I mentioned Merrill by name as an example, just because they had information in the public domain, so that I wasn't, you know, revealing anything that one shouldn't--if you're a risk manager they have their boots on your neck and you can't do your job properly. In which case you need to get out, because you will

wear the responsibility for this. That's what I wrote in the article. And they were.

WHEN DID YOU WRITE THAT?

It was in the beginning of 2007.

You say that this market meltdown was foreseeable and not a black swan incident. Now why has this Black Swan narrative grown so popular when people try to put an idea as to why the markets melted down?

I think it's PR spin on the part of some people who would like to promote, you know, their own ideas.

THE BLACK SWAN AUTHOR, YOU MEAN, NASSIM NICHOLAS [sic]?

Yeah, exactly. Because, you know, he studied these Internet memes, and he's a friend of Malcolm Gladwell. So this is a strategy. He's done huge research on Internet bloggers, just as an example, to get his name out. And it's been a very effective strategy.

I was even quoted in an article that Wired magazine did [about risk models], and it's as if they had written the conclusion of the article before they started doing any interviews. So they called me up, and I can see where the whole thing is going--they want to blame it all on models.

And this is what the bankers like to do. When they get in front of Congress, they said, "Well, we had this model, you know?" And that's how they defend their credit card underwriting standards. That's how they defend predatory credit card--you know, targeting college students, targeting people coming out of bankruptcy. Targeting people who are in financial distress.

It's what the predatory lenders use to justify what they did. It's what Greenspan said in April 2005, when he was saying the models captured the risk. But yet, people like me--and there are many other people--knew that the models weren't designed for these kinds of risky products and this kind of risk. And that the models in no way captured the risk. And any structured finance professional worth their salt would know or should've known that deals that came in 2007 that were CDO [collateralized debt obligations] squared were nothing more than sham transactions to hide losses.

Is it comforting to believe that it's a "black swan" rather than a systemic breakdown?

It gives people a convenient excuse. So that you get people even like Paul Volcker to say it seems as if it's just an unfortunate mathematical error. In which case, what do you replace it with? Or, whereas I'm saying, this is

fixable. And we've had this problem before when people ignored the risk of the underlying assets and failed to look at the fundamental underlying data.

And had they done that, you know, the rating agencies could've, as an example, rejected as an entire class [of] stated income loans. Or, failing that, demanded a statistical sampling of the underlying portfolio to determine how big a problem it is in stated income loans. How big a problem is lying? How big a problem is fraud? And until you define that, you can't model it. That's sort of a basic statistical principle. So what I'm saying is that this was a discoverable, knowable unknown. It's not a black swan. And, by the way, I knew it. And I had written about things like this.

You know, certainly, it's created a lot of damage. But I'm here to tell you that when you destabilize the housing market and then when you have a bunch of hedge funds and other entities using leverage against shaky fixed income assets, it comes falling down pretty fast.

******

That is the end of the excerpt, but if I understand this correctly, Tavakoli is saying the events are not a black swan, a gray swan, or a swan of any color. Rather there were a lot of Black Barts –like the Californian stagecoach robber who made off with the loot without ever firing a shot.

In an April 3, 2008 Fortune article, Taleb calls these events a gray swan (previous to that he gave a lecture where he called it a "black swan," now he sometimes says "white swan" or whatever color he is talking about today):

Taleb: "So I call these crises 'gray swans.' I've been telling anyone willing to listen that banks have a tendency to sit on time bombs while convincing themselves that they are conservative and nonvolatile."

In a recent FT article (April 7) he again dragged out the Black Swan paradigm in talking about how to "black swan" proof the world and sums up with "In other words, a place more resistant to black swans." But Taleb's recommendations were just general pabulum.

Tavakoli said the current debacle was foreseeable and preventable and issued concrete and specific warnings, and rsays ecommending solutions have to be equally concrete and specific, albeit she also explains general principles that have to be adopted.

This is Google's cache of http://www.bogleheads.org/forum/viewtopic.php?p=461925&sid=2b5fd2d02b4d2bc567fe8809600dfb91. It is a snapshot of the page as it appeared on May 13, 2009 04:02:23 GMT. The current page could have changed in the meantime. Learn more

These search terms are highlighted: **janet tavakoli taleb swan** Text-only version

Very Rare Black Swan Chart Pattern

Author	Message
Derek Tinnin Joined: 08 Jan 2008 Posts: 633 Location: Cincinnati	Posted: Wed Apr 29, 2009 10:08 pm Post subject: Very Rare Black **Swan** Chart Pattern quote For the technical analysis fans out there, did you pay attention to this chart pattern? http://www.elitetrader.com/vb/....light=**swan**
Back to top	
peter71 Joined: 24 Jul 2007 Posts: 2255	Posted: Wed Apr 29, 2009 10:13 pm Post subject: quote speaking of jinxes . . . looks like the aliens attack tomorrow!
Back to top	profile pm
baw703916 Joined: 01 Apr 2007 Posts: 1387 Location: Northern Virginia	Posted: Wed Apr 29, 2009 11:03 pm Post subject: quote Are you sure it's not a duck telling me to buy Aflac? Brad _________________ "Stay solvent longer than the market can stay irrational!"
Back to top	profile pm
tfb	Posted: Thu Apr 30, 2009 12:45 am Post subject: quote

It's almost a year older now.

____

The Finance Buff

Joined: 19 Feb 2007
Posts: 2515
Location: thefinancebuff.com

Back to top

Derek Tinnin

Posted: Thu Apr 30, 2009 12:57 am   Post subject:

tfb wrote:

> It's almost a year older now.

Joined: 08 Jan 2008
Posts: 633
Location: Cincinnati

Yeah, but look how good it worked had you followed it...

Back to top

Greg Richards

Posted: Thu Apr 30, 2009 6:54 am   Post subject:

Joined: 30 Apr 2009
Posts: 5

According to **Janet Tavakoli**, the market problems aren't a black **swan**, but due to a lot of Black Barts, like the Californian stagecoach robber who engaged in bloodless robbery. She explains it in a C-Span video in the "On Air" section of her web site which pops up if you type her name in google.

Guys like **Taleb** think that staying mostly in cash (not a great idea if we eventually get the inflation our money printing suggests we will) and buying puts (waiting for a black **swan**) is a better idea than value investing. **Tavakoli** explains that competent analysis showed which companies had borrowed heavily against value destroying fixed income assets. Meanwhile, one can still find value opportunities.

I guess I like the idea of doing fundamental analysis. The black **swan** believers may be too passive to do a fundamental analysis. **Taleb** predicted nothing, despite his PR spin. If you want to live your life with your fists balled up in front of your face with a Johnny one-note investment strategy of only buying OOM puts, you can. But, like **Tavakoli**, I prefer figuring things out and investing in companies that generate value for society. What kind of world would you rather inhabit?

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texrex2002

Registered: Aug 2007
Posts: 370

04-14-09 01:48 PM

> *Quote from Landis82:*
>
> **Question . . .**
>
> **Why do you feel that it is not possible to withdraw the money that the FED has injected into the system?**
>
> **Ever heard of "matched-sales"?**

Landis: I wrote up a fairly detailed response and then somehow clicked "back" in IE so all of my typing was erased.

Matched pairs are shorter term liquidity injections that I think we're seeing currently. I'm not going to re-type everything but some of my thoughts on the ability to sterilize the current deficit spending/money creation are in a post I made in another thread:
http://www.elitetrader.com/vb/showt...459#post2386459

My current thinking is that even if money supply is managed quantitatively to keep consumer prices (for domestic goods or for goods produced by a country that pegs their currency against ours) somewhat flat, those who've hoarded dollars are punished relatively. i.e. had there been no monetary intervention, those with dollars (or on fixed dollar incomes, say) would likely find their purchasing power increased. Notice: I say nothing about the evolution of the general economic environment in a scenario with no monetary intervention. I'm only talking about the purchasing power of the dollar.

The more I think about it, I think the dollar would have soared, especially as foreign holders of US debt found it more and more difficult to roll their debts over (credit contraction) and were forced to bid the dollar up to pay their debts. Say hello to cheap Mercedes and Rolexes!!!

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Greg Richards

Registered: Jan 2009
Posts: 141

04-28-09 02:10 PM

Tavakoli also predicted the meltdown in a very specific way. She also predicts inflation in her book, DEAR MR. BUFFETT. It's a fast read, and she names the culprits.

http://www.ft.com/cms/s/2/caf27fa0-...0077b07658.html

http://www.amazon.com/gp/product/04...&pf_rd_i=507846

Dear Mr Buffett
Review by Paul J Davies

Published: February 23 2009 04:58 | Last updated: February 23 2009 04:58

Dear Mr Buffett: What an Investor Learns 1,269 Miles from Wall Street
By Janet Tavakoli
John Wiley £15.99, 282 pages
FT Bookshop price: £12.79

In late 19th-century California, Charles E Boles enjoyed almost a decade of robbing the stage coaches of Wells Fargo on the dusty highways before he was caught. Legend has it that "Black Bart", as he was known, was always well-dressed, unfailingly courteous and never fired a shot.

For Janet Tavakoli, his activities are a fitting emblem for the "bloodless robbery" committed by bankers and mortgage brokers in the grip of a credit fever that ultimately led to America's – and the world's – financial meltdown.

Her new book, Dear Mr Buffett: What an Investor Learns 1,269 Miles from Wall Street, is a clear and pacy run through the multitude of sins and sinners in the modern financial world.

Tavakoli is the president of a Chicago-based financial consultancy and an expert in the confusing world of securitisation, credit derivatives and collateralised debt obligations. But she also finds time to rail against regulators, central bankers and politicians, stock options, statistical models and hedge funds.

In 2003, after 18 years working at some of America's biggest banks, Tavakoli wrote a book on finance that so impressed revered investor Warren Buffett, he invited her to lunch. So began a friendship out of which this book grew.

Dear Mr Buffett is that occasionally grating mixture of autobiography, witness testimony, analysis and polemic common to many books by finance professionals, including Nassim Nicholas Taleb's Fooled by Randomness (2007) or George Soros's recent The Credit Crisis of 2008.

However, Tavakoli's writing is full of anecdotes, details and character sketches that add depth and colour to even the best known episodes of

the past two years. She also covers events only a few years before the current crisis that should have been big warning signs. The correspondence between Buffett and Tavakoli over the past three years reinforced her existing views on the dangers of complex finance. And with Buffett's blessing, this book will find a ready-made fan base with little marketing effort.

Their exchange is most enlightening in the middle chapters where they discuss the subprime mortgage machine, collateralised debt obligations and rating agencies. A shared base principle is revealed, the seemingly obvious: "Do not lend money to people who cannot pay you back."

This maxim is repeated again and again in a superb and unforgiving critique of the expansion of home ownership, mortgage lending and securitisation. Those who made money out of the crisis propound this sentiment, as do those who stopped buying mortgage bonds before the height of the boom. It only illustrates the short memories of many caught up in the bubble.

In this telling, however, only the poor escape without blame: "Housing speculators and over-reaching homeowners took risk with 'eyes wide shut' ... predatory lenders targeted minorities and lower income people who were intellectually and financially mugged, then dumped on the side of the road."

A fundamental message of the book is that a mixture of greed, stupidity and outright fraud drove the US house-price and mortgage-credit "Ponzi scheme", while a total lack of regard for basic cash-flow evidence and analysis allowed banks to flog dodgy deals to sleepwalking investors.

Tavakoli makes for an attractive pundit – she knows her stuff, has strong opinions and turns a colourful quote. And though she's no enemy of modern financial technology of itself, she convincingly decries its recent handlers and uses.

This is hardly the first time Tavakoli has made such arguments. The book is littered with references to her many cameos in both print and broadcast media – including in the Financial Times and a couple of times in my own articles.

There is a healthy dose of "I told you so" about this volume – but, to be fair, Tavakoli is one of the few who did.

Paul J Davies is the FT's deputy capital markets editor

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There is a healthy dose of "I told you so" about this volume – but, to be fair, Tavakoli is one of the few who did.

Paul J Davies is the FT's deputy capital markets editor

MArket Ticker has a video posted with her -

Q & A with Brian Lamb... Its starts out slow, but she does call some folks out by name.

Greg Richards

Registered: Jan 2009
Posts: 141

03-25-09 02:52 AM

http://www.tavakolistructuredfinanc...2023%202009.pdf

Interesting post on Tavakoli's web site. Whitney's Citi call was late behind three other prominent analysts on Oct. 31, 2007. She knew Jim Rogers was short Citi in 2007 while the stock was dropping, but she still rated it "sector perform" a hold or buy depending on how you look at it. AIG played keep-away ball with the numbers even after Tavakoli outed them in August 2007.

Much of the financial media blows in the wind of PR machines. AIG, Washington, Congress, various former investment banks, banks and others worked overtime to spin financial information over the past several years forcing competent reporters to engage in time intensive research on complex financial products. Other times, the press simply misinterprets the facts.

Last week, Charlie Rose billed Meredith Whitney on his show as the woman who gave early warning about AIG. I found that surprising given that as far as I know, she did not. The L.A. Times' review of House of Cards, a book about Bear Stearns, says author William Cohen gave Whitney credit for warning for some years that trading in credit derivatives and mortgage backed securities set us up for a credit implosion. This is not her expertise, but it is mine, and to the best of my knowledge she did not. Ironically, Whitney rated Bear Stearns perform and only downgraded it to underperform on March 14, 2008 as it tumbled 53% in one day. Whitney rated Lehman outperform in March 2008, while beleaguered Bear Stearns merged with JPMorgan Chase. She downgraded Lehman to perform towards the end of March 2008, and Lehman went under the following September.

Few specifically and publicly warned of the global financial meltdown in advance—when something could have been done about it—as far as I know, Whitney was not in that number. Warren Buffett, Jeremy Grantham, Jim Rogers, and I (among others) were. My early warnings of credit derivatives, structured products, and structured vehicles are well documented in articles and books over many years (see Bibliography). In August 2007, I spoke up about AIG to Warren Buffett, Jamie Dimon, and the Wall Street Journal.

Meredith Whitney seems best known for her analysis of Citigroup at the end of October 2007. Jim Rogers appeared with Whitney earlier in the year on Cavuto on Business and stated he was short Citigroup (he shorted C in late 2006/early 2007), and he said Citigroup was going to $5. Whitney rated it sector perform from October 3, 2005 until October 31, 2007. The stock lost 7.9% versus a 7.5% gain for the Philadelphia Stock Exchange/KBW Bank Index during this period (David Gaffen, WSJ, Nov 1, 2007). The following table summarizes the timeline to the

best of my knowledge:
[The chart is better in the pdf or here:
http://www.tavakolistructuredfinance.com/TSF20.html

Jan 3, 2007 - Oct 31, 2007
Citigroup is $55.66 on 1/3/07.
Steadily drops to $42.25 by Oct 31, 2007
Jim Rogers is short;says C will fall to $5 on Cavuto on Business.
Meredith Whitney rates Citigroup sector perform. Her outlook differs from Rogers' on Cavuto on Business.

Oct 31, 2007
C is $42.25
(Below $30 by Dec 27, 2007. Still falling.)
Jim Rogers is still short.
By now, prominent analysts: Richard Bove, Charles Peabody, and Michael Mayo have already told their investors to sell.
Whitney rates it sector underperform and says it could trade in the low $30s. She states Citi must cut dividend. Structured products had already ground to a halt (too late to warn).

Oct 31, 2007 - March 19, 2009
Stock drops steadily.
Hits $5 in January 2009; $3.61 on March 19, 2009 Whitney becomes more negative on Citigroup.
Jim Rogers takes his profit.

At the end of October 2007, Whitney said Citigroup needed to cut its dividend. It was a refreshing contrast to some of her competitors. She rated the dropping stock sector underperform, but said it "could trade in the low $30s." ("Analyst Raises Doubts About Citigroup Dividend," NYTimes November 1, 2007). To my mind, Whitney's was not an early call; the stock had been dropping steadily throughout the year. Jim Rogers had been short the stock for almost a year. Citigroup had already reported a $6.5 billion writedown for the third quarter of 2007. Whitney was ahead of many analysts who missed Citigroup's problems, but at least three prominent competing analysts had previously told their investors to sell.

When it comes to press coverage of our major financial institutions, the stakes are higher and the issues are not innocuous.

When I challenged AIG's second quarter 2007 financial reporting ("In Subprime, AIG Sees Small Risk; Others See More," David Reilly, Wall Street Journal, 13 August 2007.), it was based on my analysis of a $19.2 billion super senior credit default swap position. With respect to potential principal loss or a mark-to-market loss, AIG had problems

(even if AIG positioned some of its other contracts as “insurance” it still had to post collateral).

This was after the implosion of Bear Stearns Asset Managements’ two doomed hedge funds brought about by investment banks challenging the pricing of their “highly rated” assets and making collateral calls. [I publicly opposed Bear Stearns Asset Management’s proposed Everquest IPO and cited a dodgy Citigroup CDO therein, among other issues, in May 2007. This was one of the triggers of the price inquiries. (Dear Mr. Buffett, P. 131)]

Yet AIG’s PR spin was so effective, that the financial press backed off for the time being. AIG spins its PR like a top. It realizes what an effective strategy this is in deflecting financial reporters from the truth.

AIG asserted that it could not imagine any scenario under which its positions would have losses. Despite evidence to the contrary, AIG claims the unimaginative employees in its AIG Financial Products unit are the “best and brightest.” In early 2008 it entered into retention bonus contracts for these employees, yet there were many structured products professionals in New York looking for work.

How the employees of AIG Financial Products came to be so exalted above other finance professionals, and distinguished like some new species, is worth inquiring into.

Looking back on true early warnings and how they were dismissed and discredited helps us understand the issues now threatening the global economy and the failings in our system. It is important to identify who provided thoughtful analysis when it mattered most, because that can be helpful as we work on solutions.

Edit/Delete • Quote • Complain

lolatency

Registered: Aug 2008
Posts: 634

03-25-09 03:10 AM

Whitney is a PR stunt/decoy. Look at her info on wikipedia. Within 5 years she is making important analyst calls, and then mysteriously sticks her neck out. She also looks like someone who'd get noticed on CNBC. All her interviews make her out to be a "self-made" person, but it looks like she was fast-tracked to a certain spot deliberately and then picked up by the media deliberately.

Edit/Delete • Quote • Complain

stock777

03-25-09 03:25 AM

Registered: Jul 2001
Posts: 8817

Has anyone done an analysis on Rogers calls.

All I ever see is how right he was about this and that. It's possible, but they also said that about Cramer until they stopped.

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Red_Ink_inc

Registered: Jul 2005
Posts: 1794

03-25-09 03:44 AM

She's a financial 'Jessica Lynch' and she's married to a professional wrestler.

Is kinda cute though. :)

Edit/Delete • Quote • Complain

Daal

Registered: Oct 2002
Posts: 4429

03-25-09 05:59 AM

She blew it on lehman. Called a 'huge bargain' back in march/april 2008

Edit/Delete • Quote • Complain

Greg Richards

Registered: Jan 2009
Posts: 141

03-25-09 02:02 PM

> *Quote from stock777:*
>
> **Has anyone done an analysis on Rogers calls.**
>
> **All I ever see is how right he was about this and that.**

That may be one of Tavakoli's future articles. Seems she did a new one on her web site what we needed to ask Goldman about its trades with AIG, and I will find it/post it when I have a chance.

Edit/Delete • Quote • Complain

Greg Richards

Registered: Jan 2009
Posts: 141

02-05-09 06:27 PM

http://www.ft.com/cms/s/0/e4a8870a-...00779fd2ac.html

Financial Times – February 5, 2009
By Janet Tavakoli

Published online: February 4 2009 17:10 | Last updated: February 4 2009 17:10

When Washington passed out hundreds of billions in bail-out funds in September 2008, it said it could worry about the cause of the meltdown later. This allowed lack of trust in the US financial system to fester.

More recently, the Obama administration turned up the rhetoric against China by saying it believed the country was "manipulating" its currency. The president also wants to see a Chinese stimulus package.

The US needs China to hold the US Treasury and agency debt it owns and, more importantly, to keep buying new US debt. So if Washington wants to ease tensions and keep its borrowing options open, it should look to Wall Street.

Did Washington think it could allow US investment banks to carpet-bomb Asia with financial mini-bombs and escape the fallout?

In Hong Kong alone, $2bn of Lehman's principal-destroying mini-bonds were sold. Most US investment banks joined in the insanity. Investors – including officers at nosebleed-high levels in Japan, Macao, Hong Kong, Singapore, and mainland China – have been burned as their triple-A investments were wiped out.

George Soros in his recent Financial Times article was correct that credit derivatives created issues, but he missed the most glaring problem. US investment banks were not the victims of bear raids; they were fundamentally unsound. Investment banks and hedge funds turned financial risk into financial crack with leverage. The risky overrated debt had no upside and lots of downside. Leverage in the form of massive borrowing and credit derivatives made the fall swift, painful and often fatal for equity investors in investment banks and hedge funds.

Pundits trying to inflate their own bubbles of self-credit put the blame on unsound models. But such fools for randomness are a distraction from the key issue: malfeasance.

Financiers and structured finance professionals were aware of the negative potential of risky loans. Yet they took it even further. The

risky tranches – those that any investment banker worth their salt knew were write-offs – were used to create other packages that their buddies "managed" in one fund, while shorting in their hedge funds.

The problem was not the models' failure to capture probability outliers but the industry's failure to rein in the liars.

Sophisticated investors with structured finance expertise (bond insurers, bank portfolios, large pension funds) became willing victims by failing to perform basic due diligence.

But there were genuine victims: naive homeowners who were misled into risky mortgage loans and retail investors who were missold risky mislabelled products.

The biggest victim has been the global financial system, and we are all suffering the effects of mischief that remains unchecked. There is no innocent explanation for many of the securitised bonds made and sold by investment banks. They were a conduit for shifting losses.

There were no black swans or swans of any colour involved. Like Black Bart, the 19th-century Californian stage coach robber, Wall Street bankers made off with the loot without firing a shot. They were enabled by Washington overseers and financial regulators who – when not beneficiaries of the good times – behaved like ostriches.

Meanwhile, news of the fact that no one in the US has been brought to justice has not escaped notice. It is possible that Chinese banks are being less co-operative with the US because Wall Street scammed them.

There is hope, but the only way out of this is a return to sound financial principles, which will include cleaning up our mess.

At the Davos conference, Jamie Dimon, JPMorgan chief executive, sounded like Warren Buffett or Charlie Munger (or Janet Tavakoli) when he remarked: "Some really stupid things were done by American banks and American investment banks. To policymakers, I say: Where were they?"

Janet Tavakoli is president of Chicago-based Tavakoli Structured Finance. Her book DEAR MR. BUFFETT: What An Investor Learns 1,269 Miles From Wall Street about the global financial meltdown is published this year.

Edit/Delete • Quote • Complain

libertad

Registered: Apr 2004
Posts: 2879

02-06-09 01:17 AM

Greg.....

Good posts....

What a Mess.....The SEC, What was Wall Street, The Rating Agencies....Mortgage creators....the list goes on....

Too big to jail ....is now the question....

The issue now being going after all of the above including all the managers etc....

How about suitability and the failure to supervise....

And conflicts of interest.....

It seems as though lawyers will be working on this for the next 40 years....The SEC/Corporate revolving door is what the game is all about....The legal business.....IS BIG BUSINESS....

The Chinese should/have already buy US debt with freshly printed currency in return....

....

As I have written in previous posts....it is past time to clean house....and build a better system for securities....

Looks like the Corporate/SEC cesspool killed their own golden goose....

Edit/Delete • Quote • Complain

Mvic

Registered: Jun 2003
Posts: 3111

02-06-09 01:33 AM

We don't trust us, no wonder the Chinese don't. In fact if I were advising anyone on their investments I would tell them to run for their life when old credit addict (think meth addict) uncle sam comes around trying to pimp his bonds.

Libertad, you are right but I don't see us getting there. This stimulus is a prime example of why, too much money at stake and a few million to the right lobbyists can reap billions. That is the basis for decsions, and they are barely even trying to hide it anymore, not what is good for the country and its people. Without meaningful campaign finance reform, term limits, and anti lobbying laws nothing will change and we

will be lobbied in to oblivion.

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libertad

Registered: Apr 2004
Posts: 2879

02-06-09 01:38 AM

About Janet Tavakoli....

http://www.tavakolistructuredfinance.com/

Mvic....

This is why JUSTICE is a fleeting concept in the US....

The US is behaving very 3rd world....

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Mvic

Registered: Jun 2003
Posts: 3111

02-06-09 03:08 AM

Agree and why I think that this may well be in our future:

http://elitetrader.com/vb/showthrea...threadid=152942

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Trading Systems Provider

Velocity Futures
Derivatives Trading Services

Greg Richards

Registered: Jan 2009
Posts: 141

01-24-09 09:14 AM

http://watch.bnn.ca/#clip131114

Did anyone else see this BNN clip where Tavakoli says that Black Swans (or any other color of swan) has nothing to do with the global meltdown, but the cause was Black Barts. She says the problem wasn't "outliers" but "outright liars."

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Cdntrader

Registered: Mar 2001
Posts: 2559

02-15-09 02:25 PM

> *Quote from Greg Richards:*
>
> **http://watch.bnn.ca/#clip131114**
>
> **Did anyone else see this BNN clip where Tavakoli says that Black Swans (or any other color of swan) has nothing to do with the global meltdown, but the cause was Black Barts. She says the problem wasn't "outliers" but "outright liars."**

good interview thanks.

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Greg Richards

Registered: Jan 2009
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01-29-09 04:22 AM

Did anyone read DEAR MR. BUFFETT: What an Investor Learns 1,269 Miles from Wall Street by Janet Tavakoli, the credit derivatives expert from Chicago? She said the cause had nothing to do with black swans (or grey or any other color), but Black Barts. She says there were no "outliers," just "outright liars" in this BNN video:

http://watch.bnn.ca/#clip131114

http://www.amazon.com/Dear-Mr-Buffe...s/dp/047040678X

Greg Richards

Registered: Jan 2009
Posts: 141

02-02-09 01:10 PM

http://www.gannononinvesting.com/20...erivatives.html

Gannon on Investing wrote a better review than I could (link above), but the information on models below is in the book. Best explanation of what went wrong with the models that I have ever read. It is from Chapter 2. I finally read DEAR MR. BUFFETT: What an Investor Learns 1,269 Miles from Wall Street and I really lliked it.

"A Monte Carlo simulation uses a computer to throw a whole lot of random inputs into a model. It is like shaking a newly made chair to see how stable it is. Financial firms use correlation models to look at what happens when corporations default. The model tries to determine if other companies will behave similarly when one company strengthens or weakens. The models are highly unstable. They are like a chair that collapses beneath you as soon as you sit on it. Small changes to model inputs result in huge changes to the results. "

"If you play with coins or dice, you know exactly what your inputs are and you can model all potential outcomes. You can examine the coins (heads or tails per coin), and you can model all of the possible outcomes. You can examine dice (one to six dots on each face of each cube), and again, a mathematical model can describe all potential outcomes. We do not have to guess at the inputs for dice and cards; they are known in advance and the relationship between the inputs does not change, even though we may use a Monte Carlo model to randomize the inputs (the flips and tosses)."

"The inputs to credit models are a bit of a guess, since we rely on data approximations to come up with the inputs in the first place. Furthermore, the relationships between the inputs can change. Most of the data describing how one corporation behaves in relationship to another is based on market prices such as stock prices or the prices of credit default swaps based on corporate debt. Moreover, there is very little of this already suspect data to work with. The results are guesses about relative price or yield spread movements, which result in a guess about the correlations. When a credit upset occurs in a financial sector, correlations that were previously fractional numbers tend to converge to one. Everything seems to fall apart at once. A model will calculate the wrong answer to nine decimal places, but it cannot tell you it is the wrong answer."

"The biggest problem with the models is that even if they temporarily get the correct answer, they do not tell you what you need to know. Wall Street estimates asset correlations instead of the necessary default correlations. Furthermore, the overwhelming flaw in the methodology is that if you want to make up a default correlation between two companies, you must make the false assumption that

default probability does not vary, but of course it does. Even if the models measured the default probability of individual companies—and they do not—if a company defaults, you still have to guess the recovery rate, the amount left over, if any, after all obligations are paid. You cannot solve for two independent items of information from a single piece of information such as a letter grade or a price. You cannot get both the probability that a company will default and the amount of money you will have left if it does default. "

"The market isn't trying to teach you something when prices rise or fall (or when spreads widen or narrow) relative to where they were historically. You can stuff all of that information into a model (or your head) if you want to, but manipulating market numbers—if that is all you are doing—will not tell you anything about value. It is up to you to analyze the fundamental value and compare it with the market."

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Greg Richards

Registered: Jan 2009
Posts: 141

02-02-09 02:36 PM

The junk investing/trading section below highlights Buffett's trading style

http://www.gannononinvesting.com/20...erivatives.html

On Buffett and Derivatives
By Geoff Gannon

Review by Geoff Gannon

Janet Tavakoli's Dear Mr. Buffett is an unusual amalgam of a simple, personal story and a complex, public one.

The personal story begins with an invitation from the Oracle himself:

"Be sure to stop by if you are ever in Omaha and want to talk credit derivatives..."
Buffett had just re-read Tavakoli's Credit Derivatives & Synthetic Structures and noticed a letter from the author tucked between the book's pages. With a quick apology and the above invitation, Buffett unknowingly set in motion a process that would give the public a rare glimpse inside his inner sanctum.

Tavakoli took Buffett up on his offer and recorded the ensuing encounter in Chapter 2 of Dear Mr. Buffett .

The promise of this tantalizing morsel will draw buyers in. But readers will find much more than another book on Warren Buffett.

The real story begins in 1998. That's when Buffett's Berkshire Hathaway bought General Re. Berkshire was a major insurer with a home-grown reinsurance business. General Re was considered the crème de la crème of reinsurers.

I say "considered", because unbeknownst to Buffett there was a lot of crap among the crème. That crap came in the form of derivatives.

Meta-Bets

Derivatives are exactly what they sound like. The value of a plain vanilla security like a stock or bond is derived from the underlying business �" its assets, earnings, and capacity to meet obligations. These are simple, straight bets.

Derivatives are meta-bets. Like an ironic narrator, they stand a level

above the action. Instead of betting on a business, they bet on the betting on that business. Instead of betting on a borrower's future income and collateral they bet on the bet a banker made on that borrower's future income and collateral.

If the investment banks that created these derivatives used the same ad agency as BASF, their slogan would be: "We don't make a lot of the securities you buy; we make a lot of the securities you buy riskier".

Theory of Everything

Tavakoli has her own Theory of Everything in Finance:

"The value of any financial transaction is based on the timing of cash flows, the frequency of cash flows, the magnitude of cash flows, and the probability of receipt of those cash flows."
It's a simple theory. Derivatives are complex. But no amount of complexity can free a security from this iron clad rule.

"In finance, we make up a lot of fancy and difficult to pronounce names and create complicated models to erect a barrier to entry that keeps out lay people. High barriers tend to protect high pay. I've written about some of these esoteric products: credit derivatives, CDOs, and more, but before I look at the latest hot label dreamt up, I look at the cash to find out what is really going on."
So does Warren Buffett.

Buffett Bets

As Tavakoli points out, financial journalists seized on Buffett's description of derivatives as "financial weapons of mass destruction" while completely ignoring another passage in his 2002 letter to shareholders:

"Many people argue that derivatives reduce systemic problems, in that participants who can't bear certain risks are able to transfer them to stronger hands. These people believe that derivatives act to stabilize the economy, facilitate trade, and eliminate bumps for individual participants. And, on a micro level, what they say is often true. Indeed, at Berkshire, I sometimes engage in large-scale derivatives transactions in order to facilitate certain investment strategies."
Although Buffett was concerned with the macro-risk presented by derivatives �" especially the risk of a collateral requirement death spiral �" he was still open to engaging in large-scale derivative transactions when it made sense for Berkshire.

Buffett takes risk from Wall Street firms willing to pay Berkshire well.

For instance, Berkshire has assumed the risks of owning certain junk bonds.

But he sets the ground rules:

“He chooses the specific corporate names; he refuses ‘diversified’ portfolios containing a large number of corporations. He does trades in massive size �" $100 million or more, if possible.”
Buffett applies the same principles he uses in common stock investing. He likes to be greedy when others are fearful and fearful when others are greedy. He likes opportunities where there is a perception gap �" an inappropriate quantitative relationship between price and value that arises from some qualitative bias. And he likes to focus on what he knows. When he bets, he bets big. When he’s unwilling to bet big, he doesn’t bet.

Margin of Safety

Buffett is occasionally willing to assume first-to-default risk on a basket of junk bonds:

“Normally, first to default trades are viewed as the riskiest trades, and junk debt is viewed as the riskiest kind of asset; but Warren builds in a margin of safety that makes this a wise investment as long as Wall Street misprices the risk.”
Market participants who focus entirely on conventional indicators of quality �" like triple-A ratings �" miss opportunities to get great returns in “bad” assets and open themselves up to the danger of buying supposedly “good” assets at prices that provide no margin of safety �" and when levered �" provide a real risk of catastrophic loss.

Remember, Buffett bought into Moody’s common stock. He didn’t buy into their ratings system.

With lots of leverage and little value relative to price, you can go broke betting on good assets. Conversely, with little leverage and lots of value relative to price, you can get good returns from bad assets.

Buffett knows that. And he preaches what he practices:

“Investing in junk bonds and investing in stocks are alike in certain ways: Both activities require us to make a price-value calculation and also to scan hundreds of securities to find the very few that have attractive reward/risk ratios. But there are important differences between the two disciplines...Purchasing junk bonds, we are dealing with enterprises that are far more marginal. These businesses are usually overloaded with debt and often operate in industries characterized by low returns on capital. Additionally, the quality of

management is sometimes questionable. Management may even have interests that are directly counter to those of debtholders. Therefore, we expect that we will have occasional large losses in junk issues." (2002 Letter to Shareholders)

A man famous for stressing the importance of buying into good businesses with high returns on capital run by able and honest management is willing to buy junk bonds of bad businesses with low returns on capital run by incompetent and "questionable" management �" when the price is right.

Buffett is always focused on the relationship between price and value.

Tavakoli's book chronicles the words and deeds of people who dealt in derivatives without knowing �" and often without caring �" what that relationship was.

Some will call her book a morality tale. I call it a rationality tale.

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