

Who Bought All This Crap?

Who bought bank shares without knowing what banks do? Who bought CDO's without knowing how they work? Who bought RMBS without knowing how they work? Who invested in private equity, real estate, hedge funds, long only equities, commodities, FX, corporate bonds, sovereign bonds, CDS, ABS, structured products, without understanding their markets, their fundamentals, their payoffs under different scenarios, having an exit strategy, having a disaster plan, having the holding power, the stability of funding?

Banks, bankers, investment managers do what they are paid to do. Investors didn't do what they were rewarded to do, which is to be diligent and vigilant.

When demand for loans, for credit is created by the lender and not the borrower, something fundamental has changed, something fundamental has broken.

Homeowners want homes, they need credit to be able to buy them, they turn to mortgage lenders. They want loans, mortgages. Lenders are diligent in their underwriting standards.

When CDO investors want CDOs, then CDO managers want (to buy) loans and mortgages and asset backed securities, then ABS managers want (to buy) loans and mortgages (for their ABSs), then lenders want to make loans and mortgages to borrowers. Then that fundamental relationship is broken. Underwriting standards become lax. Agency issues arise since risk is passed on instead of retained by the loan originators.

Investors are at the heart of the dislocation, the crisis, the recession. For our ignorance, sloth, negligence, we are paying. We taxpayers and investors, are paying.