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LONGWAVE group

THE LONGWAVE ECONOMIC AND FINANCIAL CYCLE

WINTER WARNING

For the Love of Money

Money, especially in the form of coins, has been with mankind for over 2,000 years. Whether they were coins struck in ancient Greece, or in the form of the Roman Denarius of Augustus Caesar, the act of coinage has a long and troubled history.

For many in biblical times, these coins were symbols of the ultimate authority of the state and proof that all wealth actually belonged to the emperor. Money as we understand it today was not as important as a medium of exchange; rather, items were purchased by means of a barter system (the exchange of goods and services). So, for most of the nation of Israel as documented in the Old Testament, the idea of saving money over a long period of time was alien. For them, the primary means of exchange was agricultural produce. Often, however, agricultural goods had to be exchanged for metal money, coins, in order to make tax payments to the state and tithes to the temple, more manageable. Furthermore, when we read the word "money" in biblical texts, we must remember that those writers were not thinking simply of coins. Instead, "money" refers to wealth and especially, to the potential of wealth to control our lives. Many Old Testament/Jewish Torah prophets spoke out against the people of God and their neighbouring countries because of their activities with money. The rich dominated the poor, placing them in debt and gaining ownership of their money and their land.

"Doing God's Work"

It has been this writer's long held conviction that for the last two centuries, the unwritten culture of the world's biggest banks has been one of unrelenting greed. If the biggest banks in America, for example, had all the money in the world, it wouldn't be enough. At no time was this philosophy of avarice better illustrated than during the years 2008 and 2009, by the big bank poster boy, Goldman Sachs. Indeed, as many Goldman employees themselves will attest to the bank's investment and payment policies: "Greedy, but long-term greedy!" Goldman's Chairman and Chief Executive Officer, Lloyd Blankfein, loves to revel in the statement that he's "doing God's work". While there exists an old colloquialism that: "Money is the root of all evil," rather, as we learn in the biblical text of 1 Timothy 6:10 "It is the love of money which causes all kinds of evil." What does it mean to serve money? Is Goldman focused on the understanding of money as a symbol of human relations? While money itself is not evil, it can be put to good or bad purposes. The question is: Who is in charge? Is money controlling Mr. Blankfein, or, is Mr. Blankfein controlling money? Money asks for the whole of our lives, just as God does. We cannot give the whole of our lives to both God and money.

"Government Sachs"

Goldman's critics argue that high-level U.S. Government officials discuss government policies on a private basis with more Goldman executives than those from any other financial institutions, giving Goldman an inside edge. However, Goldman adamantly denies that having so many former executives in top U.S. Government positions means the firm receives special treatment. And just then a cow flew by! According to the New York Times, the list of former Goldman executives who have occupied "key posts in U.S. Government administrations and vital global institutions in New York and Washington alone, is mind-boggling. It includes: Treasury Secretary under former President Clinton (Robert Rubin); Treasury Secretary under former President Bush (Hank Paulson); current President and former Chairman of the New York Federal Reserve (William Dudley and Stephen Friedman); Chief of Staff to Treasury Secretary Timothy Geithner (Mark Patterson); Chief of Staff under former President Bush (Joshua Bolton); Economic Advisor to Secretary of State Hillary Clinton (Robert Hormats); Chairman of the U.S. Commodity Futures Trading Commission (Gary Gensler); Under-Secretary of State for Economic, Business and Agricultural Affairs under former President Bush (Reuben Jeffery); the past and current Chairs of the New York Stock Exchange (John Thain and Duncan Niederauer); Chief Operating Officer of the Securities and Exchange Commission's Enforcement Division (Adam Storch). Moreover, Goldman's new top lobbyist in Washington, Michael Paese, previously worked for Barney Frank, the Chair of the House Financial Services Committee.

Quantitative Easing

As a seasoned bond trader with 50 years of experience in the Canadian investment industry, no one can convince me that Goldman Sachs did not possess advance information regarding the U.S. Federal Reserve's quantitative easing program (the Fed's $300 billion purchase of U.S. Treasury bonds) instituted in March, 2009. Whether it was Goldman's original suggestion, or Fed Chairman Ben Bernanke bouncing the idea off Goldman, it doesn't matter. Either way, Goldman had to be long and levered (margined) to the gunwales with Treasury bonds all across the yield curve, particularly in the 10-year and longer maturity range, ahead of this new government initiative. When the quantitative easing announcement was made, the10-year Treasury bond yield, for example, fell by 50 basis points (1/2 of 1%) from 4.00% to 3.50%, probably netting Goldman a profit in the neighbourhood of $50 million (U.S.) for every $1 billion (U.S.) of bonds in inventory. This is the practice known as 'proprietary trading'. There is no other way, that Goldman could have amassed billions upon billions of dollars of revenue and profits from the fixed income markets in 2009 and not just from client orders.

The American International Group (AIG) Bailout

According to an unnamed e-mail source at the New York Federal Reserve bank, Mr. Blankfein's name appeared on Hank Paulson's call sheet 24 times within a six-day period, during the AIG bailout negotiations in late 2008. Big European and American banks, including Societe Generale and Goldman Sachs, which held AIG insurance contracts were paid out in full, rather than at the 60 cents on the dollar which AIG negotiators had been demanding. While this prompted allegations within the banking community of a "sweetheart deal" between Mr. Blankfein and Mr. Paulson, we suggest the agreement was reached at the direction of Goldman Sachs, as a part owner of the U.S. Federal Reserve. (See also, Winter Warning, September 14, 2009 – Behold a Pale Horse and He Who Sat Upon Him Was Named Death and Hell Followed With Him).

Securitized Debt Issues

In the corporate finance sector of the investment industry, as part of the marketing process, it is common practice for a syndicate manager of a new corporate debt issue, to initiate a short position of about 5% of the issue's size. This is done in order to provide an initial "bid" for the issue when it commences trading in the secondary market, even if it ultimately reduces the drawdown commission, to a minor extent, for the banking group dealers. Within the past few years, Goldman's critics have accused the firm of underwriting securitized debt issues in the knowledge of them being misallocated a 'AAA' rating by the debt rating agencies. Furthermore, Goldman has been criticized for 'shorting' these issues in the secondary market for their own account, in order to register big profits by covering the short sales at inevitably lower prices. Any practice of this nature, under those circumstances, by any investment dealer is clearly immoral at best.

Executive Bonuses

Goldman Sachs made a $13.4 billion (U.S.) profit for 2009, on net revenues of $45.2 billion(U.S.), comparable to its record $46 billion (U.S.) in 2007. While Mr. Blankfein was awarded a bonus of $68 million (U.S.) in 2007, under pressure from lawmakers and President

Obama, Goldman's CEO received a $9 million (U.S.) all-stock bonus and a $600,000 salary for 2009. Speaking at a Credit Suisse investor conference last week in Miami, Goldman's Chief Financial Officer, David Viniar, commented that investors shouldn't use the 2009 bonus payouts as a proxy for 2010 pay: "There is no formula. We tried to strike the balance right (in 2009) and we'll try to strike the balance right this year."

Beware of the Ides of March

Mr. Blankfein may continue to fool himself that he's "doing God's work," but it is plainly obvious to the investing multitude that he lives to serve the rule of money. As we read in the biblical text of Luke 17:1, "Things that cause people to sin will happen, but how terrible for the person who causes them to happen!"

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