

William - Cohan, author of House of Cards 7/29/10

Notes

↳ Last Tycoons

11am

by

→ Krebs spoke previously about Bear

Adam Paul →

↳ Cooper - Causes?

OD - Incentives that

govern the behavior... In the crisis just
most recent of 4-5 in my profes lifetime
"Very fundamental Δ in way us organized"

"Small undercapitalized private partnerships"
"entire net worth on the line"

2-17

"Assume a fee business"

DOT - 1970 went public

"Every major + not so major US firm
is public"

3-20

"Liabilities are now born by corp... not by
individual"

↳ just care about revenue

4-20

"motivated by only one thing biggest bonus year-in
year out"

"all that mattered was fee income"

7-50

"system worked well for 40 yrs"

"defenders will say lowered the cost of
capital"

7

60-7 "Found extraordinary the amount people
are paid"
↳ nothing in fin

8-50 "bidding time until cross of different
nature by similar incentives"
↳ cite us a Brady study

"on US rewarded extremely well to
generate revenue"

8-00 ↳ not like sport, w/ unique talents
"people are good soldiers"
"by a large, no other place where good
soldiers can go & make \$ on US"

9- Gary just

Cary: "Dirty little secret, Minsky theory of cap)
Thought to areas that we should study?"

11- good job on acute causes
"nobody get to bottom of pay structure
a session really drilling to pay struct &
reliance on revenue"

↳ Goldman ↓ 40% employee comp

12 "If I were Wall St CEO for a day,
I'd immediately - Revenue belongs to
shareholders" → variable cost

13-19 ↳ "doesn't get to them"

14⁵⁰ "Why else go to us except to make a lot of \$"
"never once did for former process of
"Why out of TARP? Clear reason did not want Iken Fienberg in shorts telling them how much they could make

16¹⁰ wasn't lucrative to be a Goldman partner in private partnership
↳ always done better than teachers
↳ all picking up again

17¹¹ "will inevitably lead to another situation like this"
Dodd - private reward, social risk.

18⁴⁴ Cohen Rule - new class of security - net worth of top 100 people - tied legally to net worth
↳ at bottom of capital structure

similar to what Goldman still does

Partner MD concept - out of pre-tax earning - not revenue

↳ "caused them to take different steps"
"wasn't revenue ... (1) pre-tax income"
"that's why they are a devoted mark-to-market"

22

in Gary - Comp experts?

Berchuck (Harvard) - 49

Luchian Bercheik

People Felix Potan

Greenhill

William Donaldson (SEC)

Luskin

Lazard - 2005 went public

"If not like Lazard, crisis next would have happened"

↳ were all similar in 1970s

Today - Lazard - 3000 emp Goldman ~ 35,000 emp

25

E Gary - ascent of traders at expense of M+A

"jajitsu bit traders/bankers for a long time"

↳ now also consultant types - all about management now

"asendency of traders, see example at Goldman, case for lack of reg."

"Goldman is, or was, the most perfectly tuned machine"

↳ "clever enough to Δ directions"

30

↳ Gold communicates very well

"worked extremely well in lax regulation"

8 Gary - Goldman reshuffle

8 New information

→ collateral calls, pushing, on Bear AIG

"There still remains a huge structural problem:
B-short, lend-long

It's banking but causes problems when
confidence dries up

"Securities no longer exist"

↳ can now go to Fed or BHC

↳ solves "acute crisis"

↳ never get rid of TBTF

"The Darwinian notion of let market
decide thrown out window - always

perception of [bailout]"

"Not finely attuned to risk that they are
taking"

8 Gary - Buffett - charge people on downside
risk

"level of accountability is lost"

36th Lehman TPM - Bear

Loss column in NYT

"Should have let Bear fail"

"Had they let Bear fail, ..., it would have failed II

Fully there

↳ would have solved immediately

38⁻⁻⁻

Market message was "warped by gov. actions"
"Lehman fail needed to happen"

↳ Leh was horribly structured

↳ "duplicitious"

↳ Investors here & should have suffered

40^{PM}

Search Congress did not approve TARP

↳

8

Dimon (JPM) on Bear

↳ "didn't want it that much"

↳ "wanted the bidding"

42⁻

↳ oil & gas - could have made themselves

↳ "Dimon took advantage of competitors"

49 Thanks

Dying to know who bought short-dated

puts in March 08 - \$ millions

puts got 08 day

↳ theory that Hedgers pulled b/c they

had short dated puts

Kyle Bass - rumor mill

John Paulson

Goldman benefited

see Levin

committee docs

shorted already

TH

Was Goldman marking down &
shorting at the same time

1st mistake was Bear Stearns undisclosed
bet on mortgages
↳ end exacerbated by Goldman marks
↳ Famous Goldman CRO memo about
marks & repercussions

Bear decided for reputation to take
out repo lender to hedge funds
→ magnificent previous exposure
"Bear was unable to get financing other
than in the repo market"
Unanswered 3: Did smart hedge funds
people figure it out

SEC records ~~was~~ puts