



Recession, Merrill Lynch, and a Cup of 'Affordable' Coffee

It has been a while since I last met my dear friends from the broker community. In good times, this community hardly ever meets and in bad times, they don't seem to be in the mood to meet. With heaps of magazines and newspapers lying in my living room critically examining every aspect of the current economic crisis, I decided to get my piece of information from the man who's been right in the middle of this fiasco.

Girish runs a broking outfit based in Bangalore India for the past 15 years. His firm follows the business model of Merrill Lynch and focuses on agency execution. He looks up to Merrill Lynch and Goldman Sachs as industry's best. To him, they set a benchmark. Like many professionals who have turned entrepreneurs, his dream was to build this firm in line with some of the largest US/UK investment banks. He felt that the agency business was a safe model and with this strong belief on these principles, he has in fact never indulged in running proprietary trading books, most unlike the other traders in the sub continent.

The moment he heard my voice, he knew my hidden agenda. Security traders all over the world are sharp. They can read your pulse just by sensing the nervousness in your voice. In Wall Street, it is believed that the order management screens can smell money. Being a part of the IT industry and having developed trading applications, this remains a mystery to me. And this ability to sense human pulse only increases during such bearish times! Girish, similar to his counterparts across the world, did not mince words. He was straight to the point, 'Hey, you want to know some thing about the state of affairs? I am ok for a meeting at 8 o'clock in the morning, will that be convenient for you?' Dealing with real-time market prices, these guys are quick to close a deal. If it had been boom time, he would have flatly refused unless I pushed my request through his family members but this time he too wanted my perspective on the markets. Traders around the world value any and all information. You never know which information could land them the next million!

"So, where should we meet?" I asked him. For a moment, I feared he would spell some exotic, big budget eatery. He must have sensed my heart beat racing as he laughed and told me politely, 'Krishna Cafe, the one across the road in the neighbourhood'. Krishna Cafe is a small eating place across the road, famous for its breakfast and coffee. The

uniqueness of the food they offer has made it quite famous among food lovers like me. I was relieved a bit. Coffee at Krishna Cafe is good and more importantly affordable even during a recession.

When we finally met, I took a deep breath and asked him squarely, "Do you think we missed some of the important basics of investment philosophy and got into a mass hysteria? Because it appears that the party is finally over. Indices all over the world are down, NAV of most funds are lower than their public offering prices and exchange rate bet against the US Dollar has gone horribly wrong all over the world. Do you think we missed some thing at the beginning of the year?"

Girish, unlike the previous time we met, was not at all in a hurry. He seemed to enjoy each sip of his coffee. His eyes were shining with mischievousness and instead of answering my questions; he posed a new one. "I can calculate the motion of heavenly bodies, but not the madness of people". Like the TV anchor in the recent movie Slum Dog Millionaire; he continued, "Do you know who said this?" I was puzzled. I did not know who said this. Girish realized this and looked rather pleased. It seems these golden words were of Sir Isaac Newton.

In the eighteenth century, almost 3 centuries ago, Sir Newton lost his hard-earned savings in a scam or bubble commonly referred to as South Sea Bubble. Core to the bubble was a company called The Mississippi Company. The trading share price of this company started at about 10 pounds and reached astronomical heights of 980 pounds per share. The bubble lasted for a good 5 years and when it burst, it evaporated many dreams and the prices crashed to the level of about 20 pounds.

Girish continued, "You know what? From that day onwards, bubble formation and burst has becoming something of a rather predictable phenomenon in the Finance world." Every decade had experienced at least one bubble formation and a burst. He paused, sipped his coffee again and continued "As a broker, I have stuck to agency trading practice for the same reason. I don't run a proprietary trading book either. I buy and sell on behalf of customers only. No off-the-balance sheet transactions, Sir. In good times, my clients come to me to buy shares of all sorts of companies - a reason I cannot comprehend and in bad times, they want to sell everything -

again, a reason I don't understand. In any case, I charge commission for buying as well as selling as I am an agency trader."

I could not help but think about Merrill Lynch which had metamorphosed into a dealer broker agency trading house from their humble beginnings. I thought, if only they had met my friend here and had listened to him, probably they could have prevented the crisis. I was about to say the same to Girish, but changed my mind at the last moment. Deep down, being a part of the professionally trained member of the Investment Banking world, I felt the US Govt should have bailed out Merrill Lynch and Lehman Brothers. I thought bailing them out through bridged loan and collateralization would have helped the world economy much more than allowing them to sink under their own weight. Merrill Lynch stood for its sophistication and has contributed significantly to Wall Street - The most talked about street on the far side of the world.

After a long conversation, when I was ready to leave, I asked Girish again, "What do you think? How long this will last?" For a change, Girish handed over the bill to me and looked deep into my eyes and spoke with utmost sincerity, "It is not the first time in the financial history people have lost money big-time. It would not be last time either. We, human beings are generally happy by nature. We will simply get bored talking about gloomy things. How long do you think one can mourn about the dead? 8 out of 10 times, we move on from the difficulties and hardship we face. We will start hanging around with friends and families. We will start going for movies and send our kids to school. Life rejuvenates from

whichever state it is in. Yes, I agree taking your family to five-star hotel dinners will take some time to come but the Krishna Cafes of the world will survive and accommodate us till then".

I could not agree more. However, I wanted to add a rejoinder saying that the Government's priority should be saving the Krishna Cafés of the world - a place where the common man can afford a cup of coffee even during a recession. It is finally the small and medium entrepreneurs who help create the future economy.

Please send your feedback to

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