

WALL STREET GOES TO THE COWS

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There are very few financial commentators that have the ability to entertain as well as inform. One of my favorites is Mark Gilbert from *Bloomberg News*. Several months ago he used the innocuous world of bovines to eloquently describe several areas of the financial world that have become conspicuously popular. Here is our off-beat take...

Leveraged Buyouts

You start with two cows. You come home one day to discover that either Henry Kravis or Eddie Lampert is chatting to your spouse at the dining-room table. Low and behold several days later, you have no spouse, no farm, and no table. Two guys the size of Andre the Giant have put saddles on your cows and are riding them around your old farmyard.

Hedge Funds

You have two cows. A guy wearing a very nice suit with no tie, accessorized with a 100K timepiece pulls up to your farm in his Aston Martin. Mr. *Master of the Universe* offers to take care of your two cows, and in return provide you with a one year supply of filet mignon, and 50% of their milk yield. You wonder to yourself how this is possible, but Mr. MOTU says he is a **“financial engineer”** and has the suit, car, watch, estate and 20-year-old Victoria’s Secret model girlfriend to prove it. The only caveat is your cows will not be able to leave his Greenwich, CT compound for two years.

Six months later, you look at your bovine account statement and realize that all you have is half a cow that is producing only sour milk. You call the Mr. *Master of the Universe* to inquire about what has happened. Mr. MOTU returns the call several weeks later from the Cayman Islands, while drinking a bottle of 40-year-old Chateau Lafitte and chewing on filet mignon; he offers his reassurance that everything will eventually be just fine, and offers up this insightful phrase...

“You can get a good look at T-bone by sticking your head up a cow’s ass but, wouldn’t you rather take my word for it.”

Mr. MOTU hangs up, and you realize that he is quoting the film *“Tommyboy,”* at that point you realize all is lost. Mr. MOTU currently resides in a palatial estate, on Paradise Island, in the Bahamas.

Collateralized Debt Obligations (Think subprime collapse)

You have two cows. Mr. Investment Bank takes the cows and repackages them with ten others and creates what is called a *Collateralized Lactating Obligation*. Mr. Investment Bank subsequently pays for a triple A credit rating, slices the CLO into 20 pieces, makes a shiny happy brochure and sells it to investors all the while keeping all the cream from the milk for themselves.

Soon after, the bovines catch **“I bought something I could not afford”** disease, a not so rare form of Mad Cow and stop producing milk. Mr. Investment Bank’s clients lose their investment while Mr. Investment Bank keeps the cream. Mr. Investment Bank then steps in and buys back the sick cows for 40 cents on the dollar and feeds the cows the medicine which allows them to produce milk once again. Mr. Investment Bank sells the cows off a year later.

Source Material:

Gilbert Mark [If Hedge Funds Kept Cows, Your Milk Would Go Sour](#) *Bloomberg News* February 9th, 2007