

Super Trader Chauncey Wigginbotham IV Explains the Wall Street Bailout to the Average American

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Chauncey: Look, I understand this is a very complex issue that may be beyond your limited intelligence. Let me try to explain it in simple everyday terms that you can understand.

Average American: Well, ok.

Chauncey: Now, I have been planning to buy another estate in the Hamptons. Due to this awful credit crunch, I've had to cut back a bit and postpone my purchase.

Average American: Ok. But I still don't understand why I should give you \$700 billion.

Chauncey: Now, look, I realize \$700 billion is a big number, probably beyond your limited mathematical skills.

Average American: I got a B in mathematics.

Chauncey (arching an eyebrow): Oh, really. Well, think of it this way, \$700 billion is just about \$2300.00 for each person in the United States. So it is like you write me a check for \$2300.

Average American: I'm following you. But I have a wife and two kids, so it is more like I write you a check for \$9200.

Chauncey: Oh, *you* can multiply?

Average American: I got a B in mathematics. What did you get?

Chauncey: Uh, er, well, I got a C, but that was at Princeton.

Average American: I went to Podunk Community College. So why should I write you a check for \$9200?

Chauncey: Ok, you remember that estate in the Hamptons that I can't buy?

Average American: Yep.

Chauncey: Well, if you and enough others write me checks for \$2300, excuse me \$9200, I can buy that estate in the Hamptons.

Average American (puzzled): OK. Why should I do that? Do I get to use the estate in the Hamptons, sort of a time sharing deal like those condos at Lake Tahoe?

Chauncey: Good heavens! No! Look, when I buy that estate in the Hamptons, this is called *injecting liquidity into the credit market*.

Average American: Hunh?

Chauncey: See, the billionaire that I am planning to buy the estate from – he is trading up to an authentic castle in France – will deposit the money -- \$20 million by the way – in a bank. Then, that bank will lend money to other banks which may eventually lend money to your employer so they can make payroll. You do want to get paid?

Average American (scratching his head): Well, yes, I want to get paid. I guess I'm a little lost here. I didn't follow that at all. Can you explain that again?

Chauncey (exasperated): Look, there is a credit crunch because of the mortgage backed securities meltdown.

Average American: OK, I'll take your word for that. My bank keeps upping the interest rate on my credit card even though the Fed has cut rates.

Chauncey (smiling): Exactly. Because of the credit crunch, your employer may not be able to borrow money to make payroll.

Average American: Well, OK. I thought my employer just took the money from selling widgets and paid me.

Chauncey (chuckling): Well, it is a little more complicated than that.

Average American: OK, so my employer may not be able to borrow from his bank because of the credit crunch and therefore I may not get paid.

Chauncey: Exactly!

Average American: But why should I write you a check for \$9200 again? Why can't I just lend the money directly to my employer. He gets the \$9200 for a few months. I get an IOU. I'm a creditor and I get a guarantee to be paid back. As a creditor, I come ahead of the stockholders.

Chauncey (aghast): No, no, no. That's not how it works.

Average American: I know I'm not the sharpest knife in the toolbox, but can you just try to explain it to me again?

Chauncey (exasperated): OK. I'll try again. Look the economy and the federal government depend on super-rich people like me. Did you know that the Wall Street Journal says that 30% of all tax revenues come from the super-rich? We are only 0.00001 % of the population, but according to the Journal we support the entire country with our taxes. You would be in deep trouble without us. Did you know the Journal says that?

Average American: Yeah.

Chauncey: Oh, *you* read the Journal?

Average American: Every now and then. It seems like you guys have an awful lot of money. How much money do you make?

Chauncey: Um, er, well, I don't recall.

Average American: Well, you must have some idea. Give me a round ballpark figure.

Chauncey: Well, it is very complicated. I am paid with a year-end stock option bonus. The value is calculated using a modified Black-Scholes option pricing model.

Average American: Hunh? Look, I make about \$50K. Just give me a ballpark figure.

Chauncey: Um, er, well...

Average American (incredulous): You are this mathematical genius – I mean with a C from Princeton – and you have no idea how much money you make?

Chauncey: Well, I made about \$200 million last year, not including some complicated derivative securities transactions in the Virgin Islands that only my accountant understands.

Average American: That's a lot.

Chauncey: Well, not really. I was pretty disappointed when I saw my year-end bonus amount. My boss made \$1 billion last year.

Average American: Wow! That is a lot!

Chauncey (pouting): Well, not really. He was pretty upset when he saw how small his year-end bonus was. My boss's boss made \$10 billion last year. He is actually in the Forbes 400. I want to be in the Forbes 400. I mean I am keeping the entire company afloat, but he is in the Forbes 400. It just isn't fair!

Average American: Hmm. I can see how you might feel frustrated. So if I am going to write you a check for \$9200, I'd like to know what you do for that \$200 million.

Chauncey: Um, er, well, it is really complicated.

Average American: Boy, for that much money, it must be something really important. Have you cured cancer? I haven't seen anything about that in the papers. My Dad is still having chemotherapy. It doesn't seem to work very well.

Chauncey: Uh, no.

Average American: You've invented a revolutionary new energy source that costs the equivalent of pennies per barrel of oil, eliminating America's dangerous dependency on foreign oil?

Chauncey: Uh, no.

Average American: Well, you have at least built a giant widget factory in Ohio that fills WalMart with useful widgets?

Chauncey (indignantly): The Chinese do *that* in China.

Average American: So, what do you do?

Chauncey (proudly): Well, I sit in front of this high tech computer screen and shout "buy at \$45" and "sell at \$43" as loud as I can into a phone.

Average American: That's it?

Chauncey (proudly): Well, there is a little more to it than that. See, I'm a super trader in mortgage backed securities. I have this staff of nerdy Ph.D.'s from top schools like Princeton who give me the results of sophisticated mathematical models of the value of mortgage backed securities.

Average American: OK.

Chauncey: When the model says "buy", I shout "buy" into the phone. When the model says "sell", I shout "sell".

Average American: Well, do you understand the models?

Chauncey: Understand?

Average American: Yeah, understand?

Chauncey: Well, I have those nerdy Ph.D.'s to do the understanding part. Ungrateful little snots. They keep quitting because they only make \$400 K per year. After all I have done for them!

Average American: OK, I guess I still don't understand what you really do. If you don't create the models that actually decide whether to buy or sell, what do you do?

Chauncey: Look, those nerdy Ph.D.'s have terrible people skills. Many of them don't understand how to shout "buy" at someone on the phone. Some of them are actually polite – you don't get very far on Wall Street by being polite. I prefer the rude arrogant superstrings theorists myself.

Average American: So what was your degree at Princeton *in*?

Chauncey: Um, er, Political Science. But the really important thing is that I was captain of the Princeton football team. That taught me important people and team building skills. I'm a team player.

Average American: So you got paid \$200 million to shout the wrong recommendations from mathematical models that you didn't understand into a telephone last year?

Chauncey: Um, er, well, I wouldn't put it that way. Those models are very complicated and I wasn't as confused as you would have been.

Average American: Well, judging from the \$700 billion you want me to pay you, the models obviously didn't work. Wasn't it your job to make sure the models worked?

Chauncey: My job?

Average American: I mean it sounds like you got paid \$200 million to lose \$700 billion last year. I'm not sure that I should give you another \$700 billion.

Chauncey (looking puzzled): I don't follow that. We are only talking about one \$700 billion bailout.

Average American: Well, the mortgage backed securities that you bought were supposedly worth \$700 billion, right? Presumably, you bought them for \$700 billion.

Chauncey: Well, er, yes.

Average American: Now they are worthless.

Chauncey: Well, I wouldn't say that!

Average American: Well, nobody will buy them. That sounds worthless to me.

Chauncey: Well, in a naïve market fundamentalist way. But you are going to buy them for \$700 billion so they are worth \$700 billion, just what I paid for them.

Average American (looking just a tad upset): So you lost \$700 billion dollars and now I am going to have to pay \$700 billion for the otherwise worthless mortgage backed securities? Have I got it right?

Chauncey: Look, you need to think in simple terms that you can understand. We are only talking about \$2300 from you personally.

Average American: \$9200. I have a wife and two kids.

Chauncey: Well..., ok..., \$9200. Look, this is a national crisis. We have to act fast or civilization will collapse. You can write me the check for \$9200 right now. I'll accept a personal check. You don't even have to show me your driver's license. I trust you.

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