Interviewee: **Christopher Zook**

Title: **CIO**

Company: **Caz Investments**

Interviewee: **Michael Aronstein**

Title: **President & CEO**

Company: **Marketfield Asset Management**

Interviewee: **Hersh Cohen**

Title: **Chief Investment Officer**

Company: **Clearbridge Advisors**

Interviewee: **Paul Saffo**

Title: **Managing Director**

Company: **Discern Analytics**

Interviewee: **William Rhodes**

Title: **CEO & President**

Company: **William Rhodes Global Advisors**

Interviewee: **David Woo**

Title: **Head of Global Rates and Currency**

Company: **Merrill Lynch**

Interviewee: **David Stockman**

Title: **Former Director**

Company: **Office of Management and Budget**

Interviewee: **Tom Porcelli**

Title: **Chief Economist**

Company: **RBC Capital Markets**

Interviewee: **Jerry Del Missier**

Title: **Former COO**

Company: **Barclays**

Interviewee: **Dan Alamariu**

Title: **Director of Financial Services Comparative Analytics**

Company: **Eurasia Group**

Interviewee: **Robert Profusek**

Title: **M&A Practice Leader**

Company: **Jones Day**

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Interviewer (1): **Matt Miller**

Interviewer (2): **Mark Compton**

Interviewer (3): **Kelly Bit**

Interviewer (4): **Betty Liu**

Interviewer (5): **Sue Keenan**

Interviewer (6): **Sara Eisen**

Interviewer (7): **Tom Keene**

**Matt Miller**

The International Monetary Fund cutting its 2013 global growth forecast, blaming the debt crisis in Europe for spaying the recession and slowing the economies of China and India. A long list of economists sounding the alarm about the fiscal cliff facing the U.S., we’ll tell you what Wall Street and Main Street need to know about the budget cuts and tax increases due to kick in at the end of the year. And Yahoo naming its 5th CEO in 4 years, tapping Google’s Marissa Mayer. We’ll introduce you to the Silicon Valley star. All those stories and more throughout the hour, and as always you can get them at the minute on Bloomberg.com. Here to walk us through everything, Clearbridge Advisors Chief Investment Officer Hersh Cohen, Marketfield Asset Management CEO Michael Aronstein, and Discern Analytics Managing Director Paul Saffo. Pleasure to have you gentlemen with us, we’re gonna kick it off as we do every night with a look at trading. We had a mild hue of red across the board, the S&P lower for the 7th time in 8 days. Leading declines on the Dow: JP Morgan and Home Depot. Stocks dropping after the IMF cut its 2013 global growth forecast at 3.9%, that’s lower than an April estimate. Also weighing on equities, retail sales in the U.S. unexpectedly dropping for a 3rd straight month. In fact, the decline was larger than the most pessimistic forecast. And new worries about your Moody’s downgrading 13 Italian banks after the closing bell, some investors tell us there’s a common theme to all of this, here’s Chris Zook of Caz Investments.

**Chris Zook**

The biggest weight on the markets right now is just uncertainty, whether it be the uncertainty out of Europe, the uncertainty out of Washington, or the uncertainty out of global growth particularly out of China. Those are all weighing on the markets and we have a coiled spring that just simply wants to explode but can’t because of those uncertainties.

**Matt Miller**

Let’s hear from Paul, Hersh and Michael, it was an interesting day on the markets, not a lot of volume, not a lot of movement and Michael you’re saying that could be a trend. We’ve obviously seen it for a while now, and could be here to stay.

**Michael Aronstein**

Yeah, I think the markets are much less liquid, progressively less and less liquid, there’s a lot of what I would call games-playing inter-day among people who don’t really have the intent of owning stocks; they’re using them as a medium or short term competition among themselves.

**Matt Miller**

And you mean high frequency trading right not day traders?

**Michael Aronstein**

Things allied with that, including day traders. But I think overall, if you want to get something accomplished in the market on either side the market’s tremendously illiquid.

**Matt Miller**

Hersh what do you think about the market?

**Hersh Cohen**

It’s interesting that he just made that comment because I go home some nights and I think individuals have gone, they’ve vanished, and it’s professionals trading with each other. Whether it’s pushing a computer button or hedge funds and whatever it is and it’s frustrating, but you can still own stocks, good stocks, but I’ve been feeling for the past several months that we’re bound on the up, we’re kept on the upside by this whole fiscal cliff thing. I’ve been saying that, it’s not new now, the country didn’t even know what a fiscal cliff was a few months ago now of course it’s more common that people think about it. But it’s also, the valuations are good so any time the market goes down and it looks like it’s gonna fall off a cliff, not the fiscal cliff the real cliff, it doesn’t, people come in and buy it. And the reason is the market is just, it’s not expensive.

**Matt Miller**

What do you think Paul about the market fundamentals, low volume, the absence of Main Street investors? Is that…?

**Paul Saffo**

I think Chris got it exactly right, he hit it spot on. This is about uncertainty, and this age of all the complexity of the markets, there are vérités that still hold. And 70 years ago Keynes in his general theory wrote that general uncertainty, radical uncertainty always holds back recovery. And if there is a malaise in the market is that notion of radical uncertainty by ordinary investors. Until they overcome that you’re not gonna see a comeback, it’s that simple.

If the president took congressional leaders and locked them in a room like Lyndon Johnson would have done and said, giving you lots of coffee and you’re not coming out until we have a deal, and they came out with some kind of call it compromise whatever, then the market would be uncapped on the upside.

**Hersh Cohen**

Actually all I think’s required is that he locks them in a room and announces to the public that they’re never coming out.

**Matt Miller**

We do hear though and Hersh makes this point about how cheap the U.S. market is, not only how cheap it is but how…

**Hersh Cohen**

I didn’t say cheap, I said not expensive. It was cheap.

**Matt Miller**

Not expensive, but what a safe investment it is when you put it next to everything else, I mean relative to everything else to U.S. equities look good to you here Michael?

**Michael Aronstein**

Yeah certainly, we’re in a world where safe returns on passive liquid capital are rapidly tending towards zero; they’re already zero in real terms in most instances. So the reason people are, I think, skittish about owning stocks doesn’t have anything to do with the intrinsic characteristics of the companies involved, it’s because the markets jump around every day. And people are conflating volatility with fundamental risk and because of what they went through in 2008 they can’t stand to watch the screens. So people would much rather have an overvalued, illiquid investment that doesn’t trade and is priced at the same number on their statement every quarter than watch what happens in the day-to-day drama of the markets.

**Matt Miller**

Were you gonna comment on that Paul?

**Paul Saffo**

This is a market I think more than any other moment in the last several decades, it is being driven not just by macro factors but by super macro factors. The events that are having the biggest impact are ones that are not just outside of the competitive space of the companies but outside of their industries, and if you can’t step back and get a sense of what those super macro factors are that’s called gambling.

**Matt Miller**

Alright then a lot of people I think would call it that without hesitation. We’re gonna take a quick break continue to talk about this. Also we’re gonna talk about one of the world’s most respected bankers, Bill Rhodes, we’re gonna hear from him I should say, we’re gonna hear his prescription for Europe next. Plus later on in the program, how fast or slow we should expect the U.S. to grow next year. And the next chapter in the global interest rate manipulation scandal, the Libor scandal, the gift that keeps on giving. All that and more when Bloomberg Rewind returns.

**Matt Miller**

This is Bloomberg Rewind, I’m Matt Miller. Let’s focus in on Europe now, the IMF cut its 2013 growth forecast for the Euro region. Bill Rhodes, former Vice Chairman of Citigroup told Bottomline anchor Mark Compton why he thought that number was conservative.

**Bill Rhodes**

As a matter of fact I think they may be too optimistic on European growth in the sense of what they are projecting there because I think you’re gonna have a worse growth in places like Spain and perhaps Italy than they’re projecting.

**Mark Compton**

You’re just back from Europe, you attended some economic conferences there. What did the participants say was the best way for Europe to move forward right now

**Bill Rhodes**

Well what they have to do is decide what they want to do and put a timeline on execution because this is like going back to when you and I talked last July and August because at that point in time they had come out with this new plan talking about the stability fund, stability mechanism, and everyone was euphoric, it was the 27th, 28th of July, and then they all went off for vacation in August and it turned out things didn’t go that way. So this is a 19th EU summit not to talk about all the finance ministers and everything else, and what they need to do here is they need to put a timeline on implementation and actually achieve it. For instance, what are these two stability mechanisms gonna do. You have the fund and the mechanism and it’s still not approved are they gonna buy bonds in the secondary market for Italy or Spain as they suggest. They have to recapitalize the banks. Exactly how are the Spanish banks gonna be recapitalized. As you know 2 and a half months ago I said on Bloomberg it would cost at least 100 billion euros and people kind of laughed, well you see what the figure is. But we don’t have exactly how it’s gonna be done and when it’s gonna be done.

**Mark Compton**

Did political upheaval play a sense in this in terms of that timeline not being adhered to?

**Bill Rhodes**

You have to say the reason they were voted out of office is because people felt that they weren’t doing the job. You know one of the things I always say in my book is you gotta convince a population of a country that the reforms, austerity measures are gonna lead to growth, and if you don’t they’ll vote you out of office or worse.

**Matt Miller**

Bill Rhodes there, Senior Consultant to Citigroup. Michael you and I were talking before the program about how you could kind of compare, in a sense, this to what we went through with Japan 20 years ago.

**Michael Aronstein**

Yeah it’s certainly possible that Europe just keeps going the way that it’s been going and some of the southern periphery just basically becomes an annex of North Africa, both in practical and economic terms. And if they choose to do that, that’s their choice; I have no opinion. I know what will happen given the policy options, but I have no idea whether or not they’re gonna undertake to straighten themselves out. A lot of countries have not. A lot of countries have chosen to kind of go down the water slide and keep going. So it’s a challenge, it’s a big political challenge. But I think overall people are confusing the incapacity of governments with incapacity of economies, and governments are not economies.

**Matt Miller**

Well, I think those are two easy things to confuse. It is a huge challenge obviously politically, and Hersh, maybe this is the reason that U.S. equities are not expensive.

**Hersh Cohen**

I don’t think that Europe is the biggest factor on American investors’ minds and I’ve felt since the whole crisis started to unfold in Europe last summer that they’d muddle through. They’d go to the edge and there’d be a lot of posturing and they wouldn’t let banks go under, wouldn’t let sovereign debt totally go under. You can’t because of the Lehman experience here and the impact it had, how could they of the potential catastrophe. However the policy decisions of cutting your way to prosperity are absurd.

**Paul Saffo**

This is the opposite of Japan. Japan’s crisis was too much political control, Europe’s crisis is too little. You have 19 jurisdictions, there’s a major election every month. Think how this country jams up with a single election. At the same time that lack of control gives promise for Europe because the uncertainty will remind people of the European dream, and if the European public is going to align around doing the right things it’s going to be the terror of the loss of the European dream.

**Matt Miller**

When we come back one of the most famous American investors, investing legend Barton Biggs, his storied career and controversial calls next right here on Bloomberg Rewind.

**Matt Miller**

This is Bloomberg Rewind I’m Matt Miller. This is the time of the show when we usually take a look at all of the big Wall Street names making news. Tonight we focus on just one. We are paying tribute to the legendary investor Barton Biggs who passed away over the weekend. Bloomberg’s Kelly Bit has the story. Kelly.

**Kelly Bit**

Matt Barton Biggs, a titan of the hedge fund industry passed away this weekend at the age of 79. Born in New York City in 1932 he went on to attend Yale University where he studied English. Before moving into finance he taught English at a private school and served with the U.S. Marines. Biggs spent nearly 30 years as an investment strategist at Morgan Stanley before founding Traxis Partners. While at Morgan he predicted some of the biggest bull and bear markets of a generation. In 1982 he said U.S. stocks were poised for a bull market, and sure enough the S&P 500 rose for the next 8 years. In 1989 he warned investors to dump Japanese stocks right before they collapsed. He sealed his fame a decade later when he told investors the U.S. stock market was on the verge of “The biggest bubble in the history of the world.” That view came true when the Nasdaq fell 78% in early 2000. And while he was blindsided by the credit crisis in 2008, he did correctly call the bottom of that bear market almost to the day. Here he is on Bloomberg Television in February 2009.

**Barton Biggs**

I think that there’s too much bearishness and the market is poised for a big big rally.

**Kelly Bit**

The S&P 500 made its bear market load just 3 weeks later and went on to rise almost 70% over the next year. Barton’s last appearance on Bloomberg TV was on May 7th. Matt back to you.

**Matt Miller**

And he will definitely be missed, he was one of the first big name guests that I interviewed here and he was a regular on Street Smart as I anchored that program and very kind to me personally and really I think widely respected on Wall Street. Kelly thanks for that. For more on the life and legacy of Barton Biggs head over to Bloomberg.com. Here with me Michael Aronstein of Marketfield Asset Management, Hersh Cohen of Clearbridge Advisors, and Paul Saffo of Discern Analytics. Not sure how much you guys had contact with Barton but everybody certainly knew his name.

**Michael Arronstein**

Yeah I knew Barton reasonably well, in fact we had talked in 1985 about the possibility of my coming over there when he was kind of changing roles. And, you know, we both went to the same school and he was a thoughtful guy, very interesting guy, and I think his background in the humanities served him very well, because he was able to kind of look outside the common basis of what went on in Wall Street analytics and come up with some perspective.

**Matt Miller**

He was incredibly bullish on China, not just as an investment opportunity but sort of bigger picture and I think he created this global strategist role at Morgan Stanley. And I kind of think about what you do Paul as sort of forecasting the future, that was a new thing and obviously it’s a difficult thing to do but he was doing something similar back in the 70s, 80s, and 90s at Morgan Stanley

**Paul Saffo**

Absolutely, I think the approach he had to the world was one very much of the more uncertain times are the deeper you need to look at the deep forces that are shaping things. And I think in the spirit of what he did we all have to be careful about not getting too bewitched by the short term and the great danger today with the web and the internet and everything that’s flowing over people’s desks is to get completely bewitched by what can only be called finance porn.

**Matt Miller**

Well, it’s definitely a problem obviously if you make these big calls people will hold your feet to the fire forever, but I think Barton made a lot of correct calls and he’ll be dearly missed. Quick break we’re back with David Stockman.

**David Woo**

If U.S. ends up going down the path of fiscal cliff and fiscal tightening, then probably time is running out for your bank book. So I think the fact in the U.S. that Obama’s now leading in the poll and gaining momentum, which would suggest a hard fiscal cliff, to me that’s very bad news for Europe.

**Matt Miller**

That was David Woo of Merrill Lynch talking to us about the relationship between U.S. and European politics. This is Bloomberg Rewind, I’m **Matt Miller**. Focusing in now on Washington let’s here from the former director of the Office of Management and Budget under Ronald Reagan David Stockman, he spoke to In the Loop’s Betty Loo about the fast approaching fiscal cliff.

***David Stockman***

*We are at the fiscal end game. From here it’s going to be chaos, unrelenting, unremitting, nothing will happen before the election. When we get into the lame duck, there’s no possibility of a grand bargain.*

***Betty Loo***

*Even the lawmakers on the hill and the economists and those who’ve been in Washington for a while say though, eventually it would all get solved. It will. So what’s the real cost here?*

***David Stockman***

*The real cost is uncertainty that it’s gonna get worse. I think when people tell you it’s all going to get solved they’re not explaining how. The way it’s going to get solved is by one bump in the road after another after another, partial solutions, 3 month extensions, 11th hour crises over extending the debt ceiling or continuing resolutions, partial temporary extensions of the tax cut or of the sequester being deferred.*

***Betty Loo***

*So all that punting, punting down the line.*

***David Stockman***

*It’ll be punt, punt, punt, kick the can; it’s gonna go on for this entire next term. The debt problem doesn’t become a problem until the markets suddenly have a wake up call and realize if the Fed doesn’t keep printing it’s game over. Right now it’s not a vote of confidence that the United States is a safe haven and therefore they’re buying the bond this morning at 1.48 or the 10-year, it’s the vote that the Fed isn’t gonna let anything bad happen to the bond market.*

***Betty Loo***

*I don’t think that.*

***David Stockman***

*Because the Fed has been medicating and manipulating this bond market through Operation Twist, through QE1 2 and 3 and so forth. The central banks of the world own 5 trillion of the 11 trillion of debt outstanding.*

***Betty Loo***

*It is true…*

***David Stockman***

*If it ever became clear that they were going to stop buying or they were gonna have to start selling down the position, all of the smart money that’s in the bond today on leverage, on repo, will sell in a heartbeat and once the selling starts it will not be stoppable.*

**Matt Miller**

That was former OMB director David Stockman, let’s get reaction from Hersh Cohen, Michael Aronstein and Paul Saffo. Hersh what do you think about the possibility that this stuff will just get sort of punted, that we’ll never come up with a great solution, that we’ll just sort of kick the can down the road.

**Hersh Cohen**

High probability of that.

**Matt Miller**

And does that concern you?

**Hersh Cohen**

I’ve never seen anything like it, the statesmen, the states people are all gone, there’s no more Tip O’Neill’s, there’s no more Everett Dirksen, there’s no more Lyndon Johnson pre-Vietnam, there’s no more Hubert Humphreys, Jacob Javits, no it’s not gonna get solved.

**Matt Miller**

Does that worry you though as an investor?

**Hersh Cohen**

Yeah very much, which is why I said before we’re capped on the upside until maybe by some miracle people do get together on it. I’m not optimistic about that. And that’s why I really like dividends and upfront returns, except it’s now kinda becoming conventional wisdom but where people should have been putting their money over the past couple of years and probably should every time the market goes down 10%.

**Matt Miller**

What do you think Michael you were talking about sort of trying to divorce governments from economies, do you have to do that in this case as well?

**Michael Aronstein**

Yea I think so although in this case having a substantial tax increase at this point would really, really be harmful, particularly at the upper end. I mean that’s the one that counts for capital formation, and millions of small businesses would be impacted if the top rate moves up there, and you know people respond that by-- I’m sure there are a lot of people taking capital gains this year and planning to do things in anticipation of a changed tax environment, all of which is very, very unhealthy. I don’t know, I think the best solution we have really to managing all of this is to put a hard cap on the debt ceiling year to year and make the president, whoever he happens to be come November, adhere to that and just not alter it, which Congress has the capability of doing.

**Paul Saffo**

And cut spending and take it out of the people who can least afford it, that’s wrong too. I’m not declaring a political position on this but you know raising taxes is not good, cutting spending here is not good. I think we’re missing a massive stimulus and we’re missing long range issues to the problem. We’re in a major long term hole that is not going to be made by capping spending next year, you need some really deep thinking about solutions. Kind of the Simpson Bowles kind of stuff, they’re talking about that. Why didn’t Obama run with it? I don’t know.

**Matt Miller**

I’m Matt Miller, this is Bloomberg Rewind, the most comprehensive hour of financial news and market analysis on television. For a look at the market moving stories that came out after the closing bell and all of Bloomberg’s top headlines let’s get to Sue Keenan, Sue.

**Sue Keenan**

Well Matt more troubling news out of Europe, Moody’s downgrading 13 Italian banks. Among the names, Italy’s biggest bank Unicredit and its second-largest lender, Intesa Sanpaolo. Moody’s citing Rome’s weakened creditworthiness. Here at home commodity prices are expected to keep climbing. Corn already at a 10 month high and soybean prices reaching the highest level since 2008. That’s as the worst drought in a generation dries up fields across the Midwest. And it’s not over, the middle of the country is forecast to be unusually dry and hot over the next 10 days. All of this threatening to drive food prices to record highs. And because of the drought, Goldman Sachs says cow prices will be 12% lower than forecast in the next 3 months. Meanwhile Yahoo has a new CEO. The tech giant announced today that former Google executive Marissa Mayer will become Yahoo’s next CEO. Yahoo shares are rising more than 2% in after hours trading on the news, Google’s CEO Larry Page they will “miss her talents.” Meyer spent more than 13 years at Google.

**Matt Miller**

Thank you Sue we’re gonna check back in with you a bit later for our market roadmap. I am here with a number of guests but one who’s come in from the west coast and Paul you spent a lot of time obviously in Silicon Valley there, you know Marissa?

**Paul Saffo**

Silicon Valley’s a very small place.

**Matt Miller**

And so what do you think about her as a fit at Yahoo, does it make sense?

**Paul Saffo**

Yahoo’s desperate and Marissa needs a job. She’s a great brand for Yahoo, she’s got a good talent for bringing smart people around her, but it would certainly not be the news story I would pay the most attention to today.

**Matt Miller**

It’s just interesting for us because sensationalist journalism as it is you know, 5th CEO in 4 years, it’s juicy. If you’re an employee of Yahoo you have to say, good luck. I met the last 4 bosses in the last 4 years so how long you gonna stick around?

**Paul Saffo**

Well unlike some of the previous bosses Marissa’s actually a really nice person.

**Matt Miller**

Well that’s good to hear on this Monday afternoon. Let’s focus in on the U.S. economy now. Tom Keene and the Bloomberg surveillance team spoke with Tom Porcelli, chief U.S. economist at RVC Capital. Tom asked him what Washington’s biggest problem is as we approach the fiscal cliff.

**Tom Porcelli**

Don’t really pay attention to the unemployment rate, the unemployment rate is being completely skewed right now. Just consider this, if the labor force was held steady over the course of this year the unemployment rate would actually be closer to 10%. So what’s driving the unemployment rate lower is just a lot of people leaving the labor force, so we’re sort of skeptical about the unemployment rate. Instead we’re just telling people focus on the change in jobs, and of course there it hasn’t been that encouraging, moreover we expect it’ll probably remain around these levels.

I know you’re worried about the fiscal cliff, how do you as an economist quantify the impact of the grandstanding in Washington, the election, the deficit, the debt ceiling and potential downgrades?

**Tom Porcelli**

Yeah it doesn’t elicit much confidence does it? And in fact again I would go back to this one point, and I don’t want to make this too loudly because I like the people I speak to in D.C., but our call for a negative print in Q1 is a call on the ineptitude of these guys down in D.C. It’s funny to rational people, we’re all reasonable people around this table, we would say that the fiscal cliff is too big. However that’s not how they’re approaching it right now and it really seems from our vantage point that they’re willing to throw blame at the other side of the aisle. What we have to recognize is, QE2 really didn’t have the intended result, I think we all recognize that. If you look at bank reserves, bank reserves rose by almost the same amount as actually QE2.

**Tom Keene**

Operation Twist.

**Tom Porcelli**

And so what’s even more compelling for us if you look at the actual lending data, lending actually fell over the course of the point where Fed started QE2. So we could do another round of QE3 but at what cost.

**Tom Keene**

Ok let’s say you’re wrong and it’s not 0.9 it’s 1%. They’ve got to act with a 1% GDP.

**Tom Porcelli**

I don’t think there’s any question, I think what’s even more compelling for them is just the jobs numbers and Bernanke really drove that point home at the Post Press Conference, that’s what they’re focused on at this point. You know we actually thought at one point that maybe it was the equity market, that maybe because the equity market was holding up so well that that would push them to the sidelines. But it’s been stunning to me that Bernanke typically does mention the equity market as one of the benefits of QE.

**Matt Miller**

That was Tom Porcelli there of RBC Capital Markets, I’m here with Clearbridge Advisors Chief Investment Officer Hersh Cohen, Marketfield Asset Management CEO Michael Aronstein, and Discern Analytics Managing Director Paul Saffo. A lot of chuffing and guffawing during that. He’s talking about the ineptitude of Washington. It’s easy to do that but we have a real problem here, Hersh.

**Hersh Cohen**

You know the fiscal cliff, talked about it, worried about it, don’t think it’s going to get solved too easily. But you’ve got a bigger problem which is the debt crisis as personal debt went to levels twice what they had been in the previous 3 decades so you’re in a position where we’re just gonna take a long time to unwind the debt, the headwinds are enormous. I don’t see why anybody’s surprised at the weakness of the economy. Where are the jobs gonna come from, where’s the consumer gonna get the money from, they got overladen with debt

**Matt Miller**

We always say deleveraging sucks here on Rewind, it’s really the worst part.

**Hersh Cohen**

It takes a long time.

**Paul Saffo**

But consumers actually deleverage already.

**Matt Miller**

You think the U.S. consumers delivered already?

**Hersh Cohen**

They’re 15% as opposed to 120% of their disposable income.

**Paul Saffo**

The whole excess in the prior cycle was the accumulation of mortgage debt, 3 trillion above trend between 2003 and 2007, and that trend has returned to normal now after basically 5 years of no activity in the home purchase market.

**Matt Miller**

I have to wonder if it’s much like the U.S. housing picture, you can’t look at it in general terms but have to look at each specific region to understand exactly what’s going on. I mean rich consumers may deleverage but poor consumers probably not.

**Hersh Cohen**

No look at nominal retail sales in the United States over the past 3 years, look at the stock market. The best performing group since the end of ’08 has been consumer discretionary.

**Matt Miller**

What do you think Paul?

**Paul Saffo**

I think we’re all getting lost in the details. One can believe in free markets and still not forget that government has only two roles. The first role is to help the economy recover when it stumbles, and the second role is to reduce the possibility of future shocks. Our government is failing on both fronts and they’re failing for a simple reason and that is, the public punishes people who compromise in Washington. Until you change that we’ll keep kicking the can down the road.

**Matt Miller**

Democracy is the issue here. We gotta take a quick break. We come back, things keep heating up in the interest rate manipulation scandal. We hear from an expert in financial regulatory politics next, stay with us.

**Jerry del Missier**

I’m acting as a fall guy, I’ve resigned my position from the bank for the good of the bank. I’m not the fall guy for anything.

**Matt Miller**

That was former Barclays Chief Operating Officer Jerry del Missier testifying before UK Parliament’s Treasury Committee today about the interest rate manipulation scandal. This is Bloomberg Rewind, I’m Matt Miller. For more on the regulatory impact of the developing Libor scandal Bottomline anchor Mark Crumpton spoke with Dan Alamariu, Dan is Eurasia Group’s Director of Financial Services Comparative Analytics.

**Dan Alamariu**

The interesting question is, one of them has to do with the investigation, how deep the issue goes. But the thing here is even if the issue is limited to one or two institutions you’re still looking at a massive political blowback. You basically have again Dodd Frank is still in the rule making process, that will become tougher. You will have new attempts at regulatory legislation again given the magnitude of the scandal, depends on that, and lastly the thing that you mentioned is you may actually have increased legislative efforts to reign in and increase congressional oversight of the Fed. You’ve seen that during the Dodd Frank process, again it was limited only to the Fed’s activities during the crisis. Again if it shows that in fact the Fed had prior knowledge and it did not do anything about it or as it’s alleged in the case of Bank of England actually was perhaps, chose to ignore it willingly.

**Mark Crumpton**

Well Mr. Geitner reportedly gave Mervin King the heads up four years ago, we expressed concerns because he thought the way Libor was figured out there wasn’t enough transparency.

**Dan Alamariu**

Right and that again raises the question of why didn’t either the Fed or Bank of England do something about it, apparently they both reported to the British Bankers’ Association which fixes the rates about the issue, nothing was done. So the question I think that you’ll hear during the hearings is why hasn’t something been done about this, and that’s again I mean nobody can yet answer that.

**Matt Miller**

That was Dan Alamariu of the Eurasia Group. Paul you kind of giggled when he said why is nothing being done about this, but I think it’s a good question. Especially people on Main Street are wondering why was something it was so obviously rigged, you can look back on the Bloomberg Terminal and see that there are crazy outliers here.

**Paul Saffo**

Let’s look at what’s ahead. This is gonna go on for months and months and months, the number of parties involved in this is huge and it’s just gonna roll out steadily and everybody’s gonna get worn down by it. What started as the eagle’s cry from the mountaintop for change will end up as the buzzard’s croak from the water hole as everybody is well and truly tired of it. Issues, one is asymmetric liability, you can bust the banks for doing this and the people who are on the losing side go out in all directions, but the banks can’t claw back the profits from the people who benefited. So you have complete gearlock on liability. And then you have some simple solutions. Increase the size of the Libor pool, put more players in. But it’s gonna be so slow and so painful that I think for the global financial community this is a little bit like an orthopedic surgeon performing arthroscopy on his own knee. In theory it’s possible it’s just so hard to see through the pain that nothing will come of it.

**Matt Miller**

By the way you have some experience with Libor, your career started.

**Paul Saffo**

I was a small cog in a large banking machine many decades ago writing Libor loans and even then I kept saying, this doesn’t make any sense.

**Matt Miller**

I mean people, a lot of people got cheaper loans because of this right, I guess it’s the lenders that got hurt because they didn’t get as much as they could have?

**Paul Saffo**

I don’t see in this day and age why you need to use hypothetical anything. You guys have zillions of data points across that terminal, report transactions actual transactions, and that solves the whole problem. Forget about self grading.

**Matt Miller**

You know I think probably a lot of people are considering that. We’re gonna take a quick break on Rewind, when we come back everything you need to know to prepare for trading tomorrow. The market roadmap is next.

**Bob Profusek**

Cash is plentiful, corporates have according to the Fed 1.7 trillion on their balance sheets at the end of June. Low growth is actually favorable to M&A, everything is good except for one thing, we’re not very confident are we?

**Matt Miller**

That was Bob Profusek of Jones Day giving us his outlook on mergers and acquisitions. This is Bloomberg Rewind I’m Matt Miller. For a snapshot now of everything you need to know to prepare for trading let’s get to Sue Keenan, Sue.

**Sue Keenan**

Well we begin our roadmap across the pond, the United Kingdom will get a check on the economy when June inflation numbers are released. Here in the United States Federal Reserve Chairman Ben Bernanke kicks off two days of testimony before the Senate Banking Committee in his semi-annual report to congress he will be discussing the outlook for the economy and U.S. monetary policy. Meanwhile investors will be looking to see what the chairman has to say about Operation Twist, the program the Fed extended just last month. And at 9:15 AM we will get a read of the US industrial production and manufacturing. Analysts are looking for a gain in these numbers after the hottest summer in 118 years probably boosted consumption of utility services. And we will hear second quarter earnings from 3 major U.S. companies, Goldman Sachs, Johnson & Johnson and Intel. Matt?

**Matt Miller**

Alright Sue thanks very much for that, remember you can get the latest headlines at Bloomberg.com. Lot of earnings out tomorrow, here with me Michael Aronstein of Marketfield Asset Management, Hersh Cohen of Clearbridge Advisors, and Paul Saffo of Discern Analytics. What do you think about earnings season so far, has it bummed you out, has it disappointed you?

**Michael Aronstein**

The disappointments are showing up in the reports of companies that are doing business overseas, particularly in Asia. I don’t think the European slowdown’s surprising people but I think the rapidity with which China is descending is beginning to catch people’s attention.

**Matt Miller**

Paul you just opened up a new office in China what’s your take on that?

**Paul Saffo**

You know it would have been easier to have a take before we opened the office in China because familiarity only increases the uncertainty.

**Matt Miller**

Well Hersh let me get you as a tie breaker here, not really a tie breaker. But what do you think about China because there’s so many differing opinions it’s almost as polarized as the U.S. political landscape.

**Hersh Cohen**

What can I add to the debate, China they’re determined to keep the economy growing to prevent an uprising of political dissent and so they’re doing their best to do it. I keep hearing reports of too much housing in big cities and overbuilding, on the other hand you’ve got still zillions of people in the country they’re trying to bring into the city. So it seems to me they’re gonna do their best to keep it growing just to keep their political power and because they think it’s the right thing to do as well.

**Michael Aronstein**

The good news is most of the Central Committee in China are engineers, unlike the United States so most of our politicians are lawyers so they understand quantitative stuff, but you’re absolutely right. And China’s right in the middle of a leadership transition and they have to continue keeping the public happy. They’re in the same role as the French foreign minister Ladra Roline was in 1848 was when he said, these are my people I must follow them.

**Matt Miller**

What do you think about China as an investment opportunity Michael?

**Michael Aronstein**

I can’t imagine how any fiduciary could put money into China knowing what you can’t know there.

**Matt Miller**

Right too much uncertainty.

**Michael Aronstein**

Oh it’s not uncertainty, it’s a forum that’s historically had no respect for either fair play or the law.

**Paul Saffo**

But those same fiduciaries would buy big bank stocks. Joke.

**Michael Aronstein**

Well I would say anything you can imagine about the banks is 50 times worse in China.

**Matt Miller**

Alright that’s our market recap.

**Matt Miller**

This is Bloomberg Rewind I’m Matt Miller, I’m here talking about the direction of the economy and market strategy with Clearbridge Advisors Chief Investment Officer Hersh Cohen, Marketfield Asset Management CEO Michael Aronstein, and Discern Analytics Managing Director Paul Saffo. I need to get a sweet title like you guys have these pretty sweet titles, hopefully eventually I can work my way up to chief something.

**Paul Saffo**

If you start something on your own trust me it’s really easy you get to design the first business card.

**Matt Miller**

Yes when I start my own Ducati shop I’ll do that.

**Michael Aronstein**

Wall Street hands out titles way too easily.

**Matt Miller**

It’s time for us to talk about what our guests are most worried about right now, what’s keeping them up at night. And Paul we’re gonna start with you. Our west coast guest flew in from California, we’re honored to have you. What keeps you up at night besides jet lag?

**Paul Saffo**

The radical uncertainty of the present. Everybody made the mistake of ignoring fundamental shifts, they were caught by surprise, they’re knocked off balance. So until investors can step back and take a look at some of the deeper shifts and understand the context around which surprise can happen we’re gonna keep going through this.

**Matt Miller**

Do you think there will be a date when that’s possible?

**Paul Saffo**

Well I think it’s good investment hygiene is when you look at the investment news to ask yourself what are the deep trends that matter, avoid the fad dissure. The Marissa Meyer thing is wonderful entertainment it has no consequence. The things that do have consequence are asking questions like, gee the high temperatures in Europe are creating demand for utilities, we’re ruining a core crop with bad weather, is this a climate change signal? I’m of the personal opinion that any investor who does not take the climate change scientists’ warnings seriously is committing professional malpractice.

**Matt Miller**

Very interesting stuff. We want to get Michael your take, not on climate change but…

**Michael Aronstein**

I’m mal-practicing I guess.

**Matt Miller**

I knew you would be. What keeps you up at night.

**Michael Aronstein**

I worry about some discontinuity in some emerging market financial system that really feeds back rapidly into the domestic markets. I think the ECB has kind of made a pact with the European banking system, they’re not going to allow anything too discontinuous to take place. I think we have a Federal Reserve that’s frightened. You know people have a lot of faith and expectation around emerging market economies that I think at this point is misplaced. It was true a decade ago and at that point you couldn’t get people to put a nickel in any of those countries with a shotgun. And now you’ve got trillions of dollars of passive capital sitting there with the expectation that that’s gonna be the leadership in the world in the next decade. And I think that’s as far off base as the expectations about Japan in 1989.

**Matt Miller**

Hersh I want to get your main concerns here. The fiscal cliff’s something you’ve been warning about for a while.

**Hersh Cohen**

That’s certainly a major concern but I worry we’re losing a generation of investors. Personally I worry about balancing risk and reward for people, I’m haunted by the specter of losing money for people and yet when the markets go up if you’re not in there with the risk on trade you lose business. I worry about the little issues and I worry about the big issues.

**Matt Miller**

It’s interesting you know I’ve been doing this for a long time and you don’t hear people on Wall Street say that they’re worried about losing money for people. And I feel that would be the main thing that would just nag at me every night.

**Hersh Cohen**

Absolutely.

**Matt Miller**

Alright I want to get to our market song of the day here, we asked our guests to pick a song they feel best sums up the mood of the markets and Hersh you chose Walk the Line by Johnny Cash, why this song. Great song.

**Hersh Cohen**

Well I really like to air guitar the whole song, it’s great and I think we’re walking the line here, it’s a great song.

**Matt Miller**

It’s a classic, the man in black. Can you play it actually on real guitar or just air?

**Hersh Cohen**

I took lessons for a while but it’s hard. My younger brother’s a song writer and he’s really good.

**Matt Miller**

Well you guys chose some great ones. You know I only see these when they come up in the prompter at this point in the show so it’s a surprise to me. You chose, Michael, I Fought the Law by the Bobby Fuller Four, why’d you choose this one?

**Michael Aronstein**

Well around the world you have governments fighting the laws of economics and they’re losing, and they’re gonna continue to lose.

**Matt Miller**

Paul you chose It’s the End of the World as We Know It by R.E.M.

**Paul Saffo**

It’s the end of the world as we know it and I feel fine. And it won’t be the end of the world as you know it if you look at your assumptions tomorrow morning.

**Matt Miller**

Well it’s uplifting, it’s an uplifting song on a Monday afternoon. We needed that. Thanks so much guys for joining us, it’s not often we have 3 guests here on set so it’s been a great pleasure for me to have all you here. Hersh Michael and Paul. Remember you can rewatch all your favorite Rewind moments on Bloomberg Television’s iPad app, it’s called Bloomberg TV+. Download it for free at the iTunes store and with that we say goodnight from Bloomberg World Headquarters in Manhattan, have a fantastic evening we’ll see you back here tomorrow.

**[42:06]**

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