Even the Heartless Can Skip a Beat

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August 9th, 2007 -- BNP Paribas announced they were suspending redemptions in three mutual funds because their managers could not determine the value of their assets, and that was followed by a chain reaction of a flight from risk around the world. The date marks the generally accepted beginning of the Great Financial Crisis. Two weeks ago the 'family business' Archegos delivered a new sampling of something similar.

According to 'Bill' Hwang, the one and only person in charge of Archegos Capital Management (a firm he founded after his hedge fund collapsed because of insider trading offenses and a $60 million fine), he marches to a different drummer when it comes to investing. He has his own private super computer in a non person called 'God' as an advisor.' Hwang two years ago: *"I try to invest according to the word of God and the power of the Holy Spirit. In a way it's a fearless way to invest. I am not afraid of death or money."--- especially not when it belongs to other people.* But then God said to him, *'Hey, Bill, that $20 billion doesn't belong to you. It's a marker for what workers produce but aren't allowed to use for their own well being.'* Bill was struck by the word of God and immediately vaporized his ill gotten lucre by sabotaging his own investment.

In hedge fund gambling one doesn't throw everything in the same pot, especially when it's $20 billion, and especially when you are shorting ViacomCBS. Hwang thought it was losing out to Netflix and HBO, but when the company was reoriented toward streaming the trade journals were pleased and raised expectations of increased revenue. Thus the stock went up and Hwang was obliged to cover a margin call – back up shares borrowed at lower price than what he now had to pay for a purchase. The safe and sensible way for this sort of investment is to cover some of ones short bet with a long one. Every decent bookie knows this. If you have a ton of money being bet on one horse, then you better make bets on that horse with other bookies in case it wins.

According to Wall Street on Parade, Hwang manged to get Wall Street banks to back his investment with an 85% margin loan. According to Fed rules banks aren't permitted to loan more than 50% of the current market value. Bloomberg says that limit doesn't apply to hedge fund and family business, but the sneaky way the deal was constructed indicates an attempt hide the degree of margin. They never opened a margin account with Archegos. Instead they constructed a derivative based loan in which they retained technical ownership of the stocks themselves. At $96 a share Archegos had purchased 208 million class B shares amounting to 34% of all outstanding stock in that class. To cover that bet quickly when only 32 million shares are traded daily is impossible. When the margin couldn't be covered banks started dumping Archegos stock, Goldman Sachs and Morgan Stanley quickly, Credit Suisse and Nomura late. The former got out clean, the latter lost about $7 billion.

Sudden financial crises like this, especially when the markets are in the most overblown balloon economy ever – never has sickness generated so much financial 'health' – can spread around the world in days. But except for Archegos disappearing, ViacomCBS losing 50% of its market value in 4 days – one recent guesstimate is that total losses might amount to $194 billion – all the gloom was swept away by the financial glee of the ga-ga markets. The hearts of a heartless system continue its slow plod to eventual oblivion.

Economic Info

-- The actor Zach Avery (Zachary Horwitz) used his performance skills to branch out into screenwriting. Since 2014 he has been rehearsing and rewriting a script that has the snappy title *'How to Succeed in Business Without Doing Anything but Lying'*. Over those years he managed to attract $690 million from several financial firms for his movie trading company. With that money he would use his Hollywood insider position to buy films for resale to HBO and Netflix.

Of course, like a lot of streaming movies, his business model was just an old fashioned Ponzi scheme. As the money came in there is one thing it won't be wasted on -- actually buying films for resale -- thus his investors get a share after he gets all he could possibly need. Finally things fell apart when it became obvious he had no ties with streaming companies -- Netflix sought and obtained a cease and desist order against his company 1inMM Capital. His investors are out $227 million while Horwitz is out for now on only a $1 million security. I don't see where he did anything illegal. You can't rob thieves.

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