

## A SIMPLE SOLUTION TO A MAJOR PROBLEM

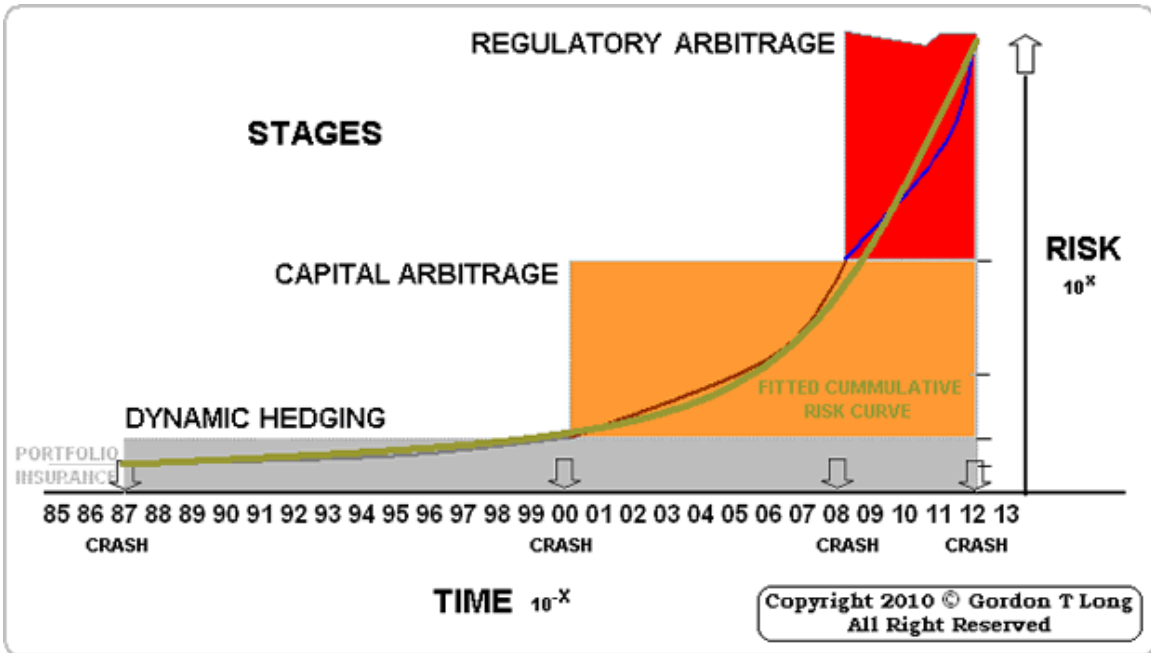
### WEB BUZZ 2010.05.24

Outside of Europe's problems, much of the recent talk in the marketplace has centered around the upcoming financial reform legislation. In regard to that, we would be willing to bet dollars to donuts that whatever the final package becomes, it will not change much of anything. There will be just more paperwork for lawyers, accountants, and bureaucrats.

Since, and even before, the repeal of Glass Steagall in 1999, Wall Street investment banks very skillfully changed the rules pertaining to their business operation. First of all, they went public and let the little guy become a part owner. The effect of this was to shift the risk to Main Street and away from themselves. You see, before going public many were partnerships where the management and their partners were at risk. Once the risk had been shifted, the pay scale was changed to heavily compensate those in the higher echelons, as well as those who manned the trading desk. As the outside ownership was dispersed, a challenge from the back row in the balcony was not likely. And, of course, if things went really wrong the losses were picked up by the taxpayer, after the profits were handed out to the insiders. The stockholders became the bag holders, along with the bond owners.

Now, how do we solve this? Why not just make the management and all those who share bonuses have full liability from the get go? In other words, make all investment banks be partnerships. That would stop the moral hazard and return Wall Street to its proper function of allocating capital in the free market environment, rather than being a gambling casino.

Study the chart below. This is what has been and still is, but could be changed by a simple stroke of a pen. Shift the risk back where it belongs. Public stockholders - no! Partnerships - yes!



Adapted from SafeHaven.com