

Let's Schmooze

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An Ageless Friend

Today's economy can be aptly described as "deals gone bad." That's what the Wall Street meltdown is all about. Investment deals have become "toxic" assets. And ~ those "toxic" assets have rotted out the insides of all our major financial institutions.

What happened?

Well, in the investment world, good ole fashioned thrift got shoved aside by wild-eyed speculation. In the process, prudence and reason took a back seat to the insane, blinded pursuit of impossible profits and returns.

It's an ageless tale ~ happens all the time ~ just check the history books. Last time it happened in America it triggered the Great Depression of the 1930s. Lasted an entire decade until World War II pulled us out of it.

Let's tease this thing out a bit.

Thrift, per se, is the seeking of a reasonable rate of return on an investment. Thrift is all about moderation. It never seeks "maximum" returns, because Thrift knows and well remembers that since risk and reward always go hand-in-hand, maximum returns means that the associated "risk" is also maximized. Huge profits = lots of risk. Forgetting that little rule is what gave us today's collapsed economy.

How?

A few years ago ~ investors ~ eager to believe that high-yield sub-prime mortgages were "risk-free," bought into the absurd marketing pitch from Wall Street that fancy computerized manipulations could somehow magically erase risk. It was reckless pie-in-the-sky marketing directed to an all-to-eager-to-believe investing public. The idea was that one could have one's cake and eat it too. Yeah ~ right!

However, the ageless and rather ugly truth is that the high risk of sub-prime investments was still there. It was just masquerading behind a new face ~ collateralized debt obligations ~ those now infamous CDOs. When real estate markets eventually cooled off, and the huge risks inherent in CDOs became painfully apparent, investors panicked and started asking for their money back. Wall Street straightaway melted down. There was no money to give back. Just rotten mortgages.

Thrift always remembers that reward and risk go hand-in-hand. There is no such thing as huge returns with no risk attached. Forgetting that little rule cost us our good times. And now, it is, so to speak, the morning after the party.

Thrift might not always bring home the biggest slice of bacon, but it always brings home bacon of some sort. Its people never go hungry. Thrifty people might not have those popular, glamorous parties, but they always have something to eat. There's safety in thrift, and in quiet reason and prudence.

Thrift is an ageless Friend.

~ *'til we meet again* ~