Vanderbilt Ave. Asset Management

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Pangloss and Cassandra, meet Aenesidemus

As I have the benefit of dictionary and thesaurus at hand while I write (thank-you, Bloomberg, Inc.), and you may not have the same luxury while you read, allow me to explain the title. Pangloss is the philosopher in Voltaire's Candide who is optimistic regardless of the circumstances. Cassandra, in Greek mythology, was the daughter of Priam. Apollo gave her the gift of prophecy, and then, when she deceived him, cursed her to have none of her prophecies believed. The more common usage of the name, however, is to describe someone who constantly forecasts disaster. Aenesidemus was a Greek skeptic philosopher who, according to Encarta's definition "attempted to demonstrate the relative character of all judgements and opinions…" and "…that judgement must be suspended in seeking knowledge… as objects appear differently to people according to the perspective taken." By now you must be saying what do a dead guy, a myth, and a character from French literature (in reverse order) have to do with fixed income investing? The answer is that the first two characterize today's financial markets, and the third is a means of coping with them.

On any given day, or even in any given minute, in the past several months, the attitude of the markets has been driven from pillar to post by participants short term perceptions, a tendency to over-extrapolate events, and the rending of guilt by association. The Panglossians among us would have us believe that all is well with the world, economic growth has resumed, there is no inflation, and it is only a matter of time before corporate earnings come roaring back accompanied by bolstered financial statements. The Cassandras on the other hand see dismal earnings based on poor cash flow, Fed tightening just around the corner, and systemically deceptive financial reporting as reason to fear a continuing erosion of value if not an outright collapse. As is often the case, each perspective contains some fact and some fancy. The key to success is in sorting out which components are which.

Let's take the deceptive financial reporting issue as a starting point. Certainly the shenanigans that went on at Enron are troubling and inexcusable. Should we as investors assume that Enron was an aberration and that all is well elsewhere, or do we believe it is only the tip of the iceberg and every corporation's numbers have been cooked? In fact, we should look to Aenesidemus for guidance and suspend judgement in seeking knowledge. We must answer for ourselves the questions of whether the numbers make sense, or whether the business model makes sense. In times like these, more than ever, the need to do one's own homework becomes paramount.

Acquisitions create complicated accounting, and growth that is consistently fueled by acquisitions provides numerous opportunities to manipulate results. For instance, superficially one could say that GE and Enron have each been called on the carpet because they grew by acquisition and put on a lot of debt. Would that comment be correct? Yes, but it would also be entirely misleading. GE took some lumps for using short-term instead of long-term financing to fund its growth, but there are few that do not think it will continue as a viable firm. Enron on the other hand is a different kettle of fish, replete with accounting irregularities and allegations of fraud. Obviously this is an oversimplification, but the point is still valid. Research needs to be in depth if it is to be of value. When times are good it is tempting to lose sight of this reality, as the rising tide is lifting all boats. But tides change, and when the credit tide is in ebb and all boats seem to be falling, it is what sets a portfolio up for success.

Odds and Ends

Growth by acquisition a la Tyco's Dennis Koslowski isn't a new game, Hal Geneen at IT&T and Charlie Bludhorn at Gulf & Western were at it in the 70's. It didn't last forever then either, but at least those guys were colorful and paid for their artwork.

With Conseco stock trading at just over $2 per share maybe Gary Wendt will be going back to court to try and have Lorna pay him alimony.

You've been in this game a long time if you can remember T. Boone Pickens saying that it was cheaper to drill for oil on the floor of the New York Stock Exchange that it was to drill for it in Oklahoma.

When did the "d" disappear from "hedged fund"? And I don't recall where I saw it, but someone was quoted as saying that a particularly good hedge fund manager was "all nerve and no nerves". Gee, I wish I'd said that.

Vanderbilt Research Team

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Emad is the Managing Partner and Chief Executive Officer of Vanderbilt Avenue Asset Management LLC. Vanderbilt's client base includes Multi-national Corporations, Public Funds, Foundations/Endowments, and Taft Hartley accounts.

Previously, Emad was Chairman of Institutional Business at Pioneer Investments. Pioneer investments has more than $300 Billion in assets under management. The parent of Pioneer, UniCredit S.p.A., is the largest bank in Italy and the second largest bank in Europe. Pioneer had purchased Vanderbilt Capital Advisors, of which Emad was the founder and Chief Executive Officer.

Emad has had numerous articles published in professional and academic journals such as The Journal of Forecasting, The American Economist and The Journal of Fixed Income. He is a Board member of The National Investment Company. Emad was a member of the Board of Advisors of the Pacific Institute, The Advisory Committee of Fulcrum Global Partners, The Chief Executive Officers Club and formerly a board member of The Foreign Policy Association. He also served on the Board of Directors of the University of Albany Foundation, NextGen Healthcare Inc., The Park Avenue Bank, AA Bank and The New Providence Fund and Associates LP.

Emad is an FINRA Arbitrator. He is also a member of the National Association for Business Economists and The Economic Club of New York. Emad served as an adjunct professor at the University of Kansas and St. John's University.

Emad holds a Bachelor of Science from the University of Albany, and a M.A. and Ph.D. in Economics from the University of Kansas.