We publish this article, from the italian newspaper "Rinascita" of april 24th, 2010, because it explains in a very clear way the financial mechanism that caused the current crisis; we are convinced that this is very useful for our readers, even if we know that this subject at a first sight can appear too technical; but you will see that it deserves your attention. Besides our opinion on the ethical insensibility of Financiers, we positively want to deny their claim that they are so bright; this fame was invented and spread by the Financiers themselves, using the mountains of money that they possess. They are simple technicians, and they are proficient in a very limited field of knowledge, for which no particular creativity is required. What is moving them is the spirit of Gaming, a real pathology: they are unable to control their gaming problem and this makes them a deadly danger for Society.

Ida Magli

Goldman Sachs, the Mother of all Speculations

by **Roberto Marchesi**

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The Goldman-Sachs Scandal is a very instructive one, and it is teaching us what we must absolutely know and what we must absolutely avoid.

To see and understand what originated the S.E.C. (Security Exchange Commission) investigation, we must descend into the lower infernal levels of financial speculation, meeting those dreadful devils who are able to invent ingenious financial tools, used by selected groups of professional speculators. Their goal is to make themselves - and few other demoniacs - immeasurably rich; they do not care about the fact that in doing so they will ruin million of persons, and undermine the economies of the biggest industrialized countries of the world.

Now, of course, they all plea themselves “not guilty”: they truly believe that they did nothing wrong. There are no good-guys and bad-guys in their world: just men that are good at the game and others that are less good. They made a lot of money because they were the best: that’s all. Fortunately not everybody agrees (not even in the United States) and now some Judge will decide if they simply were ‘the best’ or if they illegally gained the confidence of the Savers, committing fraud.

To examine in detail the charges against Goldman Sachs, we have to step back to the end of year 2006. Here we meet a very acute Financier who became famous in his entourage because he was particularly good in “short” operations, which means Bearish Transactions. His name is John A. Paulson, and he is homonymous of Hank Paulson, chairman of Goldman Sachs and former Treasure Secretary of president Bush’s second term. John A. Paulson is a Fund manager, and in 2006 he was very impatient because he was absolutely positive that the Mortgage market - closely linked to the Real Estate market - had reached its peak; unfortunately the market was not going down, and again we must remember that he was specialized in Bearish Transactions.

At that point he... invented! Being very expert, and cunningly clever, he decided that if the Real Estate marked did not start going down on his own, he would do something to speed up the descent. Therefore he went to Goldman Sachs as an Institutional customer, and he met Fabrice Turre, vice-president of Goldman Sachs in the Financial department of New York: he asked the Bank to create the Abacus 2007 Ac1 Fund. In this Fund he would put the “financial derivates” (which means bonds created to finance sub-prime mortgages); he was going to find those derivates and to sell them to his clients.

It was a classic agreement between a Bank, a Fund manager, the Savers and the “Landers” (Financial societies selling Mortgages). But there was something more, and this is what makes us doubtful about the legality of this kind of operations. The point is that Mr. Paulson with his Abacus 2007 AC1 Fund *was not interested at all* in financing the “Landers” that had the lowest risk rates. On the contrary, *he was looking for the worst and more risky ones*. He was not out of his mind, he was just implementing his criminal project; remember once more that he was specialized in Bearish Transactions.

He was breathlessly looking for Landers located where the prices of the buildings had reached their highest peaks: vast areas in Florida, Nevada, Arizona and California. He and his Abacus Fund offered the Landers to purchase their Sub-prime mortgages, the most risky ones, which probably would never be repaid. Obviously the Landers were more than eager to sign such an agreement that would allow them to sell other mortgages (they were hesitating because were risky ones); and they would cash-in lavish commissions. Someone could ask: why Mr. Paulson and the Abacus Fund were interested in buying high risk Mortgages (that were subsequently 'securitized' with bonds by Goldman)? In doing so, he was buying a great amount of future losses.

Had Mr. Paulson bought those Mortgages with the intention of waiting for their final repayment, he would surely have gone bankrupt; but in modern finance nobody is keeping assets waiting for their final repayment. Debt, instead, is 'securitized', transforming it in 'bonds', and then is sold under different forms. In this case, they were transformed in CDO (Collateralized Debt Obligations) Bonds warranted by RMBS (Residential Mortgage Backed Securities). The mortgage was guaranteed by the houses we talked about before.

Now we are in the spring of 2007, and Mr. Paulson, with his predatory sense of smell, simply saw it right. Until mid spring 2007 the markets had given some signals of weakness, but they were not going down yet; and now Mr. Paulson was ready. He had cunningly organized his Fund so that he possessed the bonds that were supposed to be the first to go down, more than the other ones. At the beginning of summer, when different signals in the Bonds exchange market showed that the right moment had arrived, he understood that he could start his "short" Bearish Transactions, with all ease. He made one operation, then many other ones, and he earned piles of money.

Mr. Paulson paid **15 million dollars** to Goldman Sachs in order to create and manage on the Stock market his Abacus Fund; in 2007 alone, wildly playing his Bearish Transactions - even against his own bonds - he earned **3700 million dollars**. In 2008 he scraped up some other **2000 millions**. Of course he had to pay capital bonuses to his investors, but his earnings were more than enough to make him very very rich. If he and his investors earned a lot of money with his Fund, who lost that money? It seems that the most famous losers are ABN Amro, IKB and Deutsche Bank, with their clients. They were the final losers, because they possessed the Bonds created to finance the purchase of the mortgages that today are called "underwater", since the value of the house that guaranteed them is much lower than the value of the Mortgage itself. Therefore they own a secure loss.

Someone who admires this Finance profiteering tries to defend what several Mr. Paulson did. They object that true, he gained an enormous amount of money draining off the savings of many people, but on the other hand - they say - the people working in the Banks that lost the money were not inexperienced: they were overpaid professionals. Therefore, Paulson was better than the others, but this is the market, my dear! I personally believe that we should send all these 'better' people to break stones in some deserted Pacific atoll. There is one little detail to add: Mr. Paulson is not allowed to do as Charlie Chaplin playing the role of a glass maker, who sent a boy to break windows in order to have new clients. This is precisely what Mr. Paulson did with his Abacus Fund: to be sure to play Bearish Transactions, he created Bear operations, deliberately grouping inside the Abacus Fund all the most dangerous operations in the areas where the fall of quotations would arrive earlier and with the highest virulence. Even if his strategy deserves a firing squad, his behavior does not appear openly illegal. Goldman Sachs acted illegally, instead, since it was their duty to tell its investors that the specific strategy of that Fund was the "short" Bearish Transactions that Mr. Paulson had in mind.

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