

THE PERFECT SWAN

Let's face it—we saw the credit crisis coming.



We've all heard two terms a gazillion times in recent months—black swan and perfect storm. One is statistical, the other weather-related and both point to rare and unpredictable events. The credit crisis and resulting market meltdown have been liberally described as both, but to a lot of people, it seems like more of the same. Think 1987, 1998 and 2008... all look pretty similar when you get down to the root causes. And those would be off balance sheet risks and derivatives. That's how it looks to David Swensen, chief investment officer at Yale University and one of the best investors around. He shared his views in a terrific interview with Charlie Rose in January. No black swans or perfect storms here—rather, the crisis in the financial system is indicative of broad regulatory failure to deal with the credit crises of the past, from the 1987 meltdown to the Long-Term Capital Management debacle.

While we came close to complete Armageddon this time around, the financial system has held up. But it is broken and, according to Swensen, regulatory authorities

around the world must act now to deal with off balance sheet exposures, starting with knowing what they are and how deep they run through the system. This is happening slowly—in Canada, there has been some scrutiny of what happened in the asset-backed commercial paper market and a resolution has been reached for investors. But there is still a lot of room for regulators to do more—before the next perfect storm/black swan hits.

And while we're talking about history repeating itself, I'd like to take this opportunity to acknowledge the contribution made by another great investment strategist—John Ilkiw, whose regular column, Past Times, Present Value has come to an end. John's perspective on financial history has been invaluable and he's created some important parallels between past and present that were both enjoyable and relevant. We will miss you, John! ■

— Caroline Cakebread

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Published by Rogers Publishing Limited,
a division of Rogers Media Inc.



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Publications Mail Agreement No. 40070230
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