

Just before the Fall issue went to press...



EDITORIAL

The collapse of the World Trade Center has left a palpable gap in our sense of safety and security. When we left our offices on Tuesday, September 11th, we seemed to enter a different world. In the immediate aftermath of the terrorist attacks on New York and Washington, it is difficult to fathom the extent to which our lives will be affected over time.

By the time this reaches you, this entire column might be redundant. The United States might have already retaliated, the markets might already have recovered. But today, on September 12th, the reality is that there is no aspect of the investment industry that hasn't been completely thrown into turmoil by these events.

The week before the attacks, this column had focused on the relationship between analysts and the media – whether or not analysts who make their forecasts in front of the camera have more difficulty admitting their mistakes. Keith Ambachtsheer of KPA Advisory Services, Ltd., was asked what he thought of the topic. We talked about the cult-type dimension of the investment markets – the need to put people in positions of knowing. He pointed out that among retail investors and, in some cases, institutional investors, there exists a specific belief system – a “model of pretending that we live in a world of certainty.”

That world of certainty doesn't exist right now – and, at this point, no one has any easy answers. The people we've been speaking to – academics and practitioners alike – all seem to be saying the same thing: Nothing like this has ever happened before.

How can you plan for something like this? How will it affect our notion of risk management and disaster recovery? After all, doesn't the idea of a contingency plan that covers passenger jets with full fuel tanks crashing into your building seem a bit far-fetched – paranoid, even? “The big security issues were always about computerization and protecting systems from hackers,” says Paul Halpern, the Toronto Stock Exchange professor of finance at the Rotman School of Management. “Now if you add this other layer, I don't know what to say. Can you have security from anything any longer? Who would have thought that this was possible?”

There seem to be no clear precedents – no historical signposts to tell us how to react.

As Eric Kirzner, professor of finance at the Rotman School of Management, pointed out, “The closest thing I can think of would be the assassination of John F. Kennedy in 1963. My recollection is that it set off about an eight-day decline in markets.” There's also the Cuban Missile Crisis and the outbreak of the Persian Gulf War. But, as Kirzner points out, “none of these events related to the integrity of the financial system – none of them related to the destruction of offices, records and people – many of them major players in the industry.”

Kirzner's comments remind us that terrible events have often shaped our past – but that, somehow, we have recovered, adapted and moved ahead. ♦

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