

New Masters of the Universe?

by Joe Average,
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"Masters of the Universe" was the name thought up for a popular toy series launched by Mattel in 1981. It featured characters such as He-Man, Skeletor, and Man-At-Arms and led to many spin offs including four animated series, a comic series, and a movie.

Now, more than two decades later we find references popping up in the press and on Google referring to the "New Masters of the Universe".

A New Breed of Hero.

Just who are these new super-heroes? Are they out to save the world like Superman? Are they out to keep us safe from harm like Batman and Robin? Are they out to take from the oppressive and powerful rich and redistribute to the needy poor like Robin Hood?

Here are a few articles I came across that may make us a bit wiser.

"The new Masters of the Universe?"

Who are the new Masters of the Universe, to fall back on that quaint term? No longer the Investment bankers or the tech entrepreneurs.

The new masters, judging by a lengthy article in New York Magazine, are the hedge fund managers. These days, the perception is that's where the big bucks are. Bankers? "Their lives are miserable," according to one person quoted by the magazine. It notes that there are 7,000 hedge funds now, the majority of which did not exist 10 years ago. These guys all think they have the gift. They're living the life. The reality is that not all will succeed. The more people that flock to the business, the harder it is to create the outsized gains the funds need to survive. "It's either clean up – or flame out."

www.bd101.com Nov. 23, 2004.

"The new masters of the universe.

Sixteen years after Kohlberg Kravis Roberts made its storied \$25 billion bid for RJR Nabisco (and inspired the book "BARBARIANS at the Gate"), private equity firms are again big news.

With buyout funds expected to raise about \$200 billion world-wide this year, and top firms tripling their cash returns, it may feel like the 1980s "Masters of the Universe" are back.

Buyout firms are masters at spotting hidden value... (they) Hire hungry managers... managers with a relentless will to succeed ... (they) Make equity sweat: The average firm finances about 60% of its assets with debt, versus 40% at a typical public company.'

The Wall Street Journal Europe 07/27/2005.

"Masters of the Universe, Unite!"

Houston, we have a verdict. And, if you care about the very future of *American business*, we also have a bit of a problem.

Because this is about much more than the fate of (former Enron executives) *Kenny Boy Lay and Jeff Skilling*. This is about us. The Masters of the Universe. The all-knowing, type-A power mongers in crimson suspenders with bottomless expense accounts. This is about the fate of the prickly, unapologetic, rule-averse tough guys like you and me who run this country, not because we are particularly talented or charming, but because we have the gift of arrogance. And, until noon Eastern Standard Time yesterday, we were able to wield it like a sword, a pink slip or a box full of Internet stock options, circa 1997.

But now the arrogance card – our arrogance card – is being threatened by so-called rules and accountability. Some might say this is not a good day for creative accountants, for selling stock while telling your shareholders it's a bargain...

Some might say our friends at Enron fell because they had it coming. But the truly arrogant, we know better. We say it would never happen to us...

The New York Times, James P Othmer, May 26, 2006.

"Masters of the Universe brought to Book."

An insider's tale of investment bankers behaving badly and caring little for the interest of clients has caused a stir, reports *Dominic Rushe* from New York.

Conflicts of interest were everywhere as clients and banks began to compete for the same business.

In the book (The Accidental Banker: Inside the Decade That Transformed Wall Street, by Jonathan Knee)

he points to the Hollywood maxim that when the "suits" start acting like stars, "we are all in trouble".

www.timesonline.co.uk, Sept. 10, 2006.

So which is it to be? The New Masters of the Universe...or...The New Barbarians at the Gate?
Time will tell.

A Tsunami of Cash.

"Invest in private-equity investments?"

When Barry Colvin, president of the hedge-fund advisory Tremont Capital Management, surveyed the crowd at a recent private-Equity conference in Manhattan, he was struck by something. The place was crawling with hedge-fund honchos. And the more he thought about it, the more sense it made.

"The convergence between private-Equity and hedge-funds," says Colvin, "is both natural and inevitable."

Investors had better take notice. As hedge-funds search for new strategies to produce the holy grail of "Alpha," or outsized returns relative to risk, private-Equity investments of all stripes are suddenly turning up in the industry portfolios."

www.bd101.com Sept. 26, 2005.

As hedge-fund managers morph into private-equity fund managers, a **TSUNAMI of HIGHLY LEVERAGED CASH** is surging around the globe smashing onto the shores of nation after nation and threatening to lay a debt bomb under the financial system. Gordon Gekko (of "*greed is good*" fame and *Wall Street* the movie) would be ecstatic to see these private-equity funds laying siege to many of the world's most famous and largest businesses, hungry for ever bigger corporate deals.

Sceptics of this private equity deluge warn that these funds resemble "swashbuckling pirates" displaying "vulture culture" that will end badly for many investors and superannuation funds as it did in the late 1980's.

One prominent bank chief executive has predicted that the private equity boom will “**end in tears**”. However, he also declared that banks are not as vulnerable to a crash today as they were in the past because today “**We re-package the debt and sell it out the back door... we don't hold a big chunk of it!**”

I wonder how many superannuation funds and private investors are aware they might be buying “out the back door” and that they're the final holders of the debt parcel?

Throw in the fact that the face value of all outstanding derivatives contracts in the global Over-The-Counter market is now 30 times the size of the U.S. economy and things start to get very interesting.

Our Political Masters.

It would seem that no one was more surprised when the Democrats recently swept the Republicans out of power in the U.S. House of Representatives and the Senate than Karl Rove, President Bush's political “brain” and “architect”.

In an election post-mortem *Newsweek* asked “how did the man they call Bush's brain get it so wrong?”

Apparently, Rove was so sure of his number-crunching and marketing abilities that on election eve he was still dismissing polls pointing to a Democrat win and planned to convene a panel of Republican political analysts afterwards to study why the polls had got it so wrong.

Tony Walker (Washington correspondent Australian Financial Review, Nov. 17, 2006) wrote:

“If you look at Rove's statements over the past year and combine them with a belief in the ability of slick marketing to create its own reality, then you have an explanation for a misreading of the electorate's mood. You can fool some of the people some of the time, but not all of the people all of the time..

All this leads me back to Ron Suskind's account of a conversation with a White House aide (presumably Rove) in his book, *Price of Loyalty*.

“The aide said that guys like me were „in what we call the reality-based community... (people who) believe that solutions emerge from your judicious study of discernible reality... We're an empire now, and when we act we create our own reality. And while you're studying that reality – judiciously as you will - we'll act again, creating other new realities, which you can study too, and that shows things will sort out. We're history's actors and you, all of you, will be left to just study what we do.”

Wow! How powerful is that? This guy was planning on “**creating his own reality**”.

Does that make him eligible for entry as a New Master of the Universe?

Reminds me of a recent article by M.A.Nystrom, Memories of 1929 – Part II – “They were like God” (www.bullnotbull.com Nov. 21 2006) where he quotes a stock salesman who started in his new job way back in 1929 just as the market peaked:

“... the J.P.Morgan people would have something to say about how good things were - - and I thought, “Well, they know a lot more about this market than I do. I'm fairly new here and I really can't see why it's going up.”

But then, when they say it can't go down or if it does go down today, it'll go back tomorrow, you think, “Well, they really are like God. They know it all and it must be the way it's going because they say so.”

Meanwhile... on Planet Earth.

Parts of Australia are suffering from what has been described in the press as “a once in a 1,000 year drought” with no relief in sight. Tourists are flocking to the southern tip of New Zealand to cruise out to and around the more than one hundred massive icebergs that have broken off from the Antarctic and drifted north...to watch them break up and melt.

And we are told that ...

“The “wholesale collapse” of fisheries off the eastern (Australian) seaboard can still be averted if strong action is taken to cut greenhouse gas emissions and manage pollution.

A report from the nation's top science body (the CSIRO) says a combination of rises in surface water temperature, weaker currents, slightly stronger surface winds and reductions in nutrient levels from

deep water are all expected to affect fish stocks... it may be possible to build the resistance of the ecosystem s... (by) taking a tougher stand on global carbon emissions and better managing pollution. The report... was obtained ... by *The Australian* under the Freedom of Information Act.”

Michael McKinnon & Matthew Warren, *The Australian*, Nov. 24, 2006.

While some of the human species aspire to the status of New Rulers of the Universe or to create their own reality, Mother Nature may soon show us a reality we may not like or be prepared for,

All the best, Joe.

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