

Memo to: Oaktree Clients

From: Howard Marks

Re: Notes from New York

Maybe you've already read enough about last week's events, in which case you should feel free to discard this memo. There is no moral obligation to keep reading when doing so brings pain. Each of us can decide when enough is enough.

By now most of us know all we need to about Tuesday's events at the World Trade Center and the Pentagon. I will not recount the facts relating to these events, but rather the thoughts they have left me with.

I spent Tuesday through Friday in New York – like so many, against my will. I had no plans for a memo on this subject. But when I woke up Saturday, at home for the first time in a week, thoughts of New York monopolized my mind. My way of dealing with them is to turn them into sentences and paragraphs.

This memo may not include much that is new to you but, as usual, I will attempt to pull together my own thoughts and what I've heard and read elsewhere. It won't touch on recommendations for investing or predictions for economies and markets. Its contents will range from trivial descriptions of New York after the attack to hopefully-meaningful observations on the big-picture ramifications that have been seen and that may follow.

Lastly, I certainly do not wish to write anything that offends. But nerves are frayed, and unintended offense might be taken, for which I apologize. I mean only the best, and I hope it comes out that way.

My Role – I was merely a bystander at the events of last week. I was affected emotionally and logistically, but not involved. My father and daughter, both of whom live in New York, were safe. I had no friends or colleagues at the World Trade Center. As for me, I had arrived at midnight Monday after a dinner in Cleveland. I planned to speak to a Pensions East forum on Tuesday morning and then fly to Berlin to participate in an Institutional Investor conference.

The Events – The crashing of planes into the WTC and the Pentagon represented the first large-scale foreign attack on continental United States soil. It was daring, well planned, coordinated and startlingly successful. It showed how the fruits of progress – the world's great airliners – can be used against us. It showed how, in this age, a handful of men from a smallish, amorphous enemy can cause destruction totally disproportionate to their number or materiel.

I was struck by a New York Times article saying these terrorists are not insane. They are extremists who follow a dogma that most Muslims do not. They are highly indoctrinated and perhaps brainwashed. But they are intelligent, highly trained soldiers who will carry out orders to destroy what they believe is their enemy. We count on others to act in their own self-interest; this makes them predictable and helps us know how to deal with them. It is not there in the case of the terrorists, in that they care little about their own survival. This adds greatly to the danger they pose.

Reaction – I left Oaktree's New York office Tuesday afternoon to collect my daughter and the children of friends in a natural desire to assure safety and feel the sorely-missed ability to create order. I walked north through streets that were strangely normal but not quite. The tourists were there, with their cameras and maps. There was no smoke and no ash. There were a few more people than usual, and almost all were moving in one direction: north, away from the WTC. There was no screaming or crying, no running or panic, just occasional knots of people gathered around radios.

Only knowledgeable onlookers would have detected the differences. Few people were talking. Eyes didn't meet – which is not unusual in New York. There clearly were no smiles. The words that came to mind were "subdued," "somber" and "enervated," and they stayed with me all week. Stress and tension were everywhere.

Some things were very different, and some that were the same felt different. The absence of airliners overhead was obvious, and the effect was dramatic when fighter jets replaced them. Sirens were heard more clearly in the absence of competing noise, and they seemed more ominous – as was the case in Los Angeles during the riots and earthquakes.

Pedestrian and vehicular traffic was light the first night, and it grew only gradually. Grocery stores were crowded; sidewalk restaurants were populated; it was clear life would go on.

Each of us found his or her individual limit on how much we wanted to read, watch and talk about these events. At the same time, however, it seemed inappropriate to talk about or do anything else. In my limited sample, the kids found it easier to move on to other topics – and I was so glad to see that their lives, albeit probably changed forever, would rebound.

Communication – My cell phone and Blackberry wireless e-mail device were absolutely essential. I was again reminded to ask "How did we ever get along without these things?" It was very hard to make phone calls on Tuesday, but that, too, got a little better each day. My Blackberry always worked and made it possible for me to keep in contact with my Oaktree colleagues.

Spam e-mail was absent that first day, but it also came back. Resumes, start-up business proposals and offerings of money management firms for sale seemed incredibly inappropriate on the one hand, but I guess they, too, are part of the return to normalcy.

Retaliation – Armed response was, of course, one of the first issues to arise after the crashes. The President promised it Tuesday evening, and it is on the minds of us all. But no one should underestimate the challenges involved. The terrorists are amorphous, as I said, and pervasive. They exist everywhere but have no headquarters. They are dedicated but wear no uniform and fly no flag. They will not be easy to find or deal with. In the past we believed in the invincibility of the U.S., and thus in our ability to root out evil and prevail. There is still positive evidence on this subject, but also evidence to the contrary.

The Gulf War was one of our swiftest and most decisive triumphs. We were also able to calm the hostilities in the Balkans. On the other hand, Vietnam showed how hard it is to deal with a guerilla enemy who melts into the scenery, and last week's events strongly call into question the efficacy of our intelligence effort.

The nations of the world – even most of those in Middle East – have been quick to express horror and swear their support of the U.S. How many mean it, and how many have done it falsely to avoid our wrath? I certainly hope it's the former.

The swiftness and forcefulness of our response will depend to a great deal on how willing we are to diverge from some American ideals, and thus will require some difficult decisions. How sure will we have to be before we take action? Will we accept the risk of losing world support if we make mistakes? Are we willing to kill non-combatants? Are we willing to bear casualties among our own servicemen and women?

Centuries of immunity from attack on our soil, and decades of relative safety in a world in turmoil, have allowed Americans to enjoy the luxuries of moral certitude, personal freedom and safety. With our apparent wall of invulnerability penetrated, we will have to debate the extent to which these luxuries will be dispensed with.

Our Tactics – There is bound to be review and debate regarding the tactics we will employ in pursuit of safety and justice. In the recent past, there has been a rise in the position I paraphrase as "we will do no evil, even in the interest of doing good." Thus it was decided that the CIA would not perform assassinations or employ "intelligence assets" with records of crimes or human rights violations.

These principled stances may come to be viewed as luxuries we can no longer afford. When prosecutors obtain cooperating testimony, it is usually from criminals – because that's who the targets of prosecution associate with, and that's who can be turned against them. It is now clear that we need intelligence regarding upcoming terrorist operations, and that intelligence must come from inside terrorist cells. People we might not wish to associate with – perhaps only terrorists themselves – can best gain that access. They may be the ones most able to penetrate the obstacles posed by language and the close-knit nature of the cells. Can we afford not to employ them?

Civil Liberties and Scapegoating – These events and their aftermath may make us conclude that full civil liberties and full domestic security may be mutually exclusive.

Over the last eight years, Mayor Giuliani cut New York's murder rate by two-thirds using tactics that eroded civil liberties in high-crime areas. People were stopped and frisked on the street, and there were roving squads of undercover policemen – including those who mistakenly killed Amadou Diallo. Giuliani was assailed as a fascist, especially by the high-minded New York Times. But I detected two common threads last week: "his emergency preparations were appropriate, not excessive," and "he's the kind of mayor we'll need in the years ahead."

Depending on how far and in what ways the terrorist campaign spreads, we might begin to see armed personnel where people gather. And they might need to be able to search those they suspect. We may see surveillance cameras, computer facial and fingerprint recognition and the use of profiling. Internet and telephone privacy may be abridged. Travel will be less convenient, and our borders may be made less porous. These subjects are likely to be hotly debated, but the debate is certain to be conducted from a new perspective. **And I think the answers are likely to be different from what they would have been a week ago.**

One of my reflexes on Tuesday was to think about a recent movie, "The Siege." In it, a New York police detective tries to cope with a Muslim reign of terror in New York. At the same time, members of an outraged populace pursue vigilante justice against Middle Easterners, and the President sends in the army, led by an all-business general. He declares martial law, suspends civil liberties and rounds up New Yorkers based on ethnicity. It's not a great movie, but it is as relevant as "Wag the Dog" was to Bill Clinton's impeachment-eve bombing raids. You'll be glad to know it ends with the threat defused and American ideals preserved.

There will be – already has been – violence against Americans of Middle Eastern origin. But know this: **People say that if we let stocks fall, if we don't rebuild the Towers, or if we don't return to normalcy, then our enemies will have won. All of this is true, but if the events of the week are able to turn Americans against Americans and erode the values that have made this country great, they also will have won.**

Hysteria and Miscommunication – I witnessed, first-hand, the ability of emotion and fragmentary information to combine for error. On Thursday afternoon, I heard that three or four men in pilots' uniforms had been stopped trying to board planes. By early evening it had grown to seven. But on Friday it turned out to have been one.

I actually listened as the existence of a recent government report on terrorism was interwoven with thoughts that it might be unsafe for President Bush to visit New York, as well as a few other elements, to support a warning that chemical or biological weapons would be unleashed on Friday. Hysteria is natural in crises, but hopefully it will subside – while hopefully vigilance will remain.

Heroism – As Dickens suggested, the worst of times can bring out the best. I am incredibly moved by the accounts of people in careers based on bearing risk to help others, and of everyday people who rose to great heights.

Friday's Wall Street Journal carried an incredible, eloquent tribute to the bravery of New York's firemen. It said **"In the academy, recruits learn that a firefighter performs but one act of bravery in his career, and that's when he takes the oath of office.**

Everything after that, it is said, is simply in the line of duty." I cannot read this without being moved profoundly.

Last week proved that America is rich in heroes: The man who carried a woman he didn't know down fifty flights of WTC stairs. The people who drove hundreds of miles to offer their services in the rescue and cleanup effort. And the ultimate heroes, the passengers who crashed United flight 93 in Pennsylvania rather than let it be used as another terrible bomb. Who among us could crash the plane we're on to save hundreds or thousands of strangers?

Loss – As I wrote last week, Oaktree was fortunate in having no losses. Teresa O'Hagan's husband and his four brothers are New York firemen; some were missing or incommunicado for periods of time, but all turned up safe. I lost it when I spoke with her and felt the emotion flowing through both of us. Noreen Keegan and Zenobia Walji have husbands who are policemen, and they, too, are fine. It took a while longer, but Eric Livingstone's girlfriend and Nilsa Veras's mother also proved to be safe.

Most of us, however, knew someone who was not as lucky, and that brings it home. For me it was David Alger, head of Fred Alger Management Inc., with whom I shared a podium in March. I have read only good things about him.

These events clearly prove that "random violence" does not mean "spread evenly." I am struck by the incredible pockets of loss. Some WTC tenant firms had no losses, but Cantor Fitzgerald and Fred Alger lost huge percentages of their employees. More than 300 New York firemen are missing and presumed dead, including entire fire companies.

Oaktree's Kevin Clayton lives in an area from which many people commute to lower Manhattan. Thus ten people are missing from his parish, and well more than 100 from the nexus of towns that includes his. The loss of thousands of people in a few minutes – and the localized, concentrated losses – are things I hope never to live through again.

The Results – They say every cloud has a silver lining, but it's hard to see the good in this one. The tales of heroism and sacrifice have been wonderful, but I'd rather not have had occasion to read them.

At the same time, and equally incredibly, these events have brought the worst of Americans out from under their rocks. I am sickened to hear of the copycat bomb scares, phone calls designed to pry the social security numbers of the missing from their grieving families, and phony contribution scams.

The loss of life has been massive. The financial cost – to rebuild New York and the Pentagon, to the airlines, for stepped-up security, and for business lost – will be enormous.

The wonderful feeling that the U.S. was insulated and impregnable has been breached. The vulnerability to attack of our everyday life has been made clear. Life here may never seem as carefree. Last week I told my son Andrew that, incredibly, the Berlin conference was still going on as usual. He said "What's so incredible? Each time there's been a bombing somewhere in the world, life here has gone on without skipping a beat." In many ways, we now have been dragged into a reality that is commonplace throughout the world – which may well have been one of the terrorists' objectives.

Last week's events proved that money, position and technology are not the most powerful or important things in our lives. **The cornerstones of our lives were shown to be family, faith and principle, friends and colleagues we know we can count on, and the American spirit. These are the things we have to be thankful for . . . maybe now, we realize, more than ever.**

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