There is one major problem on Wall Street, that until solved, will result in meltown after meltdown in future years. I can't say if the meltdown monkey will hit every 2,3, 5 or 10 years. But I can say with certainty that it will happen again. Why ?

Because Risk and Reward have been decoupled for CEOs on Wall Street.

If you are the CEO of a major public company, once you qualify for your golden parachute there is absolutely no reason not to throw the Hail Mary pass, and do high risk deals every chance you get.

If you run a major hedge fund or fund of any kind, once you have put enough cash in the bank to get to your "F U Money Level" there is absolutely no reason not to throw the Hail Mary pass and make high risk investments every chance you get.

What is the down side ? Lets just say for example, you run Fannie May or Freddie Mac. You basically fuck up the entire housing economy. Your punishment ? You walk away with 9mm and 14mm dollars as severance. Would you take either of those jobs ?

Lets say you run Country Wide Insurance. You get the housing market plumped up, during which you sell $414mm dollars worth of stock, and then watch as it spirals out of control because you lent money to anyone with a pulse, and probably to some without. Your punishment ? A $110mm payday. Oh wait, he had to give some back. Sucks to be him doesn't it.

Carly Fiorina got fired from HP and walked away with severance pay of $42mm in cash. Some people thought she was a good CEO. Some people thought she was horrible and her acquisition of Compaq was the final straw. Did she care what they thought ? Why should she ? She could do what she wanted, she had $42mm big ones waiting for her either way !

The list of CEOs who have walked away with huge severance packages is a long one. The problem however isnt how much they got paid.

There is zero downside to a CEO for taking chances beyond the embarassment of getting fired. Would you let someone fire and embarass you for a check for $20mm dollars ? So would CEOs.

Find me the one story where the headline is "CEO has to pay the company losses back for being an idiot ? " or " Risky moves cost CEO his lifetime savings" or "Hedge fund manager gives back bonuses and exits with $1500 dollars a month severance"

It doesn't exist. Every public company CEO in the country knows it doesn't exist.

Which is exactly why we need to re-establish a link between risk and reward in public companies. The first step should be the following law:

If the government must step in and provide any sort of financing or guarantees for any part of a public company's business, then all officers and directors lose all rights to severance pay and all outstanding vested or unvested options or warrants immediately become canceled. In the event the CEO of such corporation is not fired, but instead chooses to step down voluntarily, then the last 12 months of earnings is considered to be an interest free loan which the CEO must pay back over no more than a 10 year period.

Honestly, i dont think it would have changed the actions of CEOs who have been bailed out. They would have thought it "couldnt happen to them". But once it happened a couple of times to a couple of big company CEOs, it would be in the decision making process of every CEO running a huge financial company.

The 2nd option would be to prevent certain types of companies from being or going public. Law Firms can;t go public. Investment firms like Goldman Sachs used to not be able to go public. They were partnerships. Partners were paid for the most part in cash. If the partnership had money to pay, it got paid. If not, not. I promise you, their tolerance for risk was far lower than it is today for Goldman because there was a direct link between the risk and reward for partners. I also guarantee you that if the business makes sense, there will be other companies that step in to handle any business that a partnership cant grow to handle.

And what about the CEOs that just screw up companies, but not to the point of federal bailouts ? You cant protect against hiring a bad CEO. It happens. You can pass a law saying that officers and board members can't be paid in stock. Let them take their cash earnings and go on the market and buy stock or options like everyone else. Putting their own cash money on the line will create a link between the risk and the reward. They will be in the same boat as every other shareholder . It's their money on the line.

Crazy ? Some people might say that it would make it tougher to find CEOs for big companies. Companies couldn't pay them enough. I say thats crazy. What are those potential CEOs going to do otherwise ? If the market for CEO pay isnt high enough for them, they can go out and start their own companies and take on the risk.

As long as we pay CEOs with lottery tickets, I mean stock, that they don't have to pay for, risk and reward will be decoupled. As long as that is the case, you can count on many a future bubble and meltdown and there is absolutely nothing anyone can do to stop them.