I may not know much, but I know a lot of it. So I decided to share my opinions and thoughts on what I would do if the OWS movement either elected me Grand Poobah or asked for my advice:

1. The Great Lie of Wall Street.

Every CEO tells the same great white lie. It is at the heart of every communication. It is at the heart of every financial decision. It is, at it's very base, the reason why you all are in the 99pct and they are in the 1pct. The Lie ?

Great CEO White Lie = "We are acting in the best interests of shareholders."

When a CEO utters this lie, everyone automatically forgives whatever they do. Add 10k jobless to the unemployment rolls ? Sorry, we did it in the BEST INTEREST OF SHAREHOLDERS. Merge or buy a company and cut back across the board ? We did it in the Best Interest of Shareholders.

The problem is that unless the company is losing money and it is the only way to keep the company alive, in this era of 9.1pct unemployment it NEVER is in the BEST INTEREST OF SHAREHOLDERS.

Shareholders , whether they own shares directly or through mutual funds or pensions do not live in a corporate vacuum. Their lives are impacted by far more than the share price of a stock. **Every layoff in the name of more earnings per share puts a stress on the economy, on the federal, state and local governments which is in turn paid for through taxes or assumption of government debt** by….wait for it.. the same shareholders CEOs say they want to benefit.

If OWS really wants to change corporate structure and impact the economy, talk to shareholders. Talk to your parents, uncles/aunts, cousins, friends who own shares of stocks either directly or indirectly and have them state loudly and clearly that they would rather have a higher Price to Earnings Ratio and even a lower stock price than have their TAXES increase in order to support all the people laid off from their jobs in the name of shareholders !

You might even consider buying a share of stock. Just 1. Maybe you can all pitch in and then go to a shareholders meeting and let them know how you feel about the best interests of shareholders.

2. Push to Make All Financial Institutions Partnerships

We should make all investment banks become reporting partnerships (meaning they still have the same reporting requirements they have today). I would have no problem with our government loaning money to the partners of Goldman Sachs and Morgan Stanley and other Too Big To Fail Institutions so that they can buy back all public shares of their stock. Of course all those partners would become personally liable for repaying that money back to the government. It would probably be about 120B dollars in total to take these 2 companies private. That is far, far less than a possible bailout would cost.

Those personal guarantees would change EVERYTHING in the banking industry. It would change the decision making process across the board.   There would be a moral hazard to every decision. Today , a wrong decision and they vacation on their yacht. As a partner, the wrong decision and they are protesting right next to the OWS crowd as a 99pct er. It would be the definition of having "skin in the game"

3. Limit the Size of Student Loans to $2,000 per year

Crazy ? Maybe, maybe not. What happened to the price of homes when the mortgage loan bubble popped ? They plummeted. If the size of student loans are capped at a low level, you know what will happen to the price of going to a college or university ? It will plummet. Colleges and universities will have to completely rethink what they are, what purpose they serve and who their customers will be. Will some go out of business ? Absolutely. That is real world. Will the quality of education suffer ? Given that TAs will still work for cheap, I doubt it.

Now some might argue that limiting student loans will limit the ability of lower income students to go to better schools. I say nonsense on two fronts. The only thing that allowing students to graduate with 50k , 80k or even more debt does is assure they will stay low income for a long, long time after they graduate ! The 2nd improvement will be that smart students will find the schools that adapt to the new rules and offer the best education they can afford. Just as they do now, but without loading up on debt.

The beauty of capitalism is that people like me will figure out new and better ways to create and operate for profit universities that educate as well or better as today's state institutions, AND I have no doubt that the state colleges and universities will figure out how to adapt to the new world of limited student loans as well.

Finally, the impact on the overall economy will be ENORMOUS. There is more student loan debt than credit card debt outstanding today. By relieving this burden at graduation, students will be able to participate in the economy

4. Tax the Hell Out of Wall Street; Give it to Main Street

In a world of High Frequency Trading and black box trading that does nothing but create a platform for "financial hackers" to turn the market into their own proprietary financial playground, we need to figure out a way to revert the Stock and Bond Markets, and the derivative instruments created from these equities, back to their original purpose, a place to raise capital for growing business. Instead, today its a platform for financial engineers and hackers looking to exploit every and any opportunity. When 60pct or more of trades are from High Frequency/Algorithmic traders and the correlation for every market index rushes past .7, the market is no longer a market, its a platform.

The simplest way to change this is to place a very simple per share tax on every transaction. 10 cents a trade. Every share. Every option. Every Bond. Every currency transaction. Every trade.

The obvious response is that trading volume will plummet. So what ? Let it. The next response is that traders will merely move their trades to foreign exchanges. Yes they will. Will transaction costs go up ? Duh.. that is the point. The market thrived when spreads and transaction costs were much higher just a few short years ago. It will survive now.

You see, in the real business world there is always a trade off between risk, reward and the law of unintended consequences. If we have learned anything from the past 12 years it should be that black swan events happen more frequently than we like and that the law of unintended consequences has a far greater negative impact than business as usual has a positive impact.

I would happily send transactions overseas and let them absorb all the risk that comes from a continuous effort of financial engineers and hacks trying to game the system. By letting them move overseas, we would still have risk because of the interconnection of economies, but our direct risk would be much less. And given that the UK already has a semblance of a tax on transactions, it wouldnt' take long before they would need to expand that tax in order to hedge the systemic risk associated with financial engineers and hacks.

More importantly, it might just put the market back to the basics of what the stock and bond markets are supposed to be, a means of raising capital to support corporate growth. There used to be a time when Investment Bank Partnerships made their money scouting out small companies in need of capital and matching them with investors. They weren't as big as they are now, but they managed to create quite a few growth industries. Something we could use some of today. Making the stock market a launching pad for companies will have far greater value and impact employment far greater than making sure High Frequency Traders can get their trades in.

What does everyone out there think about these ideas ?

and just for shits and grins, here are some old posts on related matters

Fixing Executive Compensation

Apr 1st 2009 10:57AM

I have a simple question. Why are profitable companies laying off people ? I can see if a company's survival is at stake. If payroll can't be met. If debt can't be paid. Then layoffs are a necessary evil. Even if companies have created cash flow deficits through their own mistakes, that's the nature of business. Mistakes are made. What I have a problem with is that discussion of executive pay never includes whether or not the executive has been good enough to pre empt or prevent layoffs.

Executives are not stupid. Usually. They recognize that killing off employees can juice a stock price. Even in this market. Which in turn can juice the value of their options and compensation. At the companies I run, we have cut raises, put a freeze on hiring, done what we need to do, but we have done all we can to avoid layoffs. Why ? Because its the right thing to do. Its the patriotic thing to do. I'm selfish enough and arrogant enough to think that maybe if I pay attention to the big picture that I can impact the big picture.

As a shareholder, where possible, I would prefer that the companies I own shares in do the same thing.

I own stock in some firms whose backs are up against the wall because of debt. Unfortunately, they don't have a choice but to cut jobs in order to save jobs. I understand this reality. It's unfortunate, but a fact of life. I also own stock in firms that are profitable. Put a freeze on hiring. Put a freeze on all raises to employees of all levels, including yours. You don't have to try to squeeze every nickel to the bottom line. I realize these are extrodinary times. I'm happy to accept a P/E ratio that is 20pct or 50pct higher (lower earnings vs the current price) . I want you to manage for the long term benefit of the company rather than manage to the stock price.

I don't have data, but I'm willing to bet that private companies are far less likely to lay off people than public companies.

As the discussion on executive pay continues, my message is simple. Give credit to those executives who bust their asses to avoid layoffs except in cases where its an absolute necessity. Pay 'em a premium vs those who cut jobs in profitable companies. Look to private companies as guides to what a well managed company can accomplish, and how executives are compensated.

Capitalism isn't about having the biggest bottom line for the current quarter. Capitalism is about individuals busting their asses to maximize value for shareholders. Sometimes you have to look at the bigger picture in order to reap the biggest returns. Not all rewards are short term.

My 2 Cents on CEO Pay

Apr 15th 2008 2:09AM

There is a game played by CEOs with the corporate issuance of lottery tickets. Otherwise known as stock. Stock can be issued in any number of ways, shapes or forms. Warrants, options, restricted or unrestricted stock. No matter what you call it, every CEO hired, is asking for equity knowing that their only goal is to hit the jackpot and create a pool of wealth that puts them in the "fuck you" wealth category. Thats enough money to buy or rent just about anything you can think of and put you in position to never have to work again. You just live off the cash in the bank.

Put another way, every hired CEO is looking to be in a position to look in the mirror , smile and tell themselves they have made it. They are living the American dream. The only way to do that is to grab as much equity equivalents as you can and do everything you can to get that stock price up as high as you can while periodically liquidating the stock and stuffing the cash in your bank account.

There is absolutely nothing wrong with doing so. Any CEO who doesnt take advantage of this golden ticket opportunity is an idiot. In fact, although I don't have actual numbers, I would hazard a guess that more than 95pct of CEOs hired to run companies with a billion dollar plus public market caps probably do get themselves to the position of having more than 10mm dollars in equity very quickly. While those who manage to hold on to their jobs a while and not screw up too bad, can relatively quickly get past the 25mm dollar in equity mark and reach the 50mm dollar mark with in 10 years. Its actually pretty tough to screw up and not get there if you have any brains at all.

Why ?

Because you have the entire Mutual Fund, Hedge Fun and Brokerage industry doing everything they can to get you there. Think about it.

You can't turn on CNBC or Fox Business without them cheerleading the market to go up. Every man, woman, child, fund, index or interested party who buys the stock is doing everything they can to get the stock of the company to go higher. They don't really care how you run the company and they care less about the results of the company than they do about the performance of the stock. Heck, even if they did care, shareholders dont really own anything and have zero say in the company. If you really dig into it, its the ultimate in social networking. Everyone who owns the stock belongs to the fan page or group for the stock and they are telling everyone they can how wonderful the company is and why the stock will go up, all while praying it does so.

Its the American way and it works ! Hundreds of millions of dollars are spent every year by brokerages telling every American that the stock market over time will go up 7pct per year. All you have to do is diversify and hold onto your stock long enough. For better or worse, everyone believes it.

With all of that social networking power, call it stocksourcing behind stocks, how can CEOs not get rich ?

The problem with all of this is that there is a huge disconnect between the CEO and shareholders doing well and those who work for the company doing well

Yes, its true, particularly in markets like we are experiencing now, stocks can hit 52 week, or even multi-year lows.(although more often than not, in spite of low stock prices, market caps have increased).

Yes, its true that CEOs see the value of their holdings shrink. However, unlike lottery tickets whose value goes to zero when you dont hit the number, the CEO equity positions retain their upside and history has shown us that if they go far enough underwater, they will get repriced and /or reissued. All in the name of keeping the CEO happy. So while CEOs may get "less rich" for awhile, the game is stacked so that a downturn gets them happy real fast when the upturn comes.

The disconnect is that there is a big difference between not making Wall Street happy and not making money.

The pressure from Wall Street is to grow earnings forever. Not matter what it takes. This isnt a problem when a company is doing well. EVeryone is happy. But when the economy hits a bump like it has now, when the market is hitting a bump and stock prices are declining, like it is now, the pressure comes. Everyone owning the stock reacts and whats to know what the CEO will do to get the price back up. This, as they say "is where the CEO earns their pay" Unfortunately, what this really means is that everyone who works for that company is at risk. At risk of losing their jobs, benefits, raises, you name it. Its at risk.

All of which is a long winded way of saying that employees live in the corporate cash zone, CEOs and the top few in management live in the equity/lottery ticket zone.

Those in the cash zone always take the first hit. People,places and things that consume cash are the first things to go because cash expenses immediately reduce earnings. If you or anyone like you consumes cash, unless someone upstairs thinks you generate a straight to the bottom line return on the cash expenditure, you are about to become a corporate ghost. Your person, place and thing will be memorialized as a cut to increase earnings mentioned in a press release that wall street will cheer and use to push up the stock price.

What makes me sad about all of this is that I really think that in this country if there truly was a connection between shareholders and management, that if given a choice by **profitable** companies, most of us would choose to hold on to our shares and accept an expanded PE for some period of time in exchange for people keeping their jobs.

I would love to receive an email from a company I own saying something to the effect of:

Dear Shareholder,
We are facing a very difficult decision that we would like your feedback on . Our earnings per share last quarter were 20 cents, and for the entire last year, 80 cents. Because of a downturn in business caused by XYZ factors, we face the choice of making 10 pct less, or cutting headcount and related expenses in order to maintain our earnings and possibly even grow our earnings a couple cents this year.

As a shareholder, we would like to ask you whether you would consider allowing us to retain these valued employees. We recognize that it would require you accepting a PE multiple 10 pct higher than the current market. We hope you would be willing to make this concession. We think that the jobs this will save will return far greater value to shareholders over the long run.

We look forward to your vote.

Personally, Im willing to give a higher multiple in exchange for saving people's jobs. At least once.

Unfortunately, this of course is a fantasy that can't happen in this country.

Which brings us back to CEO Pay.

As long as CEOs live in the equity/lottery ticket zone and employees in the cash zone, CEO pay is going to be outrageous relative to everyone else.

The only possible way to change this is to put CEOs in the cash zone. Make companies generate 100pct of their compensation in cash that is 100pct expensable in the quarter paid. Thats not to say they cant own stock. Hell yes they can own stock. But make them buy it either on the open market, or as part of the programs that make stock available to every company employee, on the same terms. They are getting paid enough in cash and if they believe in their ability to run the company, they can put their money where their mouth is. Eliminate all the free lottery tickets. Make them buy stock, options, warrants, whatever, on the same terms as everyone else can.

Shareholders tend to ignore how much stock is given to management, they don't ignore cash. Companies will always be a lot more stringent with their cash, whether its paid to the CEO or anyone else. CEO cash compensation will go way up, but total compensation will come way down. More importantly , CEOs getting paid huge sums in
cash will stand out like a sore thumb when things arent going so well. They will be treated like everyone else in the cash zone and held far more accountable for

their work.

Of course this is all just my opinion, but to me its a good thing for all involved. The rich can still get richer, but everyone shares in the risk.