

## Fooling Some of the People All of the Time

By DAVID KESSLER '08  
For the Bottom Line

On the morning of October 19<sup>th</sup>, close to 400 investors gathered at The University Club in Manhattan for the 17<sup>th</sup> Annual Graham & Dodd Breakfast. This year's keynote speaker was David Einhorn, President of Greenlight Capital. Under the title "Fooling Some of the People All of the Time," Mr. Einhorn addressed the current state of the capital markets and shared his thoughts on ways to remedy the current situation in the credit markets.

Mr. Einhorn, introduced by Professor Bruce Greenwald as an investor with a creative mind, a powerful intelligence, and a sound instinct for value, is a graduate of Cornell University. He began his career in the Investment Banking Group of Donaldson, Lufkin & Jenrette. After 2 years with DLJ, Mr. Einhorn left to take a job as an analyst with a hedge fund. In January 1996 he co-founded Greenlight Capital. Starting with less than \$1 million in capital, Mr. Einhorn built Greenlight into one of the most successful hedge funds in the industry. Greenlight, which has grown to over \$4 billion, boasts returns which are reported to be 27% annualized.

In speaking about the credit markets, Mr. Einhorn declared "the crisis came because we have a lot of bad practices and a lot of bad ideas." The result is that lenders were "induced to take imprudent risks and make imprudent loans which of course led to losses." One practice admonished by Mr.

Einhorn is the current system of delegating the assessment of credit risk to credit rating agencies that are paid by bond issuers rather than bond buyers.

While the media might lead one to believe that sub-prime loans are at the root of the current capital market disarray, Mr. Einhorn asserts that that sub-prime loans have become a convenient excuse for a much larger problem. The real issue is that lenders of all sorts lent too much money and did not demand enough interest to compensate their risk. "There has been a colossal undercharging for credit across the board," Einhorn stated. Loans were issued based on the borrower's ability to refinance rather than the borrower's ability to repay the loan. This includes not only the sub-prime market but also all areas of residential real estate, commercial real estate and the corporate lending markets and has applied equally to borrowers whether they are an average American trying to purchase a house or a private equity firm pursuing an LBO.

Why have borrowers enjoyed such low rates? According to Mr. Einhorn, the answer lies in how this risk of structured financial products are assessed. Rating agencies perform their analysis free from the restrictions of "Reg FD". Without access to the same information as the credit agencies, investors are not able to decide whether they agree or disagree with the rating. "Without enough information in the market other than the credit rating,

it is hard for buyers and sellers to decide what to do once the credit rating comes into doubt." Einhorn believes that one solution to this problem is to make all information shared with rating agencies available to the entire market.

Einhorn suggested that "the rating agencies have lost their ability to impose discipline on the balance sheets of the broker dealers, the financial guarantee companies, enablers of structured finance that bring so much business to the rating agencies. This creates an enormous systemic risk as these entities are able to maintain access to cheap credit while over extending themselves beyond prudence."

In describing his own investment philosophy Mr. Einhorn said that the idea is to preserve capital on an investment-by-investment basis. His goal is to put together a portfolio of individual ideas that are set up to preserve capital if he is wrong, and will achieve a good return if he is something other than wrong.

David Einhorn concluded his remarks by reading an excerpt from his forthcoming book due on bookshelves next spring. Among the guests at the breakfast were 3 generations of value investors including Walter and Edwin Schloss, Marty Whitman, Mario Gabelli, Jean Marie Eveillard, and Tom Russo. The breakfast, which is organized by The Heilbrunn Center for Graham and Dodd Investing, was simulcast to London and webcast to an audience around the world.

## Student Life Corner

### Dates for your Blackberry

Wednesday-Sunday, November 21-25

\*Gobble Gobble\*

### Thanksgiving Recess

No Classes Scheduled

### Thursday, November 22

Where will you be on Thanksgiving ??!

Not going home for the holiday? Are you an international student?

Sign up and join a fellow student or professor for Thanksgiving dinner! Visit: <http://www0.gsb.columbia.edu/students/services/beyond/international/thanksgiving> to sign up.

### Upcoming Fall 2007 Conferences

Black Business Student Association Conference-11/16  
Venue- [Lerner Hall](#)

## Events & Entertainment



Brought to you by OSL

### Wednesday November 14<sup>th</sup>

### Holiday Party For Kids

6:00pm- 10:00pm, Uris Hall

The perfect way to kick off the holiday season! Come spread the cheer & touch the heart of a child. Talk to your cluster community representative about volunteering.

\*OSL offers discounted Movie Tickets for sale (cash only & limit of 6 tickets per student). We also have coupons for discounted theater tickets & information on Lincoln center, The Cloisters, and other prime Columbia culture. So come on down & check it out!!!

For those interested in finding out about plays, concerts, films in NYC and Columbia University, visit [cuarts.com](http://cuarts.com) and sign up for the Arts Initiative Newsletter.



## Hey Did You Know

The last undergraduate class was admitted to the school in 1945. Focus was then shifted toward graduate education & establishing the MBA degree. Shortly thereafter, the emblem of Hermes, the Greek God associated with commerce & entrepreneurship, was adopted as the Columbia Business School logo.

## B-School Trivia

How much did the first Business school students pay for tuition? Please come to Uris 111 to submit your answer. The first 2 people to answer correctly will receive a prize.

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