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Risk, did they forget?

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Recent events have placed incredible stress on our financial system. Mid-Sept. has seen changes on Wall St. that have shaken the investment banking world to its roots. These events have spread throughout the economy and are clearly having an impact on Main St. In the midst of such events, it is often hard to clearly identify the cause. Often this is left for much later when we use time for perspective.

One thing is clear, however risk, as expressed in the financial markets, was given a back seat over the last few years. Definition of risk, n. the probability that foreseen events will not occur.

Did investment bankers and investment advisors put this definition on the back shelf? One has to wonder if any of the following were considered in the process of analyzing risk.

*A borrower making $30,000 will make the payments for 30 years on a $300,000 loan

*Credit swaps would kick in

*Lehman Brothers would file for bankruptcy based on a vault full of "bad paper"

*World ins. giant, AIG, would need a federal bailout in part due to their insuring mortgage pools

*$200b in conduit loan financing (2007) would nearly disappear without a clear replacement

*The Korpacz R.E. Investor Survey (3Q 2008) would open with "In the year since the onset of the national credit crunch, the availability of debt for real estate investments has practically vanished. Fundamentals have weakened in all property sectors and the economy has shown few signs of rebounding."

In the high flying times of the real estate bubble, risk did not disappear - as would be indicated by the activities of many investors. The current events are a harsh reminder for all U.S. taxpayers of the concept (reality) of risk.

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