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Mutual fund managers gather to party on the Titanic

by Anthony K. Wikrent

The managers of U.S. mutual funds—the investment vehicles through which over 25 million U.S. households own stocks, bonds, and other financial instruments—gathered in Washington, D.C. on May 17 for their annual conference. Given the series of financial explosions in the past half year—Orange County, Mexico, Barings PLC, the collapse of the U.S. dollar—one would have expected to find a morose mood among the money managers. If the international financial system is the *Titanic* after hitting the iceberg, the discussion should be focused on the best ways of getting as many people as possible into the lifeboats, right?

Wrong. The mood was positively upbeat, with attendees gleefully listening to speakers predicting a coming golden age for their "industry," as aging baby-boomers scramble to store up riches for their retirement.

Stunning growth

The Investment Company Institute represents the companies that manage the nearly 5,000 mutual funds in the United States. A mutual fund is a company that manages a pool of investments on behalf of a large number of individuals and institutions. In 1970, there were only 361 mutual funds in the United States, with $47.6 billion in assets. By 1980, there were 564 mutual funds, with assets of $95 billion. The financial deregulation of the 1980s brought a period of explosive growth: By 1990, there were 3,105 mutual funds with $1,066.9 billion ($1.07 trillion) in assets. As of March 31, 1995, according to ICI statistics, U.S. mutual funds assets had swelled to $2.3 trillion, of which 41% of this were in stock funds, 31% in bond funds, and 28% in money market funds.

This stunning growth has spurred discussion and concern in some circles about the shift in the U.S. financial system, from dominance by commercial banks, to dominance by mutual funds. Since the Federal Reserve—indeed, almost the entirety of the federal financial regulatory apparatus—has forged regulatory tools to effect policy through the banking system, it is unclear how effectively policy can be implemented if a large portion of financial assets are held by mutual funds, rather than commercial or investment banks.

The ICI argues that there is really not much to be concerned about, because mutual funds now hold only 12.7% of the $6.037 trillion of U.S. equities (stocks), compared to 48.2% ($2.91 trillion) being held by households, 17.3% ($1.05 trillion) held by private pension plans, and 8.6% ($520.5 billion) held by state and local government pension funds. Speaking directly to the issue of mutual funds versus banks, the ICI argues that, "at year-end 1994, total assets of mutual funds were $2.16 trillion versus $2.46 trillion of commercial bank deposits. However, it is more meaningful to compare total bank assets of $4.16 trillion (including securities managed by trust departments) to total mutual fund assets. Bank deposits are more similar to money market mutual funds, which had assets at year-end of $611 billion."

The top money managers

Nonetheless, the fact remains that mutual funds represent a significant portion of the U.S. financial system. As the ICI boasts in its *Fact Book*, "By pooling the financial resources of thousands of shareholders . . . investors gain access to the expertise of the country's *top money managers*" (emphasis added). It was thus startling to find at the ICI conference a complete lack of concern over recent financial developments. For example, derivatives—the instruments which helped drive Orange County into bankruptcy, and are blamed for causing the obliteration of Barings—were a primary topic on the agenda. But the focus of attention was not on losses incurred, or minimizing the damage caused by derivatives, but on ensuring that there was adequate *disclosure* of derivatives holdings by mutual funds, so that the discomfort and surprise of investors could be minimized.

Very few people at the ICI conference even acknowledge there is a financial crisis. One of the few is with the accounting firm Coopers & Lybrand, and he mentioned that one of the fastest-growing operations his firm now has, is a special consulting group set up to advise companies on how to measure the risk from their holdings of derivatives, and how to reduce that risk—sometimes by buying more derivatives, but more often by unwinding the positions held, or by identifying other, offsetting positions already held but not previously figured into the total derivatives portfolio.

"These guys aren't going to admit they're holding deriva-

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tives now, after all the bad publicity," he said, referring to the mutual fund managers in attendance. "Even if they didn't lose money, it's not something they want to talk about."

The more typical response to an interlocutor bringing up the topic of financial crises, was that of a senior manager for Merrill Lynch, who runs a number of "proprietary funds." When told of the series of recent statements made by leading figures in Europe and Japan, warning of the need to begin abandoning floating exchange rates, he replied that there was no problem at all, that there were just a few "small messes that need to be cleaned up," and that these would be taken care of in due course as the issue of disclosure is worked through. When told about some of the recent proposals for a tax on financial transactions, he replied, "Taxes are never the best way to deal with something."

This nonchalance in the face of clear disaster was particularly striking, given the nearly 100% recognition of the work of Lyndon LaRouche, the American System physical economist who has accurately warned of each major devolution of the financial and monetary systems for the past few decades. Another person from Merrill Lynch at first claimed not to be familiar with LaRouche, but when shown the August 1994 pamphlet featuring "LaRouche's 9th Forecast: The Coming Disintegration of the Financial Markets," he exclaimed in disgust, "He's been saying that for 25 years. Look at you: You're well-clothed; you're well-fed. Where's the crash?" When asked, "What about Africa or Latin America?" the Merrill Lynch manager fled.

A manager of four funds for Warburg Pincus, one of two people who claimed not to be familiar with LaRouche, dismissed any talk of systemic crises, saying, "It's a good economy," and everything will work out in the end. "I've seen four crashes, and we're still standing here," he declared.

A manager for Keystone funds replied, "Get the Japanese to open their markets! That'll save the exchange rate," then ran off.

Baby-boomer boom expected

The opening speaker of the ICI conference was Ken Dychtwald, author of a recent book, *Age Wave,* on the massive demographic shifts caused by the baby boom. Dychtwald began by observing that the average lifespan has quadrupled in just the past few hundred years. Before this century, he said, very few people actually lived long enough to retire. He then reminded the audience that the baby boomers are now in their 40s, and are beginning to think seriously about saving for retirement. On this basis, Dychtwald predicted that the mutual fund industry was about to experience a boom.

Dychtwald mentioned that unlike previous generations, there is growing anxiety among the baby boomers that they and their children will be less financially secure than the baby boomers' parents, but made no mention of the underlying policies of post-industrialization and depopulation that are driving the collapse of the economy. Dychtwald, in fact, never so much as intimated that the economy or financial system was collapsing, or in trouble, other than this reference to growing anxiety over financial security.

The featured speaker on the second day was Colin Powell, the retired chairman of the U.S. Joint Chiefs of Staff. Powell delivered a "feel-good" pep talk on the international role of the United States, focusing on how it had won the Cold War, then won the Persian Gulf war. Most interestingly, however, was that Powell began with an apologetic explanation for the knighthood he accepted from Queen Elizabeth. Noting that U.S. public servants, especially military officers, are proscribed from accepting such honors by the U.S. Constitution, Powell argued that his knighthood was "honorary," and in no way required him to shift loyalty from the United States to the British crown. He joked about the expectations of regal splendor that such a knighthood excites, and stated that he did not have such expectations for an honorary knighthood: "Unfortunately, that is not the case with Lady Powell," he concluded.

Powell fielded questions afterward, and was asked if he would run for President. He replied that he wanted to have some role in public service, but that he had no passion for politics, and did not even know which party he belonged in. But he left the question unanswered, by saying he first wanted to finish writing his memoirs, and then he would decide what to do next.

Another questioner referred to his characterization of young people in the military as being part of the American family, and asked whether he supported the Contract with America. Powell replied that he had seen first hand that government is "inherently inefficient," and that he was learning that private business was much better at deciding how to use an "incremental dollar." But, he was very uncomfortable with the social provisions of the contract, and how people with problems, who genuinely need help, are treated in the contract as "second class citizens." "We don't yet have a level playing field in America," Powell flatly declared, implying strong disagreement with calls to dismantle affirmative action programs and other civil rights legacies.

In response to another question, Powell lashed out strongly against the cultural degradation of the news and entertainment media. "I don't blame the editors or the TV studios," he declared. "I blame you and me. We have to stop demanding this filth."

The lunch speaker following Powell was political commentator and humorist Mark Shields, of CNN. Shields played up Bush's achievement in pulling together an international coalition to fight the Gulf war, for which Bush received a 91% approval rating in public polls. "No other President has come close to that, not even Ronald Reagan," Shields observed. "So Bush comes back after the Gulf war, with this 91% approval rating, and goes before the American people. And he tells the American people, 'I want a capital gains tax

cut.' And most people said, 'Say what?' Fifty-one percent of the American people stopped listening to him at that point, because they figured he had no idea of what their everyday concerns were."

The gasps of surprise, anger, and anguish were almost audible. A cut in the capital gains tax is a holy sacrament for this crowd.

Shields then explained what he thought of Clinton by telling a tale of how General von Moltke divided the German officer corps into four parts, to determine who would become general officers. First, were the mentally not-so-bright, and the physically lazy. They were content to get three meals a day. Second, were the mentally not-so-bright, and the physically energetic. These were the most dangerous—they require constant adult supervision. Third, are the mentally smart, and the physically energetic. They are the perfect staff officers, because they keep everything orderly and neat, and can tell you the complete detailed history of any proposal they ever dealt with. Fourth, were the mentally smart, but physically lazy. These are the ones that Moltke selected to become general officers, because they always figure out how to get the most accomplished with the least effort.

Conflict with British not discussed

"Bill Clinton is in the third category," Shields concluded. "Clinton has yet to make the distinction between what's interesting, and what's important."

No mention at all was made of the fact that the world monetary and financial systems are in the process of disintegrating, or that the oligarchical Club of the Isles forces centered on the City of London are rushing to crush the institution of the nation-state. Because if the physical economy is to be saved from the sinking monetary *Titanic,* then the poltical rule of the Club of the Isles must be eliminated—and only sovereign nation-states can do that. This is why a shooting war has literally broken out between Clinton and the British establishment. This is the most important fact of our era, yet not one of the supposed smartest money managers in the United States, or the speakers hired to entertain them, saw fit to discuss it.

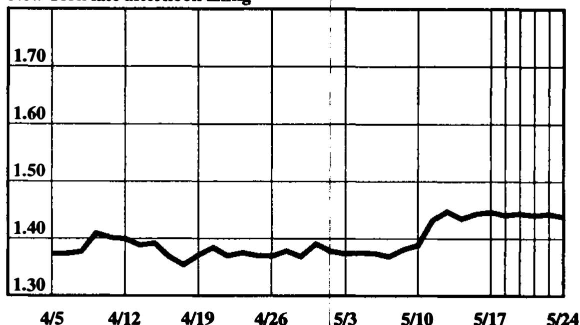
Reality simply was not a major concern of the ICI conference. A founding member of Wechsler & Partners Inc., a New York City-based outfit that performs public relations work for mutual funds, observed, "I was here last year, and it was a love fest. Then I realized that 1994 was the worst year ever for the mutual fund industry. So, I came here expecting to find a lot of the concern you're talking about, but I'm just not picking it up. [Such concern over financial developments] wasn't present last year, and it's not present this time."

The party on the *Titanic* is still going strong. Those jarring collisions of the past few months? "Oh, those," reply the exuberant revelers. "Well, the ship's still afloat, isn't it? Stop worrying! Here, want a drink?"

Currency Rates

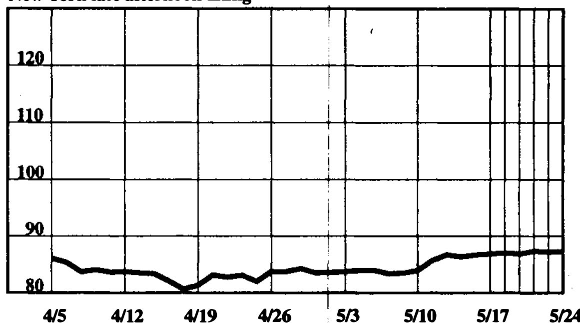
The dollar in deutschemarks

New York late afternoon fixing



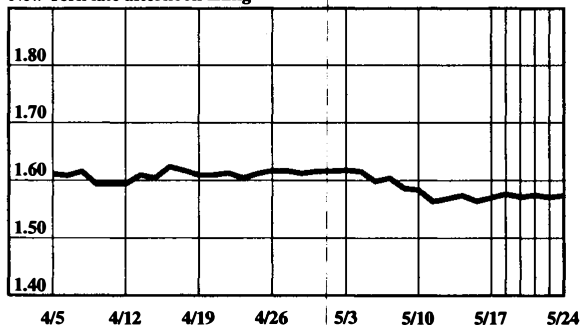
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing