



## ***MF Global – Not a Reason to Fear Capitalism***

The \$41 billion bankruptcy of MF Global, led by CEO John Corzine, is obviously front page headline news these days. It has been, and will continue to be, a circus like atmosphere. Rumors and innuendo will mix with facts and emotion as pundits and investors attempt to divine a meaning or message.

There are many who want to make this about Wall Street and Capitalism. They will say, “the subprime crisis, Bernie Madoff, the flash crash, market volatility, and now MF Global all show how out of control, or crooked, or un-regulated Wall Street and capitalism really is. It’s like the Wild, Wild West. We need more government control and transparency.”

But, while there are many things to learn from MF Global, the idea that “capitalism failed” is not one of them. There is, of course, the lesson that serving customers and earning money the hard way is the best way to create wealth...taking proprietary bets to try and “strike it rich” is not. The idea that someone understands the market better than the market itself is an age old business problem, created and supported by blind ego.

This problem – ego – has taken down companies before and it will take down companies again. It’s not special to Wall Street, it happens in everyday life. It’s human. It happens on Main Street, it happens at home with the kids, it happens on the sports field. It’s life.

Capitalism deals with this fact of life very well. Winners (those who operate with integrity and wisdom and read the needs of customers well) accumulate more assets. Losers (those who try to cut corners, cheat people or misunderstand customers) have assets taken away from them. There are always exceptions to the rule, but as time marches on, assets flow toward those who use them best.

In a growing economy, profits exceed losses, as winners beat losers. But, no matter how good entrepreneurs are, a growing economy can only exist when government allows an environment of success – low taxes, less spending, more

freedom. When government gets in the way – re-distributes income and plays God with resource allocation – private profits diminish, or possibly, disappear altogether. And because government doesn’t care about profits or efficiency, it often makes major financial mistakes.

John Corzine made bets on government. He invested in the sovereign debts of European countries and reportedly told an associate, “Europe wouldn’t let these countries go down.” This was a big mistake. MF Global would still be among the living if it had invested in corporate bonds, even high-yield junk. His investments would have made money. In other words, capitalism was safer than socialism, which is something supply-siders understand, but Keynesians don’t.

This is understandable in a way. John Corzine has been in government, not the private sector, for the past decade. He was a US Senator from, and Governor of, New Jersey. Moreover, his former employer (Goldman Sachs) and probably many of the hedge fund types who traded and cleared through MF Global often base trading strategies on policy moves by the Fed, the US Treasury, the ECB, and other sovereign governments. This is a widespread practice these days. Macro-trading, based on government policy moves has become the go-to spot for trillions of dollars of capital.

This can be a dangerous strategy as MF Global, and many others, have found. Investors who want to build wealth over time would be better served by trusting in capitalism and buying assets that are attached to thriving businesses that serve customers well and make profits the old fashioned way. Capitalism works. MF Global bets on European Sovereign debt were clearly not bets on capitalism. In fact, European nations are in trouble because they tried to create wealth without trusting fully in capitalism. What they have found is that markets (and consumers) are the only real sovereign financial entity on the face of the earth. In the end, these markets always win.