THE
RISE
AND
FALL
OF



ALAN C. GREENBERG

FORMER CEO AND CHAIRMAN OF BEAR STEARNS

THE RISE

AND

FALL





ALAN C. GREENBERG
WITH MARK SINGER

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Also by Alan C. Greenberg

MEMOS FROM THE CHAIRMAN

 ${\it To~Kathy,~Lynne,~and~Teddy}$

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BEAR STEARNS

1

On March 16, 2008, I was at work at Bear Steams, but in a distinct departure from my usual routine. For one thing, it was a Sunday, and the last time I had worked weekends was during the 1950s, when the stock market had Saturday trading hours. This particular Sunday was drizzly and gray—fitting weather (actually, a squall with golf-ball-size hail plus an earthquake would have been more like it) for confronting a calamity that even in my gloomiest risk calculations I hadn't seen coming. Shortly before noon, I went to our headquarters at 383 Madison Avenue for an emergency meeting of the corporate board of directors. The week just ended had been the most maddening, bizarre, and bewildering in our eighty-five-year history.

Occasional bad news is inevitable, but I've tried to order my life to avoid getting blindsided. Sixty-one years ago I moved to New York and found work as a clerk at Bear Stearns, an investment firm that had 125 employees. Before I turned forty, I was running the place. At its peak, Bear Stearns employed almost 15,000 people. Along the way, my formal titles included chief executive officer, chairman, and chairman of the executive committee; my principal occupation was and continues to be calculating and managing risks.

My workday typically started off like this: out the door by

8:00 a.m. and at my desk by 8:15, where my morning reading consisted of the *Wall Street Journal*—at home I'd already digested the *New York Times* and the New York *Post*—and printed reports that specified how various departments that handled the firm's capital had performed the previous day. If a trader had an especially good day, I'd probably call to congratulate him. If the opposite occurred, I'd want to find out what happened. Before the markets opened at 9:30, I'd usually handled more than a dozen phone calls. As the day progressed, I'd be easy to get hold of but hard to keep on the line. Most phone conversations that last longer than thirty seconds, I find, have reached a point of diminishing returns. I have many interests and hobbies, but making small talk isn't one of them.

Anyone who invests money and neglects to calculate the risks at hand with a cold eye has no business being in our business. Contrary to common belief, securities markets are not casinos, and the last thing I ever want to depend upon is getting lucky. The best risk managers instinctively anticipate the fullest range of plausible outcomes. Maintaining that discipline, I understood early on, was indispensable to long-term success.

It would be disingenuous to suggest that making money is not a reasonable way of keeping score. For any financial institution, it's obviously the essential priority. But I never regarded making money, either when Bear Stearns was a private partnership or after it became a public company, as an end in itself. The more Bear Stearns flourished, the greater the variety of products and services we offered our clients, the more our capital grew, the more people we employed, and thus the more families that depended upon the well-being of the enterprise, the deeper was my conviction that we existed, above all, for the purpose of existing. On any given day, my *ultimate*

priority was that we conduct ourselves so that Bear Stearns would still be in business tomorrow.

The previous Monday morning our stock price had begun dropping, and by noon it was off 10 percent, from \$70 to \$63 a share. Part of this decline was attributable to Moody's, the bond-rating agency, having just downgraded some of our corporate debt. But most of the damage was being inflicted by a much more insidious factor, a groundless rumor. (Do rumors come from the same neighborhood where the notorious they hold their conspiratorial get-togethers?) This one surfaced first in feedback picked up by some of our traders: Bear Stearns, so it was being said on the Street, had liquidity problems. In other words, we might not have enough capital or credit to fund our daily operations—the billions of dollars of trades that we processed and settled for our biggest clients, including banks, mutual funds, hedge funds, pension funds, and insurance companies.

The interdependent relationships between banks and brokerages and institutional investors strike most laymen as impenetrably complex, but a simple ingredient lubricates the engine: trust. Without reciprocal trust between the parties to any securities transaction, the money stops. Doubt fills the vacuum, and credit and liquidity are the chief casualties. Bad news, whether it derives from false rumor or verifiable fact, then has an alarming capacity to become contagious and self-perpetuating. No problem is an isolated problem.

The sharp decline in our stock price was plenty disturbing—a billion dollars of market capitalization had evaporated, like that. But no one that I was aware of at Bear Stearns had begun to panic, largely because for several months disappointment had been a staple of our diet. In the summer of 2007, two

of our real estate hedge funds failed, a fiasco that cost us \$1 billion and did not exactly enhance the firm's reputation. This part of our business in recent years had accounted for a large percentage of our trading volume and an equally large percentage of profits, but as the real estate bubble deflated our inventory of distressed assets inflated—a highly leveraged portfolio of mortgage-backed securities that was a drag on our balance sheet and our morale. In the fourth quarter, we recorded our first loss since becoming a publicly owned company in 1985. Still, in the quarter just ended, though the results hadn't yet been officially announced, we had turned a small profit—not great, but better than a minus sign. And as far as liquidity was concerned, we had a cash reserve of \$18 billion.

What we didn't have was any ability to stifle the rumors, which were no longer being whispered but broadcast on the financial-news cable channels. When a reporter from CNBC called to ask about alleged liquidity problems, I told her that the notion was "totally ridiculous." That comment got broadcast, too, but evidently didn't do much good. The next day a number of hedge funds closed their accounts and by the following afternoon our cash reserve was more than \$3 billion lighter. By Thursday enough lenders had cut off our access to overnight credit that we confronted an excruciating choiceeither a shotgun marriage with another firm that would assume our liabilities while swallowing what remained of Bear Stearns's equity, or a bankruptcy filing. When the market closed for the weekend, our stock was trading in the low thirties—fourteen months earlier, it had peaked at \$172.69 and we knew that come Monday we would have been bought or we would be no more. Without a doubt, we would never again control our own destiny.

Throughout the weekend swarms of bankers and investment bankers and mergers-and-acquisition lawyers and bankruptcy lawyers and tax and securities specialists, as well as officials from the Federal Reserve Bank and the Department of the Treasury, worked round the clock. Two potential buyers scrutinized our books and both were handicapped by an inability to judge the magnitude of risk. For starters, which of our assets were genuine assets? How do you ascribe values to unmarketable securities? By Sunday morning only JPMorgan Chase remained. When I left home for the directors' meeting, I anticipated that I was on my way to contemplate whatever offer Morgan had placed on the table. By the time I arrived, the offer had been withdrawn, and I was advised that I might as well go home. Which is where I was a half-hour later when I got another call, urging me to come back.

Our board of directors convened at 1:00 p.m., six hours before the Monday morning opening of the markets in Australia-the absolute deadline for making a deal. If Bear Stearns went under, the Fed and Treasury had insisted, the falling dominoes could lead to global economic chaos. Only after the Treasury had agreed to lend \$30 billion, using as collateral the highest-quality mortgage-backed securities in Bear Stearns's portfolio, did Morgan's leadership find that line of argument persuasive. (Quid pro quo, the Fed-that is, American taxpayers—stood to make a profit if those securities could later be sold at a premium, and Morgan agreed to absorb the first billion dollars of potential losses.) The biggest losers, obviously, would be Bear Stearns's stockholders. The previous day, we'd been led to expect that Morgan would bid in the range of \$8 to \$12 a share, but that was yesterday. Now Alan Schwartz, our chief executive officer, told us to brace ourselves for a price closer to \$4.

His predecessor, James E. (Jimmy) Cayne, who was still the chairman of the board—but who would have been in Detroit playing in a bridge tournament if Alan hadn't convinced him to return to New York—was furious. At \$4 a share, he argued, why not just file for bankruptcy? A few other people in the room shared Jimmy's sense of frustration, but he was by far the most vehement. On the face of it, his reaction was understandable: he owned 5.66 million shares, a stake that had once been worth more than a billion dollars. But did his outrage reflect primarily a concern for his own well-being—I felt confident that Jimmy himself would still be able to pay the grocery and electric and rent bills—or that of our employees?

What I knew for certain was that bankruptcy would mean liquidation, an outcome to be avoided at virtually any cost. A very high proportion of Bear Stearns's personnel had invested the bulk of their life savings in Bear Stearns stock. Liquidation would render the stock worthless and put more than 14,000 people on the street.

The mood in the boardroom didn't improve when the formal, final bid from Morgan materialized. They were offering two dollars, not four. That offer put the total value of the company, with enormous contingent liabilities built into the price, at \$263 million, or roughly one-quarter of the market value of our most valuable illiquid asset, our forty-two-story corporate headquarters.

"I am not taking \$2," Jimmy said.

"Jimmy, if we don't take \$2 we'll get zero," I told him. "If they're only offering fifty cents we should take it because it means we're still alive. When you're dead nothing can happen to you except you'll go to heaven or hell, maybe. You want us to declare bankruptcy this evening?"

He didn't say anything else that I recall; not that there was

much else to be said at that moment. Though we barely beat the 7:00 deadline, we did, in fact, make a deal. You could argue that we'd undergone a multiple organ transplant and were on life support. Or that, one-upping Dr. Frankenstein, several of our healthy organs had been grafted to another body. Either way, parts of us were still alive. A half hour after the vote, I got into a taxi and went home, feeling both heartsick and relieved. In the morning, I'd be back at my desk.

Nothing that had occurred that day or that week undermined my belief in the management principles and investing discipline I'd lived by throughout my career. But there was no escaping that what qualified in my world as a cataclysmic event had taken place, and none of us could confidently predict the particulars of what would come next. Our most unassailable assumption—that Bear Stearns, an independent investment firm with a proud eighty-five-year history, would be in business tomorrow—had been extinguished. How were we to envision the future? What was it, exactly, that had happened, and how, and why?

2

Greenberg's theory of relativity: There's timing, and then there's timing.

Corollary: You're never as smart as you might think you are on a good day. On a very bad one, you're probably not as dumb as you fear you are.

When I was twenty-one years old, in 1948, I had a notion that seemed reasonable: leave home, get a job on Wall Street, make a bunch of money. After a year at the Unviversity of Oklahoma, I'd transferred to the University of Missouri, where I was about to complete a degree in business and management. An important influence at that point was my extracurricular reading about the Gilded Age and its legacy. I'd become fascinated with the leading protagonists, figures like Jay Gould, J. P. Morgan, Jim Fisk, and Jacob Schiff-for their work ethics, talents for recognizing opportunities, steady wisdom in the face of uncertainty, and clarity when confronting a Big Picture. For similar reasons, I was also in awe of Bernard Baruch. (I confess that my admiration for Baruch dimmed many years later, when my friend Kitty Carlisle Hart told me how he'd once invited her to his plantation in South Carolina for a hunting trip. Baruch's idea of hunting, she found out, bore no resemblance to hers.) It was these men's roles as public citizens, and especially in the case of Schiff, his philanthropy, that impressed me most. I was amazed that Schiff, a German-Jewish immigrant who never lost his heavy accent, had been able to compete with the likes of J. P. Morgan.

As for timing, mine could have been better. Through a friend of my father's, in the fall of 1948 I'd been offered a job at P. F. Fox, a small brokerage firm that specialized in over-the-counter oil-and-gas stocks. But the market had been in a rut for months, and before Christmas I was told sorry, no job. Still, I intended to go to New York, and in February 1949, right after I graduated from Missouri a semester early, my parents and my younger brother and sister, Maynard and DiAnne, saw me off at the train station in Oklahoma City. As my father told me good-bye, he handed me a check for \$3,000 and said, "This is it." When the train pulled away my mother cried and said, "We'll never see Alan in Oklahoma again." This was overly dramatic but not necessarily pessimistic. She might not have known, but I did, that I could wind up back on that train platform in time to see the redbuds blossom.

That passenger on the Santa Fe Railroad—who was he? Forgive me for omitting heartrending details of my childhood traumas, but I can't think of any. I had a remarkably pleasant upbringing. Someone once asked my mother whether I'd been an easy or difficult child to raise and she said, "Very difficult. You think it's easy to deal with a four-year-old who's smarter than you?" Much as I'm reluctant to impugn her credibility, my recollection is that we got along swell.

My parents, Ted Greenberg and Esther Zeligson, were firstgeneration American-born Jews of the Midwestern diaspora, children of Russian and Polish immigrants. He came from Kansas City by way of Evansville, Indiana; she was born in Sioux City, Iowa, and grew up in Nebraska and Oklahoma. They met in Tulsa in 1924, and married a year later—he was twenty, she was eighteen. They set up housekeeping briefly in Topeka, Kansas—Dad later claimed that Topeka had no indoor plumbing—and then in Wichita. When I entered the picture, two years later, he was operating a successful ladies' ready-to-wear store. Across the border, in Oklahoma, oil discoveries had proliferated for a couple of decades. What really got his attention was the wildcat well that opened the great Oklahoma City field in 1928.

My father had more common sense than anyone I've ever met (Warren Buffett is a not-too-distant second), and he knew that his business prospects in Wichita couldn't compete with whatever an oil boomtown had to offer. The year I turned five our family moved to Oklahoma City. Eventually his business, Street's, a clothing store catering mostly to women, expanded to eleven stores. For the next sixty years it comfortably supported six families of Greenberg brothers—Ted, despite being the youngest, was boss—and many of their offspring.

My tenure there didn't last long. When I was fifteen I had a part-time job in the credit department of the flagship store downtown. Qualifying for credit back then was, let's say, significantly more demanding than it would later become. The lowest-risk variety that Street's offered was layaway buying; a customer found an item he or she wanted to buy, paid in installments, and the merchandise left the store only after it had been fully paid for. One morning a woman who had a dress on layaway came in and made a \$20 payment. In the afternoon she returned to make a final payment. This seemed odd, I mentioned it to the office manager and, what do you know, she'd mistakenly been credited for a \$200 payment and was trying to pull a fast one. "I'm taking the rest of the afternoon off," I told the manager. "I've done what I can for the

day. Saved the store \$180." That was my biggest achievement at Street's.

Among the factual errors I came across in journalistic accounts of JPMorgan's takeover of Bear Stearns, one of the most aggravating was a blind quote in Vanity Fair describing me on the day the rumors of a liquidity problem went public as "kind of freaking out that morning." Put it this way: the last time I freaked out was in fourth grade, 1936, when my mother made me wear knickers to school. We were part of an influx of affluent families into Crown Heights, a newly developed area of spacious and smartly landscaped brick and sandstone houses. A few years earlier this part of Oklahoma City had been a nameless rural expense populated by farm families that were barely getting by. Many of my classmates still lived on farms. Before fourth grade I'd always worn long pants. For some reason, my mother couldn't understand how knickers might be a serious social liability in a school where many of the other kids didn't have shoes.

The school was Horace Mann and its principal, Everett Marshall, was someone we all liked a lot. About twenty years ago, when he was dying, he asked his son to get in touch with my brother and tell him that our father, who died in 1980, had anonymously bought shoes for the poor kids at Horace Mann and had made Mr. Marshall promise to keep that a secret. This revelation pleased but hardly surprised us. Not all of Dad's charitable deeds were anonymous, but he and Ev Marshall shared an aversion to self-aggrandizement. At least one of Mr. Marshall's egalitarian convictions, I have to say, didn't sit well with me. Because some kids couldn't afford softball gloves, he refused to let any of us wear them—except the catcher, and Mr. Marshall paid for that one. When we played