Longbranch Research Associates *presents:*

# So-Called Experts

*a book always in progress & free*

by Stephan Michelson

## Chapter 6

## Bankers

*as of October 1, 2016*

"People love their doctors, but they tend to hate their bankers" wrote Gail Collins in *The New York Times* on April 21, 2010. The next day, Paul Krugman wrote about an "insider" banker, "not that there's anything wrong with critical outsiders, who have been much more right than supposedly knowledgeable insiders; see Greenspan, Alan." The so-called finance experts, including the nation's top banker, had been disastrously wrong. They argued to repeal the Glass-Steagall Act (which Congress did, in 1999). They were against regulating financial derivatives (like bonds backed by a collection of mortgages). For a while, though, contrary to Collins' assertion, I thought highly of my local banker. I was wrong. Perhaps the point is to have little to do with bankers. They are so—so inexpert.

Paul Krugman expresses it so much more delicately:[1]

> [I]t's widely assumed that bankers have special expertise on economic policy, although nothing in the record supports this belief. (The bankers do, however, have excellent tailors.)

Elon Musk, having served a bank internship in the 1990s, expressed the same view more simply: "bankers are rich and dumb."[2]

I have long held that bankers are the most stupid of so-called experts. I mean both real bankers, at really big banks, and would-be bankers at your local bank.

1 Paul Krugman, "Rage of the Bankers," *New York Times,* September 21, 2015 at A21.

2 Quoted by John Lanchester in "Let's all go to Mars," 37 *London Review of Books* 17, September, 2015, article starts at 3, quote at 5.

Find the person at a desk. These people, posing as professionals, are clerks. I do not demean the functions performed by clerks. Theirs is an honorable job, creating, categorizing, sorting, retrieving and dispensing information. It is a disappearing job, because computers can do those tasks better than humans. With the right software, the right "front end," consumers can perform these searches more quickly than clerks, and better evaluate the answers. We are all becoming expert at such things, from tracking UPS packages to finding an on-line store at which to buy cans of Café du Monde.

The bank clerk looks up how to enact a certain transaction, and applies those rules to the person at hand. By giving that person direct access we can obviate the clerk. The clerk at the police station asks what report number you want and, if you provide a valid number, he/she can produce a copy of the report for you. Some day there will be a report machine, which will want some money, ask for the report number (which you can look up from other characteristics), and print it out for you. That machine will pay for itself and free up police to do non-clerical duties.

Grocery clerks know where things are—another function that will some day be replaced by computers. Enter what you want on the wireless terminal on your cart, it will tell you what part of what aisle to go to, and when you are there, a flashing light will direct you to your product. Until then, grocery clerks will continue to do that job, some better than others.

Clerks at Home Depot and Lowe's get it right about half the time. At other times you get blank stares or completely incorrect information. As the global positioning systems in cars are showing us, with a data base, a map and a position detector, software can direct you step by step to the right place. MapQuest, Google, Garmin and Yahoo maps may not show you the best route, but they do show you *a* route. Expert they are not, and sometimes they are terribly wrong, but usually they get you close to where you want to go. Google re-routes you around traffic jams. What clerk could or would do that?

Bankers look up current loan rates for you, pull out an appropriate form, and say "here, fill this out, we will want the following (your income tax forms, an appraisal, etc.) and come back next week." What happens in the meantime is clerical, a confirmation that you are who you say you are, and own what you say you own. Your particulars are compared with a set of standards, and you do or do not get the loan. These banker-clerks make no decisions, have no discretion, and do not know how banks function to create money—something you will know after you read Chapter 13.

We like to think that actual bankers are lurking behind the clerks, determining what questions to ask. In February, 1979, near the end of my one-year appointment at The Urban Institute, I bought a house. My mortgage application asked me how long I had worked where I was. Not how long was my appointment, mind you, but how long was my history. The mortgage came through. The property sale closed the day after my last day of employment. I became that most risky of persons, self-employed. As a data point, those particular bankers were not wrong: I paid off the mortgage. Perhaps anyone who ever worked at The Urban Institute is a good risk, and perhaps bankers know it. But I still think they asked the wrong question.[3] They were clerks, behind whom laid idiots.

## Citibank

Skip forward a few decades. I get a line of credit with Citibank. It is backed by my stock and bond portfolio at Smith-Barney. Here's where I start to get that old Bankers-are-stupid feeling again. At Smith-Barney, I can borrow against my stocks. That's what "margin" is. Let's say I buy $20,000 worth of a stock on margin. They may require only $10,000 in cash, and lend me the other $10,000, with a "50 percent margin requirement." If the value goes up to $21,000, you may say I gained 5 percent, but on the money I have invested, I have gained 10 percent—$1,000 on top of $10,000. We have to subtract some interest and the brokerage commissions for buying and selling, but you get the point. It's leverage. If I buy stock on margin, and its price increases, *my* return is greater than the apparent return on the deal, because in part I used someone else's money.

In this line-of-credit situation, Smith-Barney will lend me the money not on this particular stock—they want no part of my gamble—but on my portfolio, on the fact that they hold a lot of my equity. To protect their margin account, they stipulate that I cannot purchase stocks with money from the line of credit. It's OK to borrow against stocks I already own, but not against stocks I will purchase? Fine. I will write a check, deposit it in my Schwab account, and buy stocks there. The line of credit agreement makes a distinction without a difference, except that I will pay a lower interest rate than I would have buying on margin. Either way I end up with the value of my stock portfolio plus cash, with which I can purchase stocks anywhere except where I have borrowed it. Does this make sense?

3 Ben Bernanke waited until he had left his post as Chairman of the Federal Reserve to try to negotiate a new mortgage for his house, in the fall of 2014. He would now be making many times what he did as a government employee, but to the bankers he looked like that risky self-employed PhD. They turned him down.

Smith-Barney then“encumbers” my stock portfolio, meaning that I no longer can use margin to buy more stocks. What I did was even more risky: I built a weaving mill. I used the line of credit to purchase the property at a lower interest rate than I would have paid for any mortgage, with no set timetable to pay it back and no requirement that I insure it.

This was happening in 2006, in the computer age. I would have expected Citi and Smith-Barney to have a program that would block a certain amount of my portfolio from use as margin security. Let’s say margin is 50%, and I have $1 million in stocks at Smith Barney. I could buy $500,000 worth of stock without putting up any money. The $1 million of stocks I now have acts as security. The 50 percent margin is actually applied to my portfolio, not to the amount of stock I am buying.

Let’s say I borrow $200,000 on my line of credit. It would be simple for the broker to reduce the value of my security to $600,000 (reducing it $2 for every $1 I borrow), my remaining borrowing capacity to $300,000. To cover market fluctuations, the program might require a buffer, but these are technical details. The point of this story is that Citibank did nothing like this.

After all, they are bankers. They made me specify *which* stocks would be used to back the equity line. They moved those certificates into a new account, so none of it remained available for margin credit. There is a purity to this approach: This over here, in this box, is your line-of-credit nest-egg; and this over here, in this other box, is your portfolio available for margin credit. It is an absurd purity. It is a 19th century purity, obsolete in the computerized 21st Century.

As long as I have not used my line of credit, those encumbered stocks should still be available for margin purchases, but they are not. Smith Barney is as much the loser as am I. I cannot borrow against these isolated securities to purchase other securities (the equity line does not allow it), and Smith-Barney cannot make interest on margin loans. In this era of virtual accounts and virtual borrowing, Smith Barney is doing things (just as they advertise) the old-fashioned way, designating certain stocks for one purpose, and making them unavailable for any other purpose even if I am not using them for the first purpose. Did I say that bankers are not very bright? Yes, I did.

It does take a long time for people to recognize the impact of new technologies. Before calculations of the sort I am describing could be made instantaneously, without cost, it made sense to take a pile of stock certificates to the bank to borrow against. Then brokerages became bankers, though they denied it, lending you money to buy stocks, based on the stocks you already owned. Risky stuff. It was margin calls—the requirement to pay up for the loan, as the value of the stocks held for collateral plummeted—that drove some people to jump out of windows in the 1929 crash. In 2006 Citibank owned Smith Barney, banker and broker were one. That they could not utilize this combination reinforces my opinion of them.

## Are They Competent Clerks?

I started noticing a "Bank Deposit" number on my statements. Dividends and interest paid to stocks and bonds in my equity account initially had no place to go. They accumulated in this account Smith-Barney made up. Meanwhile, I had designated my checking account as a place from which Citi would automatically withdraw interest once a month. My dividends were in one account, while they were needed in another. So I had to fill out a form, following which Smith Barney periodically sweeps my accumulated dividends into my checking account. Again, none of this would be necessary with one account, an amount of which was encumbered (not available for margin loans) as determined by the amount I owed in my equity line. All the dividends should go into one cash account which, like the securities, would be part of my total asset base. As long as I left enough equity in the account, as a whole, I should be able to access all my cash at any time. This is a bank, after all. That is what it is for.

In the real world, people work things out. I have bonds from a toll road that is perpetually in violation of its covenants by not having enough money in a bond redemption sinking fund. But they pay interest regularly. When the bonds have to be redeemed, the road authority will borrow (i.e., issue new bonds) to obtain the money. Only the lawyers make money on this, reviewing the situation and deciding not to take action at this time. And what would that action be? Close the road down?

Surely institutions that handle money can do arithmetic. Let's look at a statement I received from Citibank regarding my equity line:

**FLEXIBLE EQUITY LINE**

FOR BILLING INQUIRIES WRITE TO THIS ADDRESS:
CALLING WILL NOT PRESERVE YOUR RIGHTS.

| ACCOUNT NUMBER | STATEMENT DATE | CREDIT LINE | AVAILABLE CREDIT | TOTAL BALANCE | |
|---|---|---|---|---|---|
| | 04/17/06 | $1,500,000.00 | $1,000,950.00 | $500,383.72 | 1000 TECHNOLOGY DR MS 519<br>O'FALLON, MO 63368-2240 |

The first thing to notice from this snippet is the statement on the right: "Calling will not preserve your rights." So why would anyone call? I'll tell you why I called in a moment. First, note that my credit maximum is $1.5 million, of which I have used over one-third (over $500,000), but still have over two-thirds (over $1,000,000) "available credit." This is simply wrong. If I actually wrote a check for $1,000,950, I presume they would not honor it. Their statement does not reflect reality, although reflecting reality is its only purpose.

Remember, I had given Citibank access to my Smith Barney checking account. I said, in effect, "go in there when money is due, and take it." Yet this account statement came with an amount past due, over-due, not paid. How did that happen?

I called. I said isn't Citibank supposed to just take my money? I was assured that they were (indeed, the statement says don't pay this amount, this is not a bill). I was told that they had taken all of it—all that I owed—on April 17.

I knew but did not say, they had done no such thing. I have on-line access to my account. I know they made no withdrawal on April 17. I know they never withdrew the amount I owed on the last statement. Was this an interest free loan, or would I pay interest on this interest? Just take my money, damn it!

The telephone lady put me on hold several times, and ultimately said this was a question they would have to research. They would call me back. Of course they never did. After all, my having called did not preserve any rights.

It took several weeks before someone at Citi realized that they were trying to access an account that did not exist. They were using the wrong bank routing number. And that person also realized that this could not have been my mistake. Citi *is* Smith Barney. Or was in 2006. You can see why Citi would have been defunct if not for a "bailout" in 2009. And you can see why there should have been no such bailout. This fancy equity credit line with its old fashioned "these equities are in this box, these others are in this other box" approach, was a bad concept badly effectuated. To access my cash, and take what I owed them, they were to use their banker expertise. Banker expertise. Now that's an oxymoron!

So they apologized, on the telephone, and cancelled late fees and the like. But meanwhile, thinking I was defaulting on interest, they had bounced a check I had written on my equity line. More telephone apologies, but I wanted more. I wanted a letter stating that this screw-up was their fault, and I wanted to reimburse those who had paid fees when my checks erroneously were not honored. I was promised that these things would occur. They did not.

Citi lost Smith-Barney to Morgan-Stanley during the financial collapse in the first decade of the 21st century. Nothing else has changed, however. None of the bright "bankers" at Morgan-Stanley has figured out the absurdity of this failure to take advantage of the computer to allow my portfolio, flexibly, to secure my debt to Citi. One set of clerks took over from another set of clerks.

Bankers are not only stupid, they are dishonest. In 2016 we learned that Wells Fargo's incentives had forced employees to create accounts clients did not ask for, and did not even know about, but that generated fees. When the scam was discovered, management fired clerks but not themselves.[4] Let me add that they are also malicious. "Banks make money by keeping customers confused" says Josh Reich, one of the founders of *Simple*, a bank alternative.[5] *Simple* has set out to provide information to consumers, rather than keeping it obscure. Good luck to them.

None of this—stupidity, dishonesty, maliciousness—makes bankers different from most people, but they are supposed to be expert at what they do. And here we have Citibank, one of the world's premier banking institutions, which not only could not figure out how to set up encumbered accounts, and not only could not figure out how to pay themselves interest out of my Smith-Barney account, but subsequently lied to me, substituting a promise for an action.

## Wachovia

My local bank, Carolina First, lent me some money to start up my mill. The president asked me to open business accounts with his bank. My natural inclination is to do business with firms that want to do business with me, so I complied. It became apparent quickly that Carolina First could not handle my scale of business. I would write a $100,000 check on my Citibank credit line, and deposit it in my account at Carolina First. There, I was told I could not access those funds for 11 business days. That's half a month during which I am paying interest but not receiving any. Good deal for Carolina First, but not for me.

Bank of America said they would do the same thing, so I didn't bother with them. Wachovia assured me they would free up the money as soon as they got it. That is fair. So I opened up business accounts at Wachovia, and closed them at Carolina First.

Did I tell you that bankers are dishonest? Yes, I did. I soon found deposits being held at Wachovia for 7 business days, a sure improvement over Carolina First,

4 Matt Egan, "5,300 Wells Fargo employees fired over 2 million phoney accounts," http://money.cnn.com, September 9, 2016.

5 Quoted in Jenna Wortham, "A Financial Service For People Fed Up With Banks," *The New York Times*, January 8, 2013.

but still leaving me in the position of paying interest on funds the bank had but would not let me use.

I agree that the bank should not let me write checks on a deposit I have just made. I would be writing those checks on their money. But as soon as the check I wrote for the deposit clears—as soon as the funds have been transferred from the paying bank to the receiving bank, which at most takes two days (most checks are cleared over night)—the funds should be released to me. Wachovia knows when this happens. It would take some computer programming, but no time spent by an individual once it was programmed, to give me access to funds as soon as Wachovia had them.

You might say that this is not banker stupidity. Rather, it is banker smarts. They lend out their excess cash over night. They are making money on the funds that have cleared, and are preventing me from using those funds, so that's pretty clever, isn't it?

Clever, no. That's like saying the sheriff is "clever" to let locals drive over the speed limit but ticket an outsider for a similar transgression. We know that sheriffs do that, but we do not think them clever for it. We think "equal treatment under law" should prevent such behavior, while understanding that in the real world people do not live up to such ideals. Especially local cops. So we carefully follow the speed limits when off the interstates, though on the interstates, in the same jurisdictions, the normal speed exceeds the posted speed limit by as much as 20 miles an hour.

In the long run, this behavior induces me to treat banks as an adversary, not a partner, the very reason *Simple*, a banking alternative, was formed. I will leave enough there long enough in the normal course of business to pay for their services, including a profit. Strictly speaking, it is illegal (forgery) to write a check if you have insufficient funds to cover it. I never do it. The bank has use of my money in this interim period and typically pays nothing to me for it (business checking accounts do not bear interest).

I'm not against banks—oh no. Banks are wonderful institutions, and on line banking has made my life easier, while making their life easier (the customer now does much of the key entry that used to be done by clerks). I just do not want to confuse bank clerks or even back-office bank executives with experts. That, they are not.

Once Wachovia got to know me, they stopped putting holds on large deposits. I appreciate that. They must have an algorithm—a routine that learned what size of a deposit is "normal" for me. Or perhaps not, perhaps I maintain a sufficient balance to cover new deposits. I do not know on what basis their behavior changed, but it did. Wells Fargo, which took over Wachovia, has instituted a one-day partial hold, that covers the time it takes a check to clear. Perhaps the "market" is working, in its clumsy way, so that a bank that has its act together, as Wells Fargo (in this function) seems to, is the survivor. But "having its act together" does not mean that it houses expertise. It means that it has devised acceptable procedures, that if I am not happy after doing business there, neither am I disgusted. That is about as much as the American banking system can offer.

## Carolina First

My best example is what happened in 2010 with my Carolina First loan. It was an unsecured loan—that is, not secured by anything specific, but by all of my assets in general. It expired every two years. In 2008 I paid a small fee to have the loan extended for two years on its original terms. I had been paying it down regularly, although the terms of the loan would have allowed me to pay interest only. It seemed to me that I was the perfect customer, paying interest on time every month, and slowly reducing principal. So in 2010 I expected to renew it once again.

Because of my good feelings towards a bank that would give me an unsecured loan, although the business checking account there did not work out, I kept a personal account. I considered it my "reserve" account, giving me access to cash in an emergency. Little did I know that Carolina First would itself generate that emergency.

They informed me that they would double my loan's interest rate—let's say from 3 percent to 6 percent—upon renewal in 2010. Why? Because it was an unsecured loan, someone decided that it was a risky loan. Although one *can* learn from experience, as it seems Wachovia did, apparently First Citizens could not. That I had paid principal and interest for four years meant nothing. That I had been keeping more than half the value of the loan in a checking account at that bank meant nothing. Suddenly, a loan to me is a risky proposition.

Here's some arithmetic. I was paying around 3 percent interest on, let's say, \$200,000. I was receiving .5 percent interest on \$100,000 in my checking account. I was lending the bank \$100,000, for which they paid me \$500. They turned around and lent that same \$100,000 to me, charging me \$3,000 for it, plus \$3,000 for the other \$100,000 of my loan. What I got out of it was the ability to draw down the \$100,000 in my account without borrowing or using a credit card.

To the bank, my loan was worth an effortless $5500 per year. Then greed entered the picture. They wanted to double the interest I paid to $12,000, leaving the interest I received, $500, the same. My desire for "liquidity" would cost me $11,500 a year. I pointed out to Carolina First that not only had I been generous in having both a loan and an account, but I could borrow the amount I owed them at close to 2 percent using my credit line from Citibank. I was subsidizing my neighborhood bank. They were unmoved.

I said *they* are stupid, not that I was. I paid them what was in my checking account, and borrowed more from Citibank, leaving Carolina First with neither the loan nor the checking account. From a friendly neighborhood institution that would honor my history of loan payments they turned into just another bank.[6]

## The Big Banks

Why anyone was surprised when national banks went off the deep end around 2008, I cannot say. It is what any smart observer of bank behavior would have expected. Indeed, it had happened before, in the "savings and loan crisis" of the late 1980s. It happened again in 2002.[7] Local banks made loans to people who could not pay them back, on the basis of property that was not worth what was being borrowed. National banks bought bundles of these loans under some insane theory that, even though no loan in the bundle was worth its cost, together they all would be. Those banks declined into dire financial distress, as borrowers stopped paying. The federal government bailed them out, and they went on paying themselves bonuses and buying still more collateralized debt obligations, banker language for "junk."

Why we have had many financial "crises" since 1980, where we had none for the previous 40 or so years (that is, after legislative reforms of the 1930s) could be attributed to banker stupidity or banker smarts. Stupidity, because they keep doing the same things over and over again. Smarts because they have shown the ability to blame the government (especially "over-regulation," which is bizarre, as the problems started when the regulations disappeared), to depict themselves as victims, and to be rescued, time and again, by that same "evil" government.

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6 Subsequently Carolina First was purchased by Toronto Dominion—the "TD" in "TD-Ameritrade." They may be smarter than the locals were, but not smart enough to go over old records and try to reclaim lost customers. Nor smart enough to fire the clerks who forced me to pay off a good loan quickly, when they were making money as I paid it slowly.

7 See Bert Ely, http://www.econlib.org/library/Enc/SavingsandLoanCrisis.html, in *The Concise Encyclopedia of Economics*. See also Jeff Madrick, *Age of Greed: The Triumph of Finance and the Decline of America, 1970 to the Present*, Knopf (2011).

I'm no expert, of course, but I do think bailing them out was wrong. "The financial system will be ruined" sounds strikingly like "the sky is falling." The failure of individual banks is not the failure of the system. Does everyone get an A in this class, no matter what he does? *That* would be the failure of the system. If the economy works under a penalty-reward system, then it cannot work when there are no penalties. The failure of some institutions, like the failure of some students, maintains the standards of the system.

We see the same people who argued against financial regulation now being asked to design appropriate regulation. Why would we believe that they will do better at this job than they did at their earlier job? Who are these people who continue to be able to make decisions, even though they always make bad ones? Why are the people who argued incorrectly for no regulation being asked to design regulations? Because they are "experts"?

If anything has happened to convince the public of the lack of expertise among "experts," it should have been the banking "crisis." Robert Rubin, who went from Secretary of the Treasury to Citibank, surely did Citibank no good. I do credit him for being a strong proponent of lending money to Mexico, in the 1980s, to get over a crisis, but that "crisis" was Mexico's inability to pay off loans from banks. That is, this famous international rescue of a country's financial credibility can also be seen as yet another bank bailout, but it is worth something that banks can trust repayment of government bonds. In that particular situation, I supported it, but seen in a historical context, it says nothing about Rubin's or anyone else's foreign policy or financial policy insight. At its core, it was just another government rescue of banks that had made foolish loans.

Rubin was in the forefront of advising against regulation of derivatives based on mortgages—the "toxic" assets that were at the heart of the banking "crisis" a few years later. He was certainly no expert. He was joined in that effort by Alan Greenspan, for 20 years the Chairman of the Federal Reserve (and the only major player who later admitted how wrong he had been), and Lawrence Summers. Having screwed up as President of Harvard University, Summers surely was a good candidate for a top economic adviser position. Except that he, too, as President Clinton's Secretary of the Treasury, had argued against regulation of "derivatives" such as collateralized debt obligations. The market knows best, he said.[8] Summers

8 If the market knows best, and interest rates on federal borrowing are the lowest in history—that is, people do not need much return to hold these assets—then why do some people think there is a debt "crisis"? The market values United States debt as the safest debt in the world, whether Standard & Poors (a rating agency) does or not. Paul Krugman called S & P's downgrade of U.S. debt "ludicrous" ("Inequality Is A Drag,"

did no better as President Obama's top economic gun, although he would defend his economic analysis, saying it was overwhelmed by politics. If he advocated policies that were discarded by politics, we did not hear about them.

Perhaps bankers should be bankers, economists should remain economists, and then we would know if it really is the politicians who so frequently make such bad decisions. Regardless of label, none seems to be an expert, judging from the record.

The citizen, if lucky, gets to have two mortgages in his life. The banker makes ten a week. And always on his own paper. Yes, people who take out loans should read the paper and are obligated to follow it. This is what we might call an asymmetric market, one where one side has considerably more information than the other. It is because we are in no position to test the wholesomeness of food sold in stores that we have a Food and Drug Administration to monitor and balance the expertise of the producers. To achieve that kind of symmetry, we should have someone truly expert looking over these mortgage transactions and saying, for example, there will be no mortgage without the purchaser putting up some minimum down-payment. That is regulation we are told. By definition (although not by fact) that must be bad.

Actually, we now have such an agency, the Consumer Financial Protection Bureau. Proposed and argued for over many years, especially by Elizabeth Warren—who was then denied its chairmanship—it has existed since 2011. It is an interesting admission about our society that individuals need protection from institutions. But it is correct.

Why do we have a Consumer Products Safety Commission, empowered to recall dangerous products, if every market transaction is fair, made by equally knowledgeable people? Bankers are stupid, and borrowers are ignorant. Now there's a perfect market for you! It was the stupid bankers who got bailed out in 2008, not the ignorant borrowers. Who decided that? Could it be because politicians were paid off by the bankers?

That is probably too crude a view. The truth is that there are class interests that all members of all classes know about, but only some members of some classes can do anything about. To answer why[9]

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*New York Times*, August 8, 2014), but what did he expect from bankers?

9 Two indented quotations from Jesse Eisinger, "Why Only One Top Banker Went To Jail for the Banking Crisis," *New York Times* April 30, 2014.

> the only top banker to go to jail for his role in the crisis was neither a mortgage executive (who created toxic products) nor the C.E.O. of a bank (who peddled them)

we have to look to the natural (to them) predilections of federal officials. These may be based on implicit promises from higher-ups, but more likely simply reflect the way they think. And they do not think that way only about bankers:

> Federal prosecutors almost never bring criminal charges against top executives of large corporations, from banking to pharmaceuticals to technology.

First, there are few laws that would allow such prosecutions (what a surprise!) and second, prosecutors do not find such cases in their own interests. If banks are to be regulated at all, it will not be through the criminal justice system.

One of President Obama's mistakes has been to utilize the very economists who gave such bad advice a few years ago, to head his "team" of "fixers." Rubin is not officially among them, but it is rumored that his hands are all over proposals to "reform" the finance system. What Rubin mostly wanted—and got—was to save Citi from the disaster it created in dealing with these derivatives. At Citi he had urged the bank to go deeper into these bundled mortgages. Such an expert! Electing fresh blood with clean hands in 2008 did us no good. Once people are considered "experts," they are called on to use their supposed expertise. Often, as they are not experts, bad results follow. President Obama failed to break this cycle.

To let such a non-expert have the level of political influence that Bob Rubin has is distressing, but we cannot do much about decisions at that level. The best we can do is take our money out of a bank (like Carolina First) that does not serve us, put it in one that does, and hope it will not be purchased by another that will change policies. To keep up a semblance of mis-placed pride, employees of Carolina First refer to their purchase by Toronto Dominion as a "merger." Among equals? Apparently they lie to themselves, as well as to us.

Although one can start a bank, I am not about to do that. We have to be experts at our level. We are not doctors, as I have noted above, but we can be expert patients. We need not be chefs to be expert eaters, and even good cooks. We are not bankers, who themselves are not expert at what they do. We need to be expert at being bank customers not because bankers would use their expertise to exploit us, but because, by and large, they have no expertise. Someone in this transaction has to know what he is doing. It will have to be us, the consumers.

## A PNC Bank Story

"Citibank did it, so why can't we?" That seems to have been the thinking at PNC bank. Banking was not enough for them. They could become financial agents, money managers. Give them your portfolio, let them manage it.

I like PNC as a bank. I like their web site and their reports. But remember: bankers are clerks. To invest requires more. An institution should know what it does, and do it well. But bankers do not think "Hey, we're a bank, that's OK." They think they are something more. I met with them to see their marketing pitch.

It was pitiful. It was so stereotypical I thought maybe there is a pool from which banks can pull pre-written statements of what they—better than anyone else, they would say—could do for me. And they brought in to that meeting several people—I think four—to emphasize their special skills. They had none that I could detect. I think I told them my IBM story at that time. Here it is:

> In 1980, having established my statistical consulting business, and having used dial-up mainframe services for some time, I thought I should buy a mainframe computer. An IBM of the 370 series. I could choose among a new IBM, a clone, and several used machines. IBM brought five people to a meeting in my office, to sell me a new computer. Theirs was much more expensive than a pre-owned computer of the same model and with the same specifications and peripherals. Why? I surmised it was because they expended too many personnel hours per event. Five people to sell one computer! I purchased a used IBM. With maintenance and upgrades, it lasted until 1996, when I sold it to the maintenance company for parts.

PNC never overloaded a meing again.

I also gave them cards listing this site. I said you guys should understand some of my principles of investing. Of course, in their minds, *they* were the experts. Why would they listen to me or read something *I* had written? I knew it would be a failure but, for the sake of this book, I gave them the contents of an account I had at Fidelity. That was in the summer of 2015. What they did with it was incompetent. Fifteen months later, I transferred their account back into Fidelity.

PNC had followed none of the principles of investing described in the next two chapters. They purchased an average of 136 shares of 37 different equities, the smallest number of shares being 37. They seemed to be trying to cover the market in one portfolio, which would have been easier—and cost me less in commissions—had they just purchased a market fund. By the time I took the portfolio away from them, fifteen months later, they had charged it with over $10,000 in fees and commissions.

The account value when I took it back was under 92 percent of the value they received from me. It is fair to ask, compared with what? My biggest holding at Fidelity had been its Low Price Stock Fund which, in that period, had increased in value by over 4 percent, as well as paying some dividends. No, I am not a great investor. I do not claim to be. But I would have had a larger account than the "professional" money managers at PNC left me with, had I followed my own rules of sane investing.

Banks posing as financial experts aren't. In the next two chapters, I urge you, the reader, to take hold of your own portfolio. Most of the so-called experts who want to manage your money will cost you money. Some will increase the value of your portfolio, but not by as much as you could on your own. Many of the so-called experts who want to manage it for you can in fact do better in gross terms than you will. But when you subtract their costs, they will do worse. PNC bankers are such obvious non-experts that they cost me more than their expenses. They lost capital. One can hardly do worse.

There is one more point to make. Despite their bravado in meetings, PNC seems to know they are not very good at this game. The actual construction of my new portfolio was given over to some other company. PNC's role was marketing and accounting. They already have a list of potential clients, all of whom have at least some money, and regularly do business with a financial institution—them. However, this smart marketing does not result in smart money management. PNC

## Alternative Institutions

What bankers do for ordinary consumers, other institutions can do. Credit unions can hold accounts on which you write checks, and they can lend you money. Credit card companies lend you money for 30 days for nothing (nothing that you pay). Thereafter, they charge you exorbitant interest. You know you need to pay your full credit card balance every month. You do not need me to tell you that.

Now tell me why debit cards are becoming popular. Money is withdrawn from your checking account instantly with a debit card, whereas it is withdrawn weeks later with a credit card. Are people so unable to do the arithmetic that they need the discipline of an immediate withdrawal? Or are they saving the postage on the check paying off the credit card? If you add in that some credit cards give rebates, whereas no debit card does, the trend towards debit cards seems even less intelligible. I don't get it. Maybe asking people to be smart customers, to combat the banks, is fruitless.

Nonetheless, I persevere. In this endless attempt to get people to think rationally about their own economies (and even, later, about THE economy), I present next two chapters discussing your personal finances. They may not be as interesting as how to sharpen knives, or whether designer chairs are comfortable, but they are important. Happy reading.