Dean's Executive Leadership Series - 2008-2009

Transcript of Presentation by Kathy Karlic, President of Institutional Sales and Marketing for GE Asset Management – Part 1

About DELS: The Dean's Executive Leadership Series at the Graziadio School of Business and Management features in-depth audio or video interviews with today's top business practitioners and thought leaders. Listen or subscribe to the podcast to hear their views and insight on the current challenges and opportunities facing the business community.

Start

Announcer: The Graziadio School of Business and Management at Pepperdine University proudly presents the Dean's Executive Leadership Series. This podcast invites top business practitioners and thought leaders to share their view on the real world of business.

Dean Linda Livingstone: Well, good evening, everyone. I'm Linda Livingstone, dean of the Graziadio School of Business and Management, and it's my pleasure to welcome you to our first installment of the Dean's Executive Leadership Series for this year, and so I appreciate you coming out amidst the smoke and the traffic that has been caused by all the fires, and being with us this evening. I want to start by thanking Faye McClure, who's with us tonight. She's a member of our board of visitors, a graduate of Seaver College, and she is the head of strategic marketing for Farmers Insurance Group, who helps fund and host the Dean's Executive Leadership Series. So we appreciate you doing that and being a part of this, Faye.

And I believe this is the third year that you have worked with us and supported it, so it's wonderful, and we really do appreciate it. I did want to mention a couple of things to you before I introduce our speaker tonight, just about some things that are going on in the school. We were very pleased this year to kick off four new degree programs, two in our full-time MBA program-- an MS in Applied Finance, and an MS in Global Business-- and then a part-time program, our Master of Science in Management and Leadership, which we started at our West L.A. campus, and we'll do a second class in Orange County in January. And then in January, we will also start a joint degree with Seaver College, a BS-MBA, which we're very excited about, and already have a class of about 20 or 25 set up for that. So a really wonderful year kicking off

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and getting started with a great group of students across all of our programs, and all the students in the room, raise your hand. We have actually a really great group of students here, so it's wonderful to have all of you with us tonight.

I want to mention a couple of upcoming events to make you aware of. You can certainly go to our website and find more information about all of these. But next Tuesday, and if you're a prospective student or you know someone who's a perspective student, we are actually hosting a webinar entitled "Investing in Yourself." So next Tuesday, October 21st. Ron Ford, stand up. Ron Ford is going to facilitate this. He's our associate dean for executive education. And it's going to really focus on the value of going back to school and getting your degree, even in difficult financial times, and why that's a great time to invest in yourself. So if you know someone that's interested in going back to school, encourage them to participate in that. We also have a new student and alumni mixer on October 22nd, so the same week, next week. That's going to be in Burbank. And in Orange County on October 29th, so if you're in that area at the end of the month, a private equity buy-out in middle market, so another finance focus. So we're on a finance trend this month. And then we have two more Dean's Executive Leadership Series events before the end of the year. On November 13th, we'll actually be in Northern California hearing from Ann Winblad, who is a venture capitalist there, and that will be an interesting evening in Northern California. And then we come back here on November 18th, and we'll have Robin Kaminski with us, executive vice president of Activision Publishing. So we hope you'll put that date on your calendar to be back with us in November, and then we'll start up again after the first of the year in January.

Well, it's my pleasure to introduce our guest speaker this evening, Kathy Karlic. She is the president of institutional sales and marketing for GE Asset Management, and a trustee of the GE benefit plan trust, and they-- I'm not sure exactly what the number is now, but they have, you know, 150 billion or so dollars in assets under management. I'm sure that's fluctuated quite a bit over the last few weeks, and they manage assets for both institutional investors and individual investors, and we were talking at lunch today. Back when we asked Kathy to come, we were kind of talking about, "What should you talk about?" And it was pretty general investment kinds of things, and we decided there were a lot more interesting things to talk about probably now than there were when we first started planning this, so very-- we've been fortunate, very good timing, in having Kathy with us, so you can pick her brain about some of the things that are going on. But Kathy has been with GE Asset Management since 2002. She came there from Citigroup Investments, which was formally Travelers Insurance Group. In her last position at Citigroup, Kathy actively managed nine portfolios with approximately 10 billion in fixed income assets, and she's actually a tremendous expert in fixed income asset investing. That's kind of her background and experience.

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She also has a great love for education, and is actually a trustee of Babson College, where she got her undergraduate degree, and is on their investment committee, so she understands what universities are going through and dealing with. She's a member of the US Treasury Department's Borrowing Advisory Committee, where she's one of 13 senior investment and banking leaders who meet quarterly with the Treasury Department to present their overall observations on the economy, and recommendations on a variety of technical debt management issues, so I'm sure we'll want to ask you some about that, as well. So, in addition to her bachelor's degree, she has a master's in accounting from the University of Hartford, and is a chartered financial analyst. And so I know you will look forward to hearing from Kathy. She's going to share some remarks with you, and then we will sit down and have a brief conversation before engaging you, and so be thinking of the questions you have for her so we can have a wonderful conversation together. So please join me in welcoming Kathy Karlic.

Kathryn Karlic: Linda's right. When we set this up back in April, if you look at what I planned to speak about, which is in this pile, I whittled it down a lot, and I think I'm going to continue to whittle down my remarks tonight, because one of the, I think, aspects of giving a good presentation is about knowing your audience. And at their reception, I got to know the audience very well, and I got to meet individuals that are interested in views on the economy, views on insurance companies, views on how do you get into a career. I did meet some people interested in marketing out here, too, so we'll try to wind a little bit of those thoughts in there, and what I'll suggest is I'm going to give you a little bit about my background. I will start talking about the GE Pension Plan and how we look at investing, which is critical, and how we look at it through a long-term perspective and not just in today's lenses, which I think would arguably drive any of us crazy. I'm going to leave lots of time for questions, because I really think this should be a dialogue and not just me up here talking. Linda gave you a lot of pieces of my background. She has not talked about my 30 years in fixed income, so I want to start a little bit about the cause of a lot of this turmoil in our markets about fixed income. And I started out back in high school actually loving the stock market. And in my economics class-- and I don't know how many of you students out there took economics when you're a high-school senior, particular if you're a woman in the high-school senior realm, and I loved it. And what I found from Babson is that very few girls in high school have the destination in mind when they select their college. Boys do, and girls don't. I knew what I wanted to do, and it's really been my passion for 30 years to be in the investment world. I absolutely love it. It tells me something every day, and it makes me make a decision every day.

So I thought everybody did stock market investing, and they don't. There's a whole world of fixed income. And when I went to the Travelers Insurance Company, it was after I had a stint at a utility company, actually, raising capital to build many power plants. They said, "We're looking for a utility analyst. You know, we really like you. You have the appeal to be a good analyst, and you also know how to work with individuals," because I had done some investor relations work, as well. So they offered me a job. I'm like,

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"Done." I hit the bid. It's done. I'm there. The guy goes, "That was the fastest offer you could ever have imagined, with an acceptance within 30 seconds." And I'm like, "I know what I want, and I know where I want to go." I think that's a little bit of the advice that I would give individuals, not only in setting up their career, but also in their investing world. "What do you know, and where do you want to go?" So let me give you a few thoughts about the asset management world that I live in, and then a bit about the pension plan, and you'll see how you weave knowledge with goals together. So the world that I live in is about a $50 trillion marketplace, and it's very global, and I think when I was reading about Pepperdine, three words really struck me: entrepreneurial, ethical, and global. And I hope you see some of those themes coming out in what I'm going to talk about.

So I live in a $55 trillion world, assets that can be managed. It has margins as an industry of 30 to 40 percent, which are fairly handsome, considering supermarkets, I think, have margins of 3 percent, so, you know, 10 times where we all buy our groceries. The return's on equity, because you don't have to have a lot of equity in a firm to run an asset management. It's about knowledge. It's not about having a ton of equity, which is a piece of the problem that we're having in this American institutions. People don't have equities in these firms. They wiped it out with a lot of bad loans. But it's a 25 percent return on equity industry, as well, which is very handsome. I would love to have a 25 percent return on my equity right now, but I think there's a negative sign in front of that. Pretax profits in this industry are about $160 billion, and if you think about it, put it in contrast to the TARP program that was announced for the $70 billion program. There are profits in this industry about a quarter of what this recovery program is. Just to give you a different dynamic to think about, people are making money in this industry, and there is capital that will be redeployed. Now, it's a very global industry. There is, of that 55 trillion, about half of it is in the United States. Twenty trillion is in Europe, and the remainder is in Asia.

What you have to think about, though, is the world that I live in; this is the global context. The fastest growing markets are not the United States. The trend for asset gatherers is really going overseas to both Asia, as well as Europe, because they have taken care of a lot of their pension plans, and their growth is actually faster than North America right now. The people that are my clients are Pepperdine, as an endowment and foundation, and I think everybody here, for the business that we do with GE Asset Management, half the world are institutional investors such as a Pepperdine. They're the defined benefit programs that companies sponsor, like a Boeing, like a Ford, like a GE. They're insurance companies that have an underlying need to get investments to meet those premium responsibilities through the annuities, or if your car is crashed and you want the payments back. That's the world that I live in for institutional clients. I have to think like an institutional client. The other half of the world is retail. It's our own 401(k) plans. It's where you and I have to make a decision every day. What did you do with your 401(k) plan? Did you move it? Did you like the options that were provided? And I think that that world is full of a need of education, and individuals are really struggling with, “I made a decision, and where do I go with it now?”

So half the world is retail, and living the same pain that you and I are living today. The trends that I think about, as far as sales and marketing, is people are looking for what we call “alpha.” They want that excess return against a benchmark in the marketplace. We’re looking at the graying of the world, and not just America, but there’s many more senior citizens in places like Japan and Italy versus the United States, as a percent of their population, all with different demands for where they put their investment dollars; because, you know, the closer you are to wanting those dollars is a different philosophy than if you’re farther away from where you’re going to put your investing dollars. There’s a lot of wealth that’s being created in this world. As I said, 160 trillion, $1 billion for profits in the industry, and we’re really moving away from having a pension to self-directing our own needs for retirement-- an extremely strong trend that we need to think about. So that’s the industry I play, and I’ve given you a little bit about my background, so let me tell you how I think about the economics in the world, being part of the GE trustee membership here. We do have about $150 billion under management, which is huge. You know, people think, “Did you say what? Did you say 150 million? What did you say?” A hundred and fifty billion dollars is what we manage, so we have to take the care of a lot of people around the world. I have about 200 clients globally. We serve about 600,000 clients in the individual realm. So there’s a lot of retirees at GE that are depending upon the smarts of what we do in our plan.

As a trustee, my plan’s about $55 trillion, and I think anybody that’s studied investing and finance knows it starts with an asset allocation program. And this is true if you’re in the world of the institution or the individual. How are you thinking about your risk and reward? Did you want to have everything in fixed income? I’ll tell you one story. This is not bragging, but this is how I thought about it. In my 401(k) plan, I have it all in cash. I have everything in a short-term investment because I got nervous. But you have to move it. You have to think about what does-- what motivated me to move it is I was scared of risk at that point in time, a year ago August. Corporations can’t do that. They really stay with this asset allocation. The four-prong approach that we have is US equities, international equities, alternatives, and fixed income in the GE pension plan, and right now it’s about a quarter in all those different asset classes. And they all brought us different risks and rewards, as you can imagine, in the last 12 months. As a trustee, we not only think about that asset allocation, which is where historically you’ve gotten most of your dollars, but how can we defend against the volatility that we were seeing? Because we pay out about $2.5 billion of retiree benefits each and every year.

So what we’re finding now is the ill liquidity in this marketplace has struck a lot of people in private equity, many people in the hedge funds, and certainly the real-estate market. So you couldn’t-- you know, you couldn't grab your liquidity from those places. Traditionally, everybody thought fixed income was the place to go, was always the, you know, "Give me my four percent, I can count on that, I can sell my bonds." You know, from an insurance company perspective-- we were talking to Faye a little bit-- property casualty companies, you know, have huge municipal bond portfolios, that if you have a catastrophic event, what do you sell? You sell your municipal bonds. There's not a lot of liquidity there. People are selling what they have to sell, not what they want to sell. So you're seeing what we're selling right now is US equities. A lot of folks are finding that's the liquid market. It's a traded market. You get a quote. In fixed income, it's not a traded market.

There really are not quotes unless you're selling US governments. And sitting on a trading desk for many years, you can say, "I've got, you know, a block of bonds." Let's just make this up-- 30 million. "I've got a three-year or four-year bond, and it's of a double-A company." I could call four people and get four different bids. I could call four people, and they might bid on half the lot. You could call four people, and three might say, "I don't have any interest whatsoever," and two might go, "I'll take it all. Do you have any more?" That's the kind of market the fixed income world is. You complicate that by-- fixed income is that stepchild over there. It's like, you know, "I don't need to know about fixed income." So I remember sitting in the markets when I was the chief investment officer for this fixed income portfolio at GE, and I called it, "I wasn't getting any oxygen." Because I was the one that the equity guys would like, "Ah, don't worry. It always comes back, guys. It always comes back. You know, look at these charts that I have. The long-term charts were always growing, growing. Kathy, you just provide me liquidity." And I'm like, "It's not that way anymore. We need some, you know, catalysts in the marketplace to show me that the equities are going to go up."

So asset allocation, being smart at what you do in your portfolios. And now I'm going to get to the piece of why I think the marketplace is tumbling, and some of the issues that we have. I see my job in a three-part approach. One is gathering knowledge, and we have lots of debt out there. We can gather it from all sorts of places-- people, the newspapers, what you get on the Internet. People make it up if you like to have, you know, made-up information. It's all information. That's just the first part of it. So we have a lot of stuff. What do we do with it? The second part of my job is organizing that data in a fashion that I say, "This is irrelevant, this makes a lot of sense." Now, I think the most important part of all this is being able to make a decision. And a lot of folks that I've met in business are really great at data-gathering, and they'll come to you and say, "Oh, look at what I found today! Look, I googled this, and this is how much more information I have." And then other people will say, "I'll give you the pros and the cons, the strengths, the weaknesses. Here's my four blocker. Here's, you know, here's the opportunity, but here's the risk, as well."

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There's very few people that can make a decision, and I think as good leaders, you have to be able to take that risk, know that you're not going to have 100 percent of the information at all times, and make a decision. So it goes back to my-- I moved my stuff last August. I made a decision, and it was a good decision. But think about in your own portfolios, in your world, or what you need to have as a leader. You got to make some decisions. In fixed income, I think a lot of people didn't have that knowledge. They certainly didn't know how to organize a little bit of data that they had, and the decision making was very poor. So let me-- Faye was asking me to try to explain, at least from my perspective, where did all this tumbling down start, and how did it happen? So put your hand up if I get a little bit too deep or if I don't explain it well, because this is a very complicated problem. And when I was at one of the meetings with the fed governors, I actually used a story, and one walked up to me and said, "Gee, I really understand it now that you explain it this way." And I said, "Hmm. Do I feel good or bad about this? This is a little late in the game for me to have to explain it to you, you know. You should've known this." But I felt comforted, at least, that he got it, you know, and then we can move forward. So that's a little bit about the knowledge story. But look, everybody-- let me demonstrate a little bit of a liquidity story, and then we'll get into the mortgage story.

If you look at your neighbor, and each of you can look at one of your neighbors, would you lend your neighbor a buck today? Sure. We all say, "Yeah, I'll lend you a buck." How would you lend, you know, that dollar to-- how about the students? Would you lend your neighbor a buck today? Would you lend it for a week, a month, do you know, to the end of the semester? Probably, right? You know, there's 100-year bonds out in the marketplace, for crying out loud. People believe that they're going to get their money back in a hundred years. You know, today, the banks believe they might get their money back on one night. The whole market has cratered. Banks are only lending to other banks on an overnight rate, and that's this liquidity issue. The banks are having a real desperate time understanding what's in other banks' portfolios, because the inner-bank market, this is the libor rate that you hear about. It's the London inner-bank overnight rate. People are very concerned about what's in these portfolios that they said, "Time out. The rate's going up, and you're going to get it only overnight." So flip that whole fixed-income world upside down.

Two years ago, 100-year bonds were in vogue, 30-year bonds were in vogue. How many people had a 30-year mortgage over, you know, at some point in time, you know? We all said we needed long term. It's a day liquidity right now-- not a good place for our economy to be in. Now, what drove all of us into this situation is that many people, lots of us in this room, have mortgages. We all want a home. The American Dream is to have a home. We have organizations in Washington that foster the whole home ownership ability-- the Fannie Maes and the Freddie Macs. Unfortunately, we forgot that first piece of the equation about knowledge. There's a house, it's going up in price, I don't care if you have income, I don't need to know what the house is really worth, I'll drive by, and we gave too many mortgages out to individuals that

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we really never thought about, “Well, what might be the cash flow that was coming back to pay the mortgage?” Okay, so we got a lot of them. There’s a lot of mortgages in America. There’s a ton of mortgages. So here comes Wall Street, and they’re going, “Okay, how do we get more capital to the banks and get those mortgages off their balance sheets so they can relend those same dollars, cause you’re recycling them, to the new players that need home mortgages?” So what we did was-- and again I’m going to have you look at each other. Ron, do you think that you could get-- is it Mark? Mark, do you think you could understand the cash flow payments that he’ll make on his mortgage?

Mark: Yes.

Kathryn Karlic: You do! Oh, good, you’re smart. I got to pick another guy out here. Okay! I bet you a buck it’d be really tough. And I’ll double that, because I think if I asked you the question, everybody in this room has a mortgage? Do you know how much cash flow would come out of this diverse group? Let’s just say this is a representation of all mortgages in the state of California. You have to understand, your mortgage, your mortgage, your mortgage. Well, what Wall Street did was say, “I’ll take all these mortgages, these 100 mortgages in this room, and I know that there’s $100”-- and I’m making this simple—“$100 coming off of all your mortgages each and every month. But I don’t know anything about you. I don’t know if you have a job. Some of you do have jobs. Some of you are at long-term LTVs at 90 percent, but I don’t care. That’s good. Just bring it all in.” So we got this package of mortgages paying out $100 a month, with no analysis. It’s not organized, and the knowledge is weak. But what they did was they said, “Okay, you guys over here in Europe that’s a bank, that need to buy securities, and you want them Triple-A, because you’ve got very little bit of capital to put against a Triple-A security, which means you basically got a free ride, because you had to put more capital away, the riskier the credit.” So I’m going back to the $100 example over here.

They said, “Okay, the first”-- what do you think, $90 <inaudible> for the first top tranche? “The first $90, we’re going to call that Triple-A credit.” So remember, now, it’s all you guys out here. The first $90 I get from you guys, you’re Triple-A. So you go, “How can you be Triple-A?” The first 90 bucks I’m getting off of you is a Triple-A tranche <snaps fingers>, and the banks over in Europe love it, because they don’t have to put any capital. Then the next tranche, let’s say the next eight-- no, let’s say the next $7.00, we’ll call Triple-B, and insurance companies love the Triple-B, because they had to figure out how to get a yield on a security higher than the yield they’re paying on the annuities that we all buy. So there’s that arbitrage play again: one is a capital, one is the product they’re selling into the marketplace. And then they said, “All the rest of that stuff, whatever the last, you know, few dollars-- I think I’m down to about three bucks-- that’s the equity. You’ll get it if we get it.” It’s a promise. It’s an I.O.U. Most of them didn’t get it. So now you have 97 cents of debt, and $3.00 of equity. That’s the overleveraged, okay, and that’s how they

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basically put all this cash flow that was now kind of organized, but there were a lot of decisions, because I just took all of you guys and I packaged you up, and I made this security that people bought.

So step in. You don't like your mortgage, you're not paying. You lost your job, you're not paying. Your house price didn't go up, so all of a sudden, you're stuck. You're stuck. The liquidity came out of this marketplace, so come tumbling down of those $100. It's just not getting paid off. Equity gets wiped out, but they took that risk. The Triple-B's that I told you about, that next $7.00 in there, they're having issues. And the Triple-A's are even having-- Triple-A's. I mean, there're six companies that have Triple-A status, but yet we took everybody's mortgages, and they made them Triple-A's. So you go, "Now, how could that be?" GE's a Triple-A company, and they have 18-20 billion of cash flow a year. We're talking Triple-A for mortgages. So what's happening right now is nobody knows how to price them. There's no-- remember I told you about the four bids I got on the desk? All right? I got four different prices for a basic corporate bond with five years. I don't even know the maturity life of your 100 mortgages. You could prepay me in two months, you could prepay me in five years, and you could pay off in the 30 years that you're entitled to pay it off in. But yet I have to figure out how to price that in a package deal, so... no real good way to price it. There's an index on the street. It fell, fell, fell, fell, fell in steps accounting. You have to bark to market. But the market is crap. You don't know what that market price is. But accounting says, "I don't care. Bring your values of your books down to that index that's out there in the marketplace."

So now we've just got this very untenable situation that many people in the financial world-- and we're talking this global problem right now, because people bought them, people packaged them, people insured them, and peopled hedged them. And the people I'm talking about, we don't even know where it all went. Again, there was no good knowledge of who's buying this, and who took it onto their books. So some of the trades fail, some of the counterparties fail, we have certainly a lot more defaults, and these packages were poor. And on top of that, people took packages of those packages, and packaged it up and relevered it. So now we've got the leverage of you as the individual in a package deal, packaged up and repackaged, and called CDL squared. And I don't know how you analyze that. We have a system at GE that takes each of those security types and tries to analyze the cash flow, and we have early warning signs when the delinquencies on those home loans, you know, escalated, and we could make a decision and sell, which we have. So the systematic risk is global. When the Treasury stepped in, we all know that there were days when it's like, "Is anybody going to help us?" And the Federal Reserve is there to avoid systematic risk in our banking system, and no country can live without a strong banking system, so we really are really trying to shore this up. What you find is that, if you like the package or you don't like the packages-- I'm going to go back to my knowledge thing-- this is such a tough and complex issue. I don't think that we've had a really good debate.

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Certainly Congress and the Senate couldn't debate this very well in the short time they were given. I have 30 years of experience, and I find it really tough to analyze a lot of this stuff and try to make, you know, a heads-or-tails of where to go with it. I believe that, you know, I was thinking about this acronym that we got: TARP. You know, it stands for Troubled Asset... I think Relief Program, or Recovery Program. It's a-- Relief Program. It's almost the same to me. But what came to mind was a tarp. And I had asked, "Does anybody in the audience have a tarp?" I'm sure you do. A tarp, to me, is something you throw over something that you think has value to protect it. And I think, you know, if you think about this analogy of the TARP program, we're really trying to protect our banking system that we need to have in the United States of America. There are so many different programs here, and it's all about trying to inject liquidity into this system, so just go back to that first concept: you're lending only overnight to Mark, and maybe you're now going to give him a couple extra dollars for a few weeks, because you now have some stability. You got some more information that you need about Mark that you're willing to analyze him a little bit deeper, give him a few more dollars for a longer time period. So the US capital-- the Treasury is very patient capital. They are putting this into the marketplace. They're trying to get those bad assets off the books of these companies. They're trying to stabilize the price of that index I told you just, you know, is-- it's crap.

So, what you got here is a movement in the concerted world effort to give us some floor pricing here, buy us time, try to think about how that cash flow, that $100, is really all about. I don't believe all these mortgages are bad. We have analyzed a lot of those cash flow streams. I think people are going to be paying their mortgages more than what the market is pricing it at. I do get concerned a little bit about the news that we have on the dollars. We will see higher inflation, and-- I'm sorry, we'll see higher interest rates, because you're going to have to flood the market with a lot of these treasuries. And when you know the supply and demand, you're going to have a lot more supply coming up, we think. We advise some of the folks of the Treasury that you'll see interest rates go up 50 basis points. Now, I kind of think that's contrary to what Bernanke's doing, because we just lowered rates, and, you know, potentially another rate cut. But when they're putting, you know, upwards of $70 billion in the marketplace, plus a commercial paper program, plus other programs, there's a lot of treasuries that have to come into this marketplace and be bought by people. So... lessons learned. Let me just, you know, kind of wrap it up. So, you know, Linda asked me this on our podcast, you know, some of the lessons learned. You know, there's a ton of them I could think about, but part of it is be a good listener. Get a lot of information as you create, not only maybe your strategic plan or your investment portfolios or your own careers, but you got to listen. You got to get that information out there, and don't be afraid to--

Is it any good? Is the Treasury calling? They got another plan going or something? Get those prices stabilized a little bit. You know, be a good listener. And, you know, I'm going to go back to the mission statement for Pepperdine, the entrepreneurial, ethical, and global aspect. When I thought about my team-

- it's really Stanford-based, but today I got a call from my boss, and I'm here in California, but the rest of my team that needs to respond to this is at London, and we're working on a deal with an Indian company. And the world is just going to just-- it's all the same. It doesn't matter anymore. It's-- wherever you go, whatever timeframe, whatever time zone, whatever language that you're going to be working in, this is the commerce of today.

So, you know, I'm being a good listener because some of my skills of deciphering some accents aren't so good, and you really have to listen carefully, because our world's going to go that way. But you also have to think through. What are they telling you? You're bringing different cultural aspects to a deal. They're talking about different ways of doing business, so be a good listener. On the ethical case, I just want to say, at Babson, where I went, ethics was a very big course, as well. And your honesty in your business life is really critical, and I think this honesty that we're getting, you know, out of these securities is just a failure. There's a tough lesson if you're not honest, right? You lose your reputation, and who wants to hire you? Who wants to be your friend? Who wants to lend you a buck? Right? And we're not honest. We're not honest with some of the ratings that we got on these securities, and we certainly weren't honest on the depth of this problem, and nobody could understand it. And the last piece, you know, think about entrepreneurial. I think this whole program is a bit of an entrepreneurial response, because they're really trying to think of different ways to solve this problem, and the first one people might like, or they didn't like the first 700 billion. Now we're buying equity into banks.

Now, who'd have thought that the United States is putting dollars into these banks? And they're having to think about something that's innovative, and they have to make this work. Our issues will be much deeper if we don't get out of this timeframe of just prices spiraling down, so... that patient capital. And I'm just going to leave a couple of lessons that I learned about risk-taking, and kind of my... you have to be an out-of-the-box thinker to get ahead. I always have goals for a year or two, and I have a longer term goal, but you got to get out of your rhythms at times. So when I was CIO, people said, "Kathy, you're managing, you know, a group of people." I have people around the world. I had $100 billion that I was in charge of, you know, and the mess of the fixed-income market. "Why in the world are you going into sales, of all places-- sales?" And I'm like, "You know what? I've been there, I've done it, it's a rounding-out experience. I got to take a risk, because it got me closer to clients. It got me closer to the markets, in a sense that it wasn't just the GE market view, it was other people's market view." And I love it. So I can combine what I do from my own internal portfolio with what my clients need, and there's a real pizzazz, I think, about being able to talk to people and saying, "Hey, I'm with you. I've got dollars invested, as well." And that's a different aspect of sales, but I love it. Risk-taking-- and this is a more of a personal story that I'll end on, because I think that we all try to find alternatives. The reason why I can actually have a 30-year career in finance and get to be a senior executive is I have a very, very happy husband who probably hasn't worked for about eight years now, because he doesn't have to. But the reason why he

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doesn't have to is just not about me, but-- and this is a very personal story, but I decided when I was in my forties, and I think it was the last crisis back in 1998, I said, "Boy, the markets are pretty crummy." And my boss was all over me, and I was actually raising a CDO, and things were just...

<cell phone rings>

Kathryn Karlic: That's okay. I like the music, though. <laughs> The markets were pretty crummy, and I had lunch with my husband. He goes, "Something's wrong. You know, Kathy was really short with me." And I actually walked home, and I said, "Hmm. Forty years old. I think I want to have children." So again, thinking out of the box, at forty years old, it's not very easy to have children, as you know, so I actually adopted my three kids from Poland at the time. And people went, "What are you doing? You're going to Poland, you're adopting three at once, and how old are they?" Well, my children, when I adopted them, were seven, eight, and eleven. And people just went, "Are you crazy?" You know, "Are you nuts?" But I'm like, "No, I'm not nuts. This works for me. These are delightful kids." They actually look like me, and people say, "Boy, your daughter looks just like you." And I go, "Okay, that's-- thank you very much." That's all I say is, "Thank you very much."

So I'm giving you just a few snippets of, you know, the risk-taking that I've described in my personal life, the risk-taking that one has to think about in setting up your portfolio, and the risk-taking that I've put into my own career, because you never know which element is going to be at the forefront. So jump in and, you know, to the students, you've got to figure it out, and you've got a lot of years to figure it out, but, you know, have some goals and know where you're going, and look at solutions that, you know, they don't have to be mainstream. They-- you don't-- you can't be mainstream, because where are you going to go? With the rest of the people, you know, driving down Main Street.

End

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