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Telling Jokes at the End of the World

Posted by David Gaffen

Rob Curran and Geoff Rogow report:

Wall Street equity traders usually thrive on volatility, but the arrival of carnage to their doorstep has distracted and confounded them. The Dow industrials fell 500 points Monday, several companies have blown up this week, and Wednesday hasn't started any better, with the Dow already down 200 points.

This habitually brusque bunch is even more harried than usual, worrying about their livelihoods and the safety of their funds' accounts in addition to the direction of a crazy market. One prominent form of escape: gallows humor. (*Consider it the Milton Berle approach to dealing with problems.*)

Asked what floor he was going to in an office complex in Jersey City, N.J., an employee of one major brokerage replied, "I might as well go up to your floor, and apply for a job. It looks like we're next."

A trader of mortgage-backed securities at a hedge fund took a philosophical approach to the crisis. "They are shutting our desk down by year end," he said. "So that's all she wrote. Now I am drinking on the job."

Others are frazzled: in response to a request for investment advice in the crisis, one veteran money manager said: "I won't answer that. We're struggling to figure that out ourselves here."

Even the diehard speculators in the hedge-fund community are in a state of confusion. The funds have watched two of the prime brokerages that serve them collapse and another get swallowed by a bank in a few months, and some are close to sticking money under a mattress, said Lorenzo Di Mattia, manager of hedge fund Sibilla Global Fund. Some funds are too busy working out where to put their account to even bother with securities or commodities.



"People doubt the brokers, and are busy pulling money out from one place to [put in] the other," Mr. Di Mattia said. "There's fears of [having] no place to put the money. So [there are] no buyers." Still, he added, "Those who figured this out have a lot of cash to put at work."

Many clients have pulled back, and there's a sense that investors are "staying in cash," said **Joe Saluzzi**, founder of institutional brokerage **Themis Trading**. Still, traders kept spirits relatively high at his shop.

At Themis, people are waiting for word of "GMO calls," Mr. Saluzzi said. "It's an expression when a retail broker gets calls from clients, saying 'Get me out.' We're asking people, 'Are you getting any GMO calls?' It doesn't have that feel, yet."

Richard Parker, managing director of institutional trading at the brokerage Stanford Group, summed up the shock waves sent by Lehman Brothers Holdings Inc.'s failure and American International Group Inc.'s fall to its knees.

"Just because I don't think we have the bad stuff on our books doesn't mean we aren't bothered by the whole thing," Mr. Parker said. "Our landscape is much smaller." He said he's hearing interest in health-care stocks, and even technology stocks, despite a recent hammering.

In times of great uncertainty, the markets themselves become tougher to trade. Strategies that have served investors for months, if not years, had to be thrown out the window this week. The mood is one of exasperation: Stockpile cash if you have it; sell what's liquid and profitable if you don't.

Behind the scenes, the run on shares of financial institutions is expected to affect the way they handle trades and extend credit to clients. Already, commodity shop Ospraie Fund has run aground in the volatility of that sector. But Ospraie was far from being the only fund heavily leveraged to the price of oil and other commodities.

If funds are forced to sell assets during times of distress, they'll take losses, and those losses will soon become evident to their investors.

"I can't wait to see all the investor letters at the end of the month," said one trader at a Wall Street bank. "So, uh, sorry we lost all your money; can you give us some more?"