Policy tribes need to show modesty and restraint

John Dizard

The policy tribes in developed countries rarely miss a chance for self-congratulation and now is no exception. As they will point out in op-eds and talk shows, and then point out again, they have responded quickly to the challenges of financial crises with massive, bold programmes – so unlike their predecessors in the late 1920s and early 1930s. And if what has been done isn't bold and massive enough, the next series of programmes will be even bolder and more massive.

The policy people won't consider, let alone disclose or discuss, the second order risks of what has been done so far. That would interfere with the self-stroking and personal rent-seeking.

So much has been done and so much is proposed that it's hard to pick out the worst of the new ideas. One would be that floating around the US political circuit: a national 90-day moratorium on foreclosures.

The political class, and their over-educated bag carriers or "policy advisers", have correctly identified overpriced and over-leveraged housing as the heart of the problem. However, the preferred solution, which is to suspend the price discovery process and re-leverage housing at an uneconomic price, would prolong and worsen the crisis.

Let's take the 90-day moratorium idea. There are about 3m houses in the foreclosure process. During that 90-day moratorium, the mortgage servicing companies – that is the people who make the collection calls, do the restructuring and forward the payments to the mortgage securities owners – would have to continue to make up the missed payments. They would need to finance those payments by issuing notes, typically 360-day paper. Those servicers that were not bank-owned, and could not be financed by a parent holding company, would have to raise money at rates that are already high – say 600 basis points over Libor – and rising. If they could get the money at all.

If one of the non-bank servicers were to go bankrupt during the 90-day moratorium – a distinct possibility – the trusts holding the mortgages it was servicing would have to find new servicers. There would be a time gap during which no calls would be going out to delinquent homeowners. Past experience indicates that during the servicer disruption the foreclosure rate on a troubled pool would rise from 25 per cent to 35 per cent.

Ivy Zelman, whose Zelman & Associates housing research group has been among the more consistently bearish (and detailed) among industry analysts, points out: "Massachusetts imposed a 90-day cure period for foreclosures in May. When that rolled over in September, the state experienced a 465 per cent increase in default filings." The other popular fix, loan modifications, work – 50 per cent of the time, that is. The other half go back into default.

While the policies that led to the excessive home leverage, and the consequent excessive home prices, could be traced back one, two, or more decades, the problems went from chronic to catastrophic under the Bush administration. Rather than freeze those unserviceable debt levels, the next administration would do better to let house prices decline to truly affordable levels and let people with unstable incomes or lives go back to renting.

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The European policy people have their own set of illusions. Rather than directly address the divergence of economic competitiveness within the euro area, they papered it over with hidden subsidies for the monetary and credit system.

Notice that, during this crisis, the agreed-on solutions have been structured as inter-governmental rather than federal. European governments have agreed on bank recapitalisation policy among themselves, rather than taking direction from common European institutions. When all the governments work to the same end, under a benign inflation outlook, harmony prevails.

Consider what will happen when the bank recaps work and capital markets revive (somewhat). Right now, no real problem exists with the European governments running large deficits to pay for state injections of equity into the financial system. They fund those injections by selling bonds to their national central banks, which are under the control of the European Central Bank, which creates money to buy them. That adds to the monetary base but, since credit intermediation has broken down, does not lead to an inflationary increase in money supply.

What happens when credit creation revives? That will likely happen first in Germany, Belgium, the Netherlands and France. The less competitive countries, such as Spain, Greece and Portugal, will need to reflate to offset the crisis of their overbuilt housing and leveraged consumers. But that would conflict with the requirements of a common European monetary policy.

So it's not only the US that needs to resolve the unresolvable. Modesty and restraint on the part of the policy tribes is called for.

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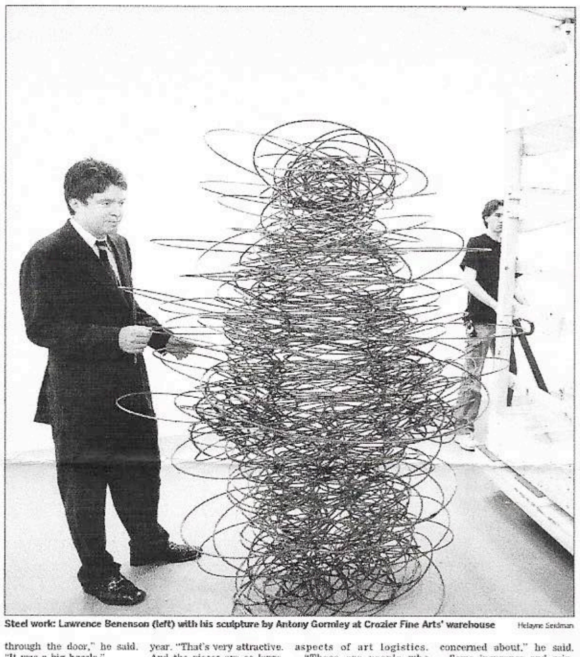
Precious works housed in armour

ART COLLECTING

Specialist storage warehouses can provide collectors with security, logistics and repairs, writes **Alison Gregor**



Steel work: Lawrence Benenson (left) with his sculpture by Antony Gormley at Crozier Fine Arts' warehouse Helayne Seidman

Like many residents of New York City, Lawrence Benenson discovered several years ago that his collection of personal effects had outgrown his living space, and it was time to find storage.

Unlike most people, however, Mr Benenson's personal effects happened to be more than 200 works of art.

Through his art adviser he found a warehouse, Crozier Fine Arts. The nondescript storehouse in the Chelsea neighbourhood of New York boasts security rivalling that of a bank's, with a 24-hour, manned fire and security command centre.

"My art advisor recommended them, and for some reason, they had an opening," said Mr Benenson, a real estate company executive, who leases almost 1,000 sq ft for his paintings, sculptures and photographs. "I was extraordinarily fortunate to get in there."

A burgeoning fine art market saw sales surpass $40bn in 2007, which was a catalyst for the growth of a fine-art storage and logistics industry. Even though sales might slow with the financial crisis, and indeed, art collectors will be watching forthcoming auctions with trepidation, the fine art being bought and sold – and which does not make it into museums, galleries, corporate offices or homes – must be stored somewhere. This is a task that involves a high degree of specialisation.

Besides cataloguing, packaging, shipping and installing the art works, fine art storage facilities house them for long periods in crates inside vaults controlled for such factors as temperature, humidity and light. The warehouses also have viewing rooms where pieces can be bought and sold, photographed, assessed or repaired.

Consequently, behind the armoured walls of drab warehouses often found in rather gritty neighbourhoods may reside hundreds of millions of dollars worth of Picassos, Monets and Renoirs – in other words, a collection that might surpass a museum's.

There are about 100 to 125 top-notch fine art warehouses worldwide, according to Bob Crozier, founder and president of Crozier Fine Arts, along with dozens of smaller, regional facilities in various countries.

Mr Benenson said it is worth it to him to spend the money – art warehouse space can run from several hundred dollars to $3,000 a month – to store his art, which includes a large welded steel sculpture by Antony Gormley called "Feeling Material III". Though Mr Benenson said he displays 85 per cent of his collection in his home, when the Gormley arrived five years ago he had difficulty installing it and noticed some broken welds.

"It sort of didn't get through the door," he said. "It was a big hassle."

So he put it in storage and had it repaired at Crozier. Soon, he intends to install the Gormley at home. He will have the assistance of Crozier's shippers, who are installation specialists, most with master degrees in fine art.

"They hang stuff on these levels, and they measure it, and they're all mathematical experts. They test the wall to see if it can bear whatever load they'll put on it."

Since Mr Benenson put his art in storage five years ago, he has frequently visited his vault at Crozier, sometimes weekly. Not all private collectors are that involved, often hiring an art adviser or curator to handle such things as warehousing.

"I think a lot of the collectors go out and buy the art, and then they have people who deal with the inventorying and the upkeep of it," said Mr Benenson, whose father collected art, including Picassos, Legers and Calders, together with 580 pieces of African art, most of which went to Yale University after his death.

"I'm a very hands-on collector," he said.

Private collectors often find they need specialised storage facilities when their collections grow too big for their homes. Others switch out pieces seasonally, or move them from home to home. And others need storage when they do renovations, or in the case of homes in hurricane zones, such as Florida, when there is the threat of bad weather.

Sigrid Thorne, chief executive of Fortress Corporation, which has fine art warehouses in New York, Boston and Miami, said private collectors are the fastest growing segment of her business.

"Values in the modern art market have gone up 20 per cent a year for the last six years," she said, though that growth may lag behind this year. "That's very attractive. And the pieces are so large, most people cannot install them in their homes. They have to put them in storage."

Once there, the works are often shipped in and out by serious collectors to museums and galleries for shows.

"People loan their art work out for various museum shows throughout the world, so maybe it comes out of their storage for a while, and then maybe it goes into their homes," said Andrea Hazen, an art adviser with Hazen Partners Art Advisory.

Michael Blodget, chief executive of Transcon International, an art storage facility located in the South Bronx area of New York, agreed that while the number of art works has been growing, art is also being shipped around the world with increasing frequency.

'We know who's shipping what, who's buying what, and we become keepers of secrets'

"This is now a multibillion dollar, global industry," Mr Blodget said. "This is equity that's being shifted from one country to another. Auction houses may move major pieces to four or five different countries to drum up interest in sales.

"Even with this recession, auctions will continue to do well, because people are going to park their money in art. Why? Because art can be an asset. It's unregulated, and you can move it border to border, and then transfer it back into dollars again, for example, in a Hong Kong auction house."

Mr Blodget said Transcon can assist its clients who are private collectors with all aspects of art logistics.

"These are people who have virtually their own museums, or what they quaintly call 'art bonds' up in the countryside," he said. All this is done in the strictest confidence, said Mr Blodget, who has been in the business for two decades.

"One of the ways this business has really changed is that it's really no longer about storage," he said. "It's about private banking. We know who's shipping what, who's buying what, and we become sort of the keepers of secrets."

With the number of loans from Transcon's private collections soaring, what was once "slam it into a case and send it" is no longer, Mr Blodget said. Countless condition reports are done at all stages of the shipment for insurance purposes.

John Mullane, president of Transcon, said insurance companies have shown growing interest in fine art storage facilities as the values in the fine art world increase exponentially.

"We had a collector who bought a piece about two years ago for about $600,000, and [five or six] months ago, it was sold for $12m," he said. While appreciation rates of 1,900 per cent over a short period may no longer be seen in the market, insurers are nonetheless paying attention.

Ms Thorne said Fortress offers the same care for a $25 art work as it does for a $25m piece. With values inflating virtually overnight, as has been the case during booming art markets, that piece may end up being one and the same.

Thomas Burns, vice-president at Fortress, warned about collectors being caught flat-footed. "As so many different types of art become valuable so quickly, there are casual collectors out there who didn't even know what they were collecting had a value to be concerned about," he said.

Some insurance and reinsurance companies have been caught unawares. In 2004, fire consumed hundreds of contemporary paintings and sculptures at the fine arts handler Momart in London. There have also been fires and thefts at a handful of other warehouses in the past decade.

Realisation of the concentration of valuable art work at certain locations has led certain insurance companies and the warehouses themselves to attempt to come up with a list of "best practices" for fine art warehouses.

"If we insure a gallery, we go inspect the gallery and make a detailed risk assessment," said Christiane Fischer, president and chief executive of Axa Art Insurance Corporation. "We do the same with museums and private homes. But then we have all this exposure at the private warehouses, where we might have half a billion [dollars] or $800m of art, but we know nothing about how they're operated and how they're secured."

Axa has on its website a list of the art warehouses that meet the criteria it has helped develop over the past two years. The warehouse industry is still in the process of drawing up its own best practices, led by Mr Crozier. Meantime, insurers recommend that collectors ask numerous questions.

"When people choose their warehouse, they will always look to see what is the cheapest," Ms Fischer said. "We all know good quality comes with a price sometimes. Collectors shouldn't just assume because it says they're a fine art warehouse that they really do all the right things a fine art warehouse should do."

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Shares to vote for any day of the week

James Altucher

When I was 12 I was obsessed with politics. I was a volunteer at the Democratic National Convention. On my birthday I went to Washington DC and visited as many senators as I could, including Birch Bayh (father of Obama's almost-VP-nominee Evan), who was also celebrating his birthday. His staff brought out a cake and we all sang "Happy Birthday".

I collected political buttons, including my favourite, "Linda Ronstadt for First Lady", because she was dating Governor Jerry Brown at the time. And then I lost interest – I've never voted in an election.

Today's ballot will have no effect on my life as an investor. If John McCain wins he will cut taxes. That will stimulate and inflate the economy. If Barack Obama wins he'll spend more money on favourite government pet projects. That will stimulate and inflate the economy.

Both solutions might lead to heavy inflation if there is not a counter-balancing strong dollar policy. But I don't care about future inflation anyway.

I just want reflation now so that assets that I happen to invest in (a house, stocks and a bunch of silver bars I have buried underground) will have huge bull markets.

And the inflationary policies of both candidates will do that. I'll deal with the after-effects later but first I want to go to the party. A lot of people, particularly youngsters studying finance or business or stocks who were hoping to find careers in Wall Street, have been asking me: "What should I do with the rest of my life now?"

I feel bad for them because right now is just a horrible time to start, particularly with about 200,000 workers being laid off from Wall Street.

But there's probably never been a better time to start a business. You always want to buy low and sell high. The time to sell a business is at the top of a bull market. The time to lay the groundwork for a new business is when money is tight, competition is slim and everyone is too scared to be thinking about new ideas.

One reader asked me if he should go to business school, because it seems as if the economy might be rocky for the two years anyway.

Instead of spending $100,000 on business school and completely removing oneself from the planet for two years, how about taking $20,000 to start a business?

Even if it fails, you'll get valuable experience, make great connections and end up learning more than you would have in 10 years of business school. I'm jealous of the opportunities in front of all these people.

Speaking of which, I have never before seen a market with so much opportunity in it. Everyone wants the banks to start lending pronto but it doesn't happen that way. Stimulus takes six to 18 months to kick in. But the markets begin moving in advance.

So let's pick some more stocks.

DryShips is about a $17 stock that will probably earn about $9 a share over the next year. It trades at two times earnings, when it normally trades at about 20 times earnings. The chief executive is confident because he has just expanded its cargo fleet. He bought ships from another company he controlled but took only stock as payment. He's a believer.

KBR, the engineering and construction company, has $10 a share in cash, could earn $2 a share, and has a $20bn backlog of orders. Meanwhile,the stock trades for about $14.

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Manitowoc is involved in all aspects of infrastructure and makes things ranging from cranes to food-service equipment and military ships. The company trades for four times next year's probable earnings (even assuming a recession), and has $200m net cash in the bank.

You can't go wrong investing in **Time Warner** at any price below $10 or even $11. It will eventually hit $13-$15. Even in a recession, people continue going to movies and reading People magazine.

This also holds true for **Walt Disney** below $30, particularly with the release of the film *High School Musical 3*.

Trident Microsystems has $240m cash in the bank, no debt and is cash flow positive. What am I missing?

Gushan Environmental Energy has $2 a share in cash, $1 in earnings per share, and is a $3 stock. It dominates the biodiesel business in China, and the Chinese government has mandated that people start using biodiesel.

Once the banks start lending, private equity firms will start buying companies again. Companies will not be trading at two times cash flows any more, because all of the pubic companies that continue to do so will quickly get acquired.

Meanwhile, happy Election Day. I hope your candidates win.

This column appears on alternate Tuesdays.

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