



Letter to the Editor: Our Interview with Peter L. Bernstein

The following letter was received in reference to [Our Interview with Peter L. Bernstein](#):

Dear Editor,

Comment and Kudos!

While I am now gainfully employed doing real estate advisory and marketing for affluent individuals and their advisors, my background is in global fixed income - I delighted in the foibles of the bond market at a major institutional manager for many years. One comment with regard to Peter Bernstein's wonderful piece (yet another in a long history for which I am very grateful): A big reason for the latest financial meltdown is inefficiencies between and among asset classes caused by investor constraints. Irrational buyers, to be sure, but irrational product constraints as well.

This is really the root of the problem with MBS - the AAA rating was a problem due to a false sense of security, to be sure. Even more so it's a problem because of the rating constraints of the end investors and the forced selling that the threat of rating changes produce. In this case, it induced a global financial crisis.

Far too often, everyone thinks that bond people are stupid or the source of meltdown, and it's easy to agree with (Drexel, LTCM, emerging market debt, MBS, and the beat goes on...). However I'd lay the blame at least as much on those fund sponsors and fund companies that foster a false sense of security by designing and marketing bond products that box in bond managers and make it near impossible to arbitrage between sectors and force selling at exactly the wrong time. I'm not letting the managers off the hook - we agree to manage the stuff and we make stupid mistakes - but try talking a fund sponsor or client into giving freedom to their bond manager. Somehow it doesn't have the same allure as it does for their equity manager - that lack of unlimited upside in fixed income makes clients want to *ensure* downside by creating arbitrary boxes. So the costs of inefficiency can be very high.



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