

David Ricardo and the Warriors of Wall Street The Power of Ideas

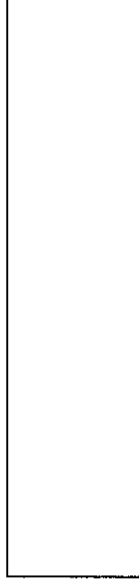
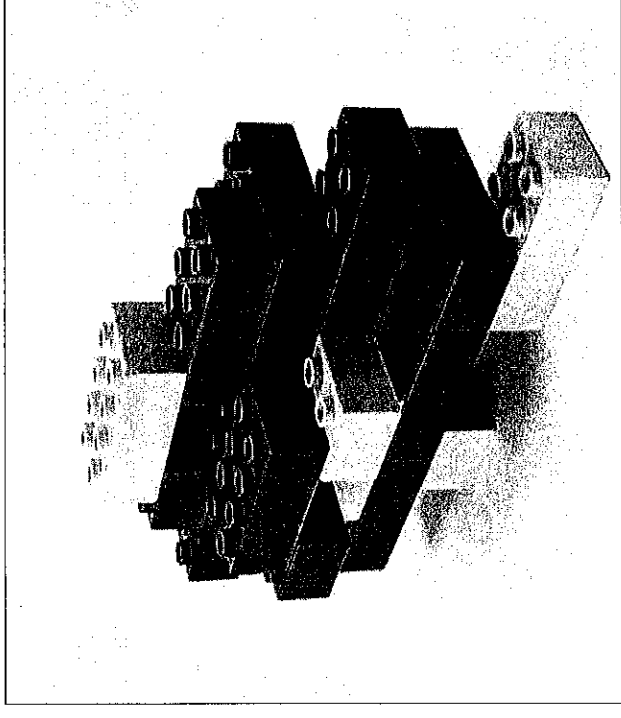
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Where You Stand Depends on Where You Sit

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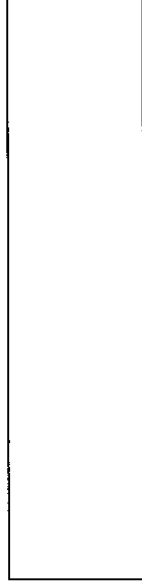
- Natural Sciences, Electrical and Biomedical Engineering
- Concepts of Electrical Engineering
 - Thinking of the world as Lego blocks
 - Feedback control systems (positive or negative)
 - Signal to Noise Extraction
- Mathematical/Statistical Economics
- The Chicago School: Fermi and Friedman
- Physics or medicine as a model for economics and finance



Where You Stand Depends on Where You Sit

From Academia to the Wars of Wall Street

- From Black Holes to Black-Scholes
- The perils of forecasting: efficient markets
- Carl von Clausewitz, *On War (Vom Kriege)*, 1830
 - The fog of war
- Sun Tzu, *The Art of War*, 6th Century BCE
 - Deception in war, ruthlessness
- Mao Tse-Tung, *Problems of Strategy in Guerilla Warfare Against Japan*, 1937
 - Capture one fortress at a time
- Wess Roberts, *Leadership Secrets of Atilla the Hun*, 1937
 - Be ruthless
- Niccolo Machiavelli, *The Prince*, 1513
 - The new king kills the old prince



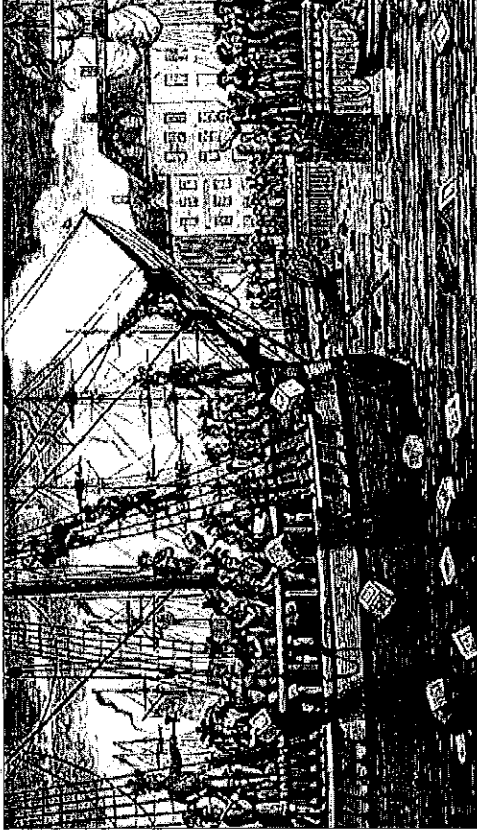
About David Ricardo

- Born, London (1772-1823)
- Third of 17 children
- Sephardic family: Portugal-Amsterdam-London
- Age 14: London Stock Exchange
- Age 21: Married outside the faith, was disinherited, became a Unitarian
- Wealth: \$100 million, today's dollars
- Member of Parliament



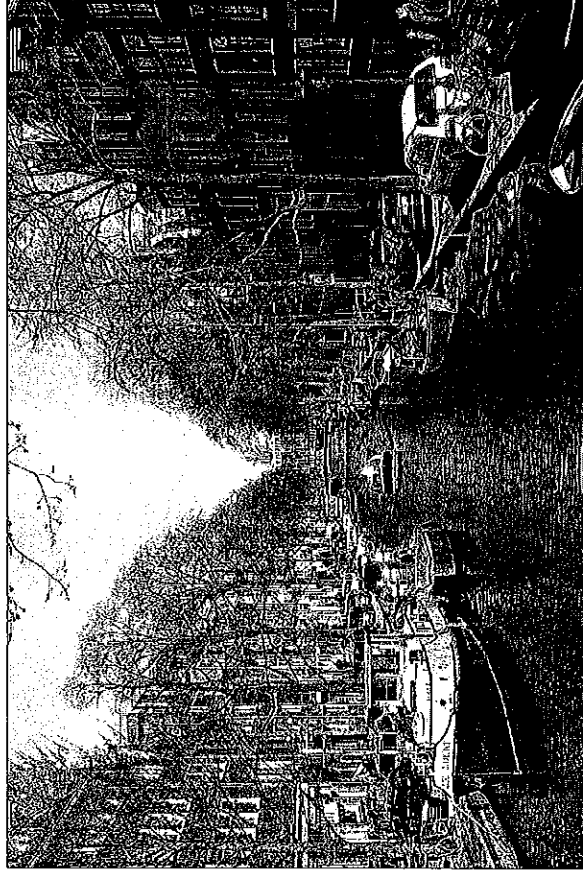
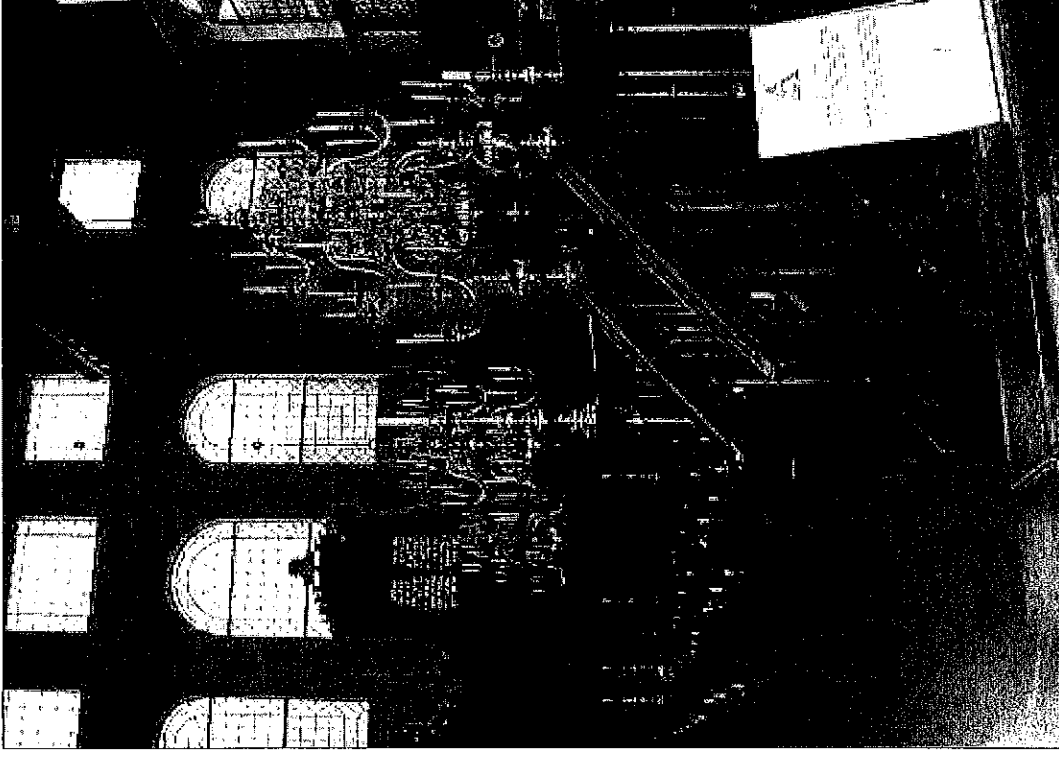
The Milieu

- The Three Great Documents of 1776
 - Edward Gibbon, *The History of the Rise and Fall of the Roman Empire*
 - The American Revolution: The Declaration of Independence; The Bill of Rights
 - Adam Smith: *The Wealth of Nations* (Professor of Moral Philosophy, University of Edinburgh)
- Influenced by the Salamanca School, Talmudic thought
- Friendship and debates with
 - James Mill
 - Jeremy Bentham
 - Thomas Malthus
- Member of:
 - Malthus' Political Economy Club
 - King of Clubs



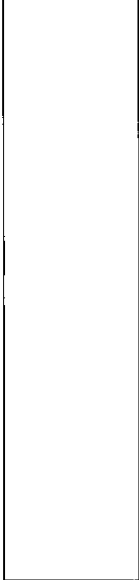
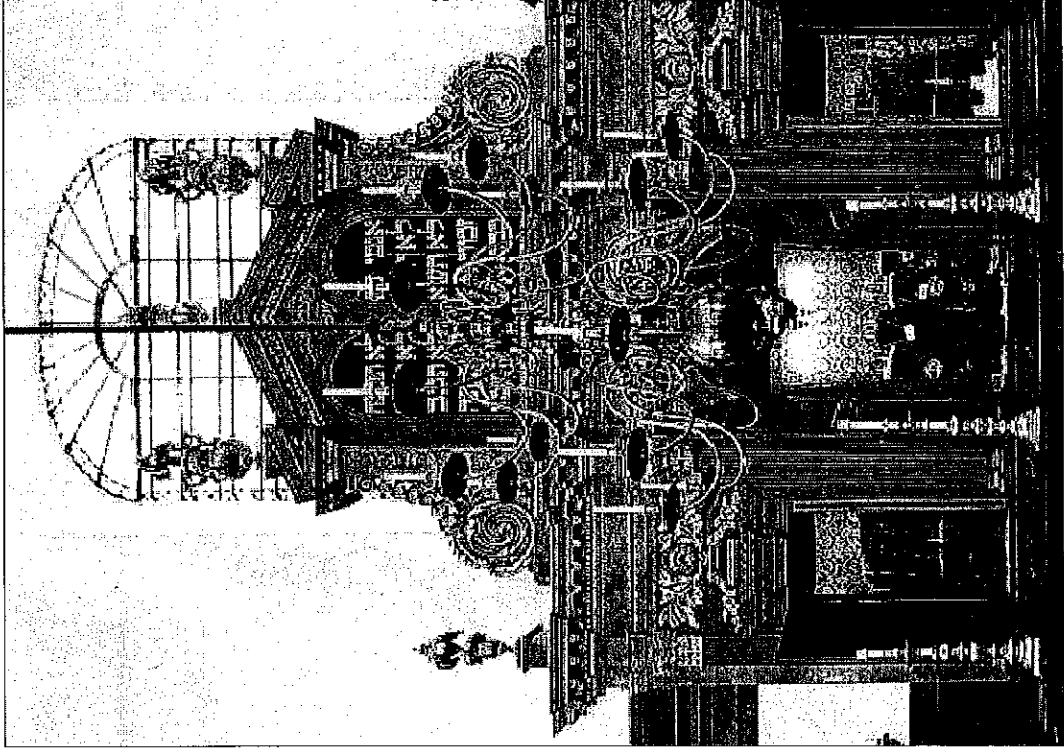
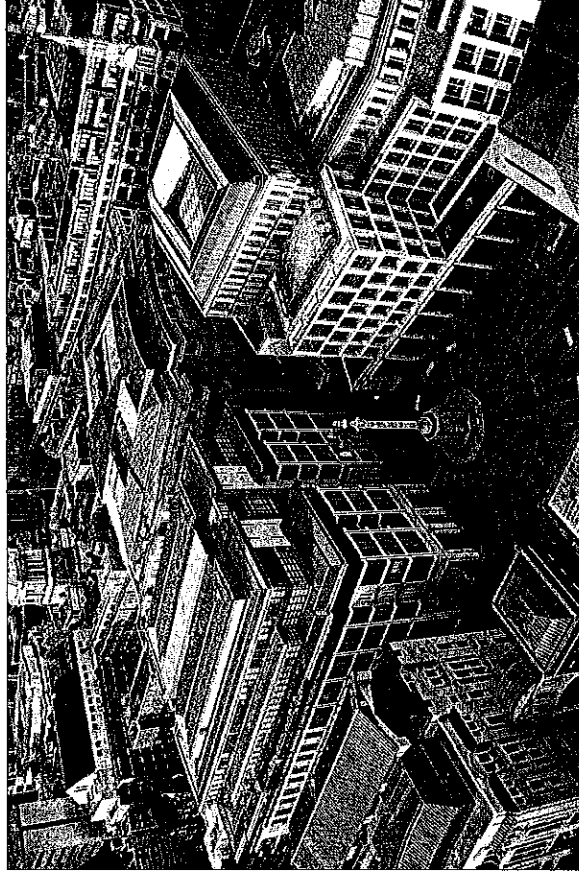
The Amsterdam Stock Exchange

- Founded in 1602 to fund the Dutch East India Company (Stock and Bonds)
- The Spanish-Portuguese Synagogue of Amsterdam (1665)



The London Stock Exchange

- Trade in shares to finance
 - Trade with China
 - Trade with India (East India Company)
- In the 1600s, trade was centered in two coffee shops
- Formal exchange founded in 1801
- Creechchurch Lane Synagogue (1657), Bevis-Marks Synagogue (1701)



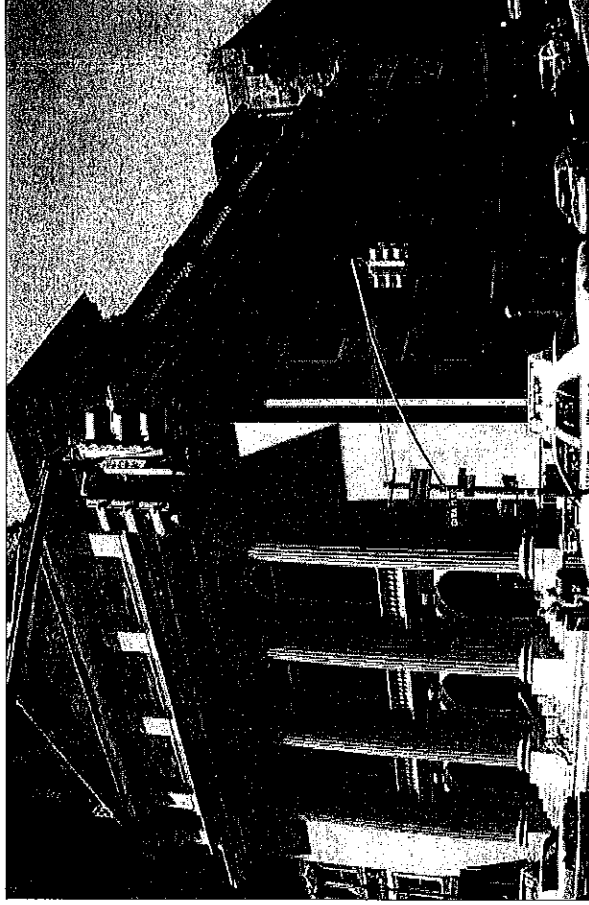
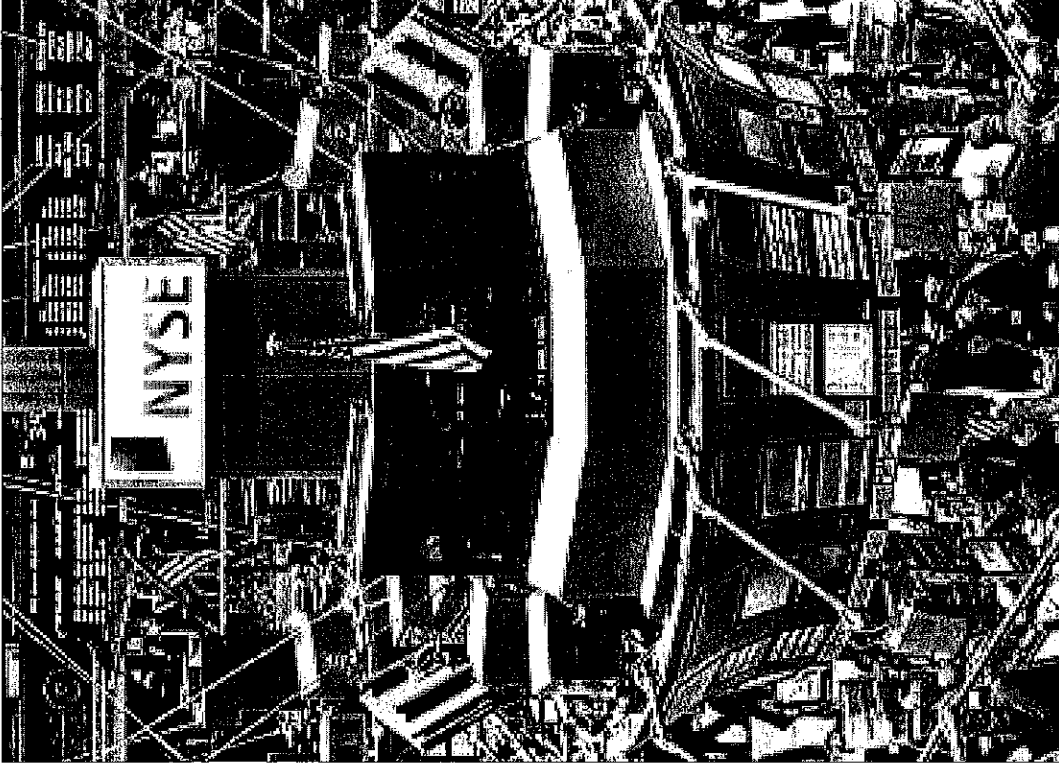
The Chicago Exchanges

- From porkbellies to Eurodollars
- Currency futures (1972)
 - Chicago Mercantile Exchange
 - Lee Melamed (saved by Consul Sugihara)
 - Milton Friedman
 - Not all tons are equal
- Interest rate futures
 - International money market



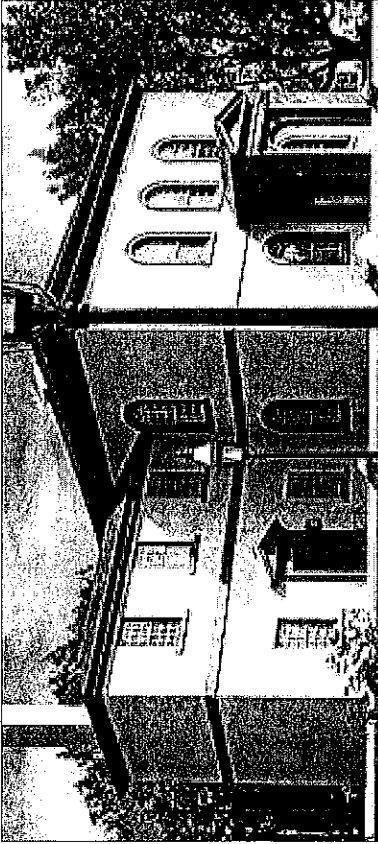
The New York Stock Exchange

- Origins traced back to 1793
- Congregation Shearith Israel (1654)

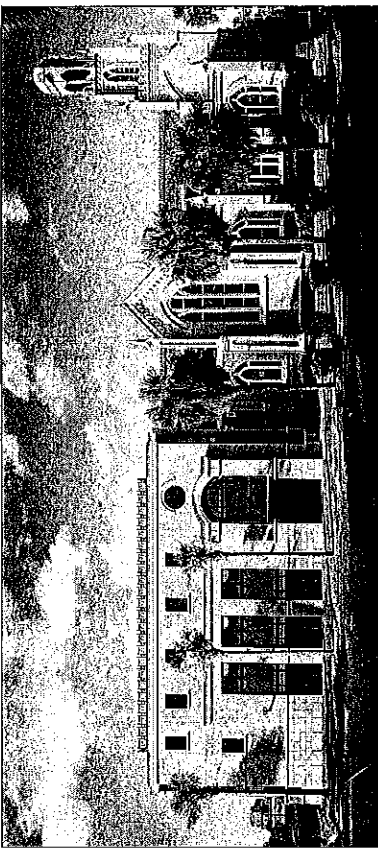


Oldest Synagogues in the USA

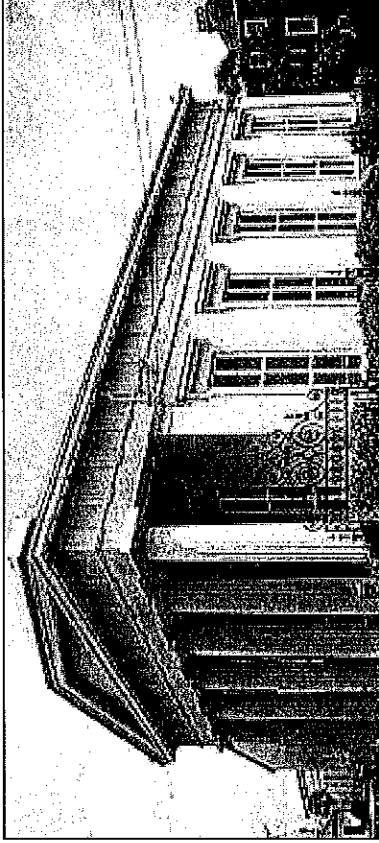
Touro Synagogue (1763) – Newport, Rhode Island



Mickve Israel (1733) – Savannah, Georgia



Kahal Kadosh Beth Elohim (1749) – Charleston, South Carolina



Ideas

Principles of Political Economy and Taxation (1817)

- Labor theory of value
- The Theory of Comparative Advantage
- Samuelson: mathematically true, non-trivial because thousands of important and intelligent men cannot grasp it.
- The Ricardian Equivalence Theorem



Comparative Advantage

- Portugal/England Wine/Cloth
 - Absolute advantage does not mean comparative advantage
 - Comparative advantage means you need to specialize; focus
 - Wine is relatively cheaper in Portugal

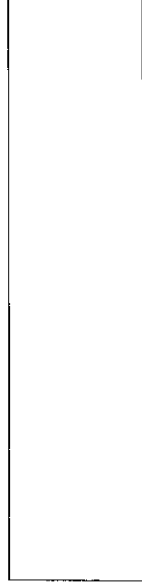
- Application to U.S.
 - Research & Development intensive industries
 - In the past, autos, pharma, software, entertainment
 - Now: genetic engineering, stem cell research, ethanol

- Application to Turkey
 - What resources is Turkey abundant in?
 - What industries does that imply?
 - Does the internet change anything?



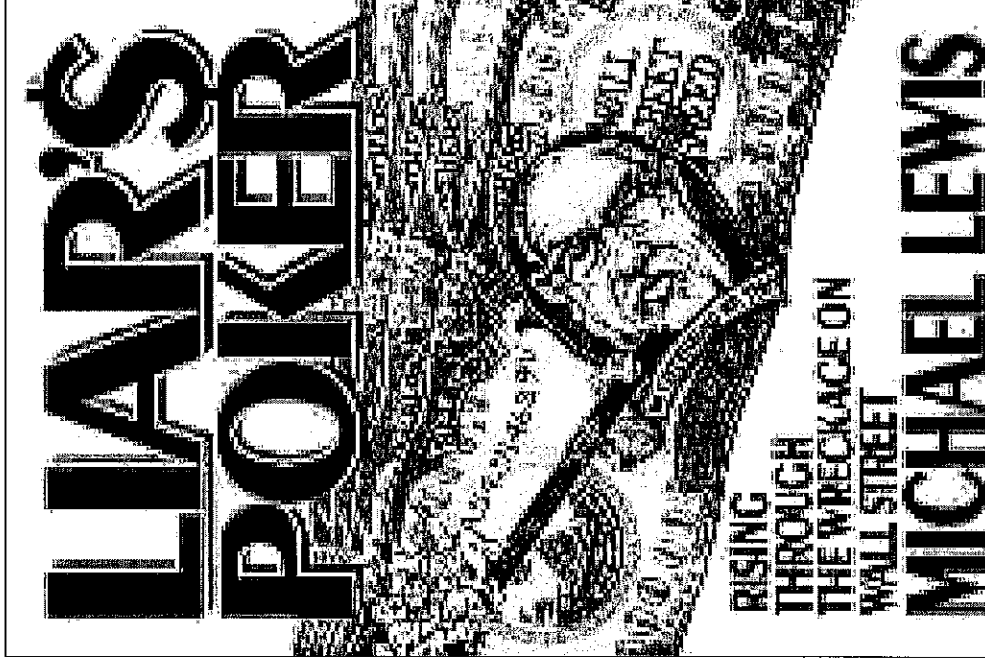
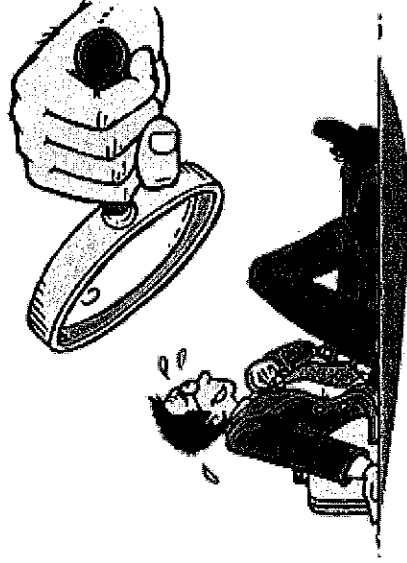
The Anatomy of the Trading Floor

- The Government Desk
- The Finance Desk
- The Spread Desk
- Equities
- Derivatives
- Salespeople
- Upstairs Salespeople
- Investment Bankers



The Job Interview

- Liar's Poker
 - Games against nature (statistics)
 - Games against people (bluffing)
- Know your counterparty
 - Know yourself
- Stick to your knitting
- Performance under stress
- Know your resume
- What do you know best

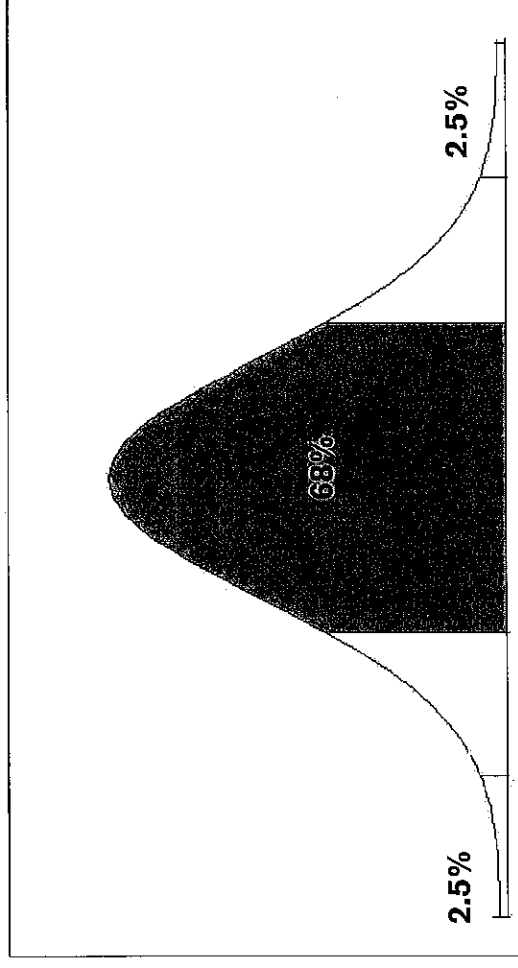


How do you rate?

■ The vector of attributes

- intrapersonal
- interpersonal
- technical
- leadership
- commercial
- listening
- technical
- reading
- writing
- arithmetic

The Bell Curve – Where Do you Stand?



The Story of Michael Bloomberg

- The only Salomon partner who was not asked to stay back after the Phibro acquisition (1981)
- Founded Bloomberg
- Net worth estimated at \$11.5 billion

