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Insight into a financial crisis

Investment adviser predicted the U.S. real estate collapse

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By Claire Compton The Prague Post | Comments (1) | Post comment

Economic forecasting is based on careful mathematical models, but variables can come from any number of sectors as governments and policy leaders have found in the past 18 months since a recession settled first over the United States and then radiated outward. Med Yones, an investment adviser who founded the International Institute of Management in Las Vegas, Nevada, and counts the European Commission and Vodafone among his clients, predicted in 2007 a collapse of the U.S. financial system, which was realized late last summer. During a recent visit to Prague, Yones explained to The Prague Post how he anticipated the recession, how the United States can recover and what other pitfalls could hamper that recovery.

The Prague Post: You published articles warning of an impending collapse in the real estate market. Other economists - such as Nouriel Roubini, labeled "Dr. Doom" - also foresaw a recession, yet U.S. government and policy leaders maintained that the economy was healthy. What did you see that others didn't?

Med Yones: The surprise is not that I or anyone else saw it coming; the surprise is that so many people did not see it coming. And, what was really surprising is that, in August and September 2008, top economists and

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industries and help the U.S. overcome the crisis. My proposition is that we don't need economists planning the economy; we need managers planning the economy because business growth will drive any recovery.

TPP: What sort of timeline do you foresee for the U.S. economy recovering?

MY: I predicted the U.S. would bottom down in 2009 followed by modest recovery in 2010. In the past few weeks, economists and the media have begun talking about "green shoots," basically positive signs that consumer confidence is improving a little bit. There's still decline, but it's a slowing decline, and it looks like we're crawling to the bottom. That will begin growing upward in 2010 unless there's a major geopolitical crisis or we discover some major manipulation or scheme in the market that we didn't know about. The bad news, unfortunately, is that we're not going to see hiring. The only way we're going to see hiring is for the real economy to pick up, and, right now, this growth is based on the bailouts and the stimulus package, so it's artificial. On the market, we'll see improvement not in a straight line but in very sharp swings. I still don't recommend investing in the market yet. Commodities are great, including gold, and the best investment is in distressed assets.

TPP: The market is extremely volatile, as you mentioned, and the continued uncertainty has smaller, individual investors especially cautious with their money. What is the best way to approach investing right now, and do you think institutions and companies are on the right path to earning the trust of investors again?

MY: The lesson here, for both individuals and institutions, is that the investor needs to do due diligence. We've learned you can't just trust it because it's Merrill Lynch or Bear Stearns or Lehman Brothers - or any bank for that matter. Reports aren't enough. I know investment firms that actually go visit companies and talk to management and attend shareholder meetings.

Before the crisis, you had companies where executives were making hundreds of millions, and, meanwhile, the company's losing money. I'm not promoting or advocating caps on financial compensation of CEOs; what I'm saying is we have to tie them to performance criteria, and those should be long-term, not short-term, otherwise they can abuse the system by making money in the short term and, after two or three years, let the company fail. Investors need to have more power, and, by the way, this is the same situation everywhere, in the EU and the UK. There needs to be tighter regulation in order to protect the investor by requiring more disclosures, more transparency and accountability. If a CEO loses money for his company, he gets paid for his time and doesn't get a bonus - it's as simple as that. What had been happening was that these CEOs were saying, "OK, I have four or five years as a CEO" - and that's their lifespan - "I can make so much money from high-risk decisions," but there's a high reward. So that's how you had all these extremely high-risk takers in these positions who were making hundreds of millions as their companies failed. And because of what? A lack of regulation.

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