

The Dawn of a New World Order

The **rollercoaster ride** taken by the global **stock markets** in recent weeks is enough to **scare the pants off** even the most seasoned investor. Governments stepped in and provided banks with huge **bailout** packages in the hopes of preventing an economic **meltdown** last experienced during what history now calls the Great Depression.

More government regulation of the **securities markets** is needed, we are now told. We've come to find out that the stocks and **bonds** the average investor may purchase are heavily regulated, but different rules apply for exotic securities and the "shadow economy" dominated by big money players.

Derivatives, credit-default swaps, securitized bonds ... we were led to believe that sophisticated investors understood the risks of fancy securities that the rest of us were not allowed to buy. Ends up, they didn't know what they were getting into either.

A **mortgage** sold to a guy in Des Moines, Iowa – who, in retrospect, probably didn't have the credit, let alone the **collateral** needed to get a housing loan – was bundled with mortgages granted to other low-credit home buyers and sold as a bond. The local bank got immediate cash and got the loan off its books. Suddenly an investor in Norway owns a piece of a house in Iowa.

All of this **went swimmingly** until the guy in Des Moines stopped making mortgage payments.

We can all agree that putting our money under a mattress is not the best idea – but perhaps the lesson of October 2008 is just how intertwined we all have become.

One thing is clear: we're all in this together and will have to find a solution together, too.

Glossary

bailout	here: giving financial assistance to a failing business
bond	a certificate of debt (usually interest-bearing or discounted) issued by a government or corporation in order to raise money
collateral	assets that are offered to secure a loan or other credit
credit-default swap	a swap designed to transfer the credit exposure of fixed income products between parties; the risk of default is transferred from the holder of the fixed income security to the seller of the swap
derivative	a financial security whose value is determined in part from the value and characteristics of the underlying security
go swimmingly	go wonderfully
meltdown	a disaster comparable to a nuclear meltdown
mortgage	a legal document specifying a certain amount of money to purchase a home at a certain interest rate, and using the property as collateral
rollercoaster ride	situation characterized by violent changes
scare the pants off	to frighten very much
seasoned	rendered competent through trial and experience
securities market	an exchange where security trading is conducted by professional stockbrokers
securitized bond	a bond whose interest and principal payments is backed by the cash flows from a portfolio or pool of other assets
stock market	the organized trading of stocks, bonds, or other securities, or the place where such trading occurs