

## **INTRO TO THE MARKETS**

### **DILLIE**

Ladies and Gentlemen, one interesting fact you may not know about us, i.e. Fascinating Aida, is what a pivotal role we play in the British educational system. Yes indeed. It may surprise you to know that some of our songs have been used as educational tools in a number of surprising ways. For instance, all patients leaving a British STD clinic are handed a free copy of the Herpes Tango. Primary school children learn to sing Kay Why as part of their sex education lessons, and teenagers using their school toilets are played a recording of Where is your Johnny Now, Johnny. All these titles are available on iTunes, incidentally.

And then, just the other day, I was having a coffee and a chat with an old friend of mine, Ben Bernanke, and we were discussing the finer points of fiscal stimulus, and I asked him why he favoured the classic Keynesian approach over that of the Austrian School.

And he said the Austrian school emphasised the ability of markets to aggregate information and to provide this particular information in incentives and to provide outcomes which a top-down government approach can't provide."

And I said, could you repeat that in English? And I said " Ben, Ben, Ben, no wonder the public are mystified by high finance. It's not just the way you put it, it's the subject matter itself. It's high finance. Banking. The City. Wall Street. The Hang Seng, the FTSE, the Bourse. Options. Leverage. Credit default swaps. The tools of the trade, or should we say the tools of the traders. It's all so damn complicated, people just can't understand it."

So he said, "Well, why don't you...." And I knew what he was going to say! We, Fascinating Aida, could write one of our educational songs which would explain the markets. Of course! We could have saved Lehman Brothers.

**ADÈLE**

It's no laughing matter. The fact is

### **THE MARKETS**

**ADELE**

A general understanding of the markets is essential

**LIZA**

It guarantees that your investments reach their full potential;

**DILLIE**

So if you're sitting comfortably, we hope you will forgive it if

We start at the beginning with what's known as the derivative;

**ALL**

We hope you will forgive it if we start with the derivative;

We hope you will forgive it if we start with the derivative;

We hope you will forgive it if we start with the deriva-tiva-tive;

**DILLIE**

Derivatives are monetary instruments, to put it very neatly;

But unlike stocks and shares the actual value comes from something else completely;

The value of derivatives derive, you see, from value underlying

And are often used to lessen risk for speculators selling and/or buying;

Now value can be notional or market and these values never meet

In addition, only market value gets recorded on the balance sheet;

Oh, and a sell is not a sell, it's called a put, just as a buy is called a call;

And thus anything you call, you'd better put before the prices start to fall.

**ALL**

Oh the markets, the markets, the dollars and the dimes;

How lucky we all are to live in interesting times.

The markets, the markets, it takes a lot of skill

To make your lifetime savings worth precisely nil.

**DILLIE**

*(spoken)* There you have it – clear as crystal. Any questions? No? Right. Moving on to another subject that has been much in the news lately; Adele has made a lifetime study of this – so Adele, would you give us short selling.

### ADELE

Short selling is another term which many people find a bit confusing  
You could say it's a way of losing money without actually losing;  
Say I – let's call me A – acquire some futures at a price that's rather high,  
Then you – we'll call you B – will ask to borrow them without explaining why.  
Thus B acquires A's futures – which he doesn't own – and sells them at a loss;  
The markets panic, prices plunge, but B is calm and doesn't give a toss  
Since B will now repurchase them at half the price – when A will get them back;  
And B then trousers all the profits from the loss and ends up in the black.

### ALL

Oh the markets, the markets are not for the faint-hearted;  
A fool and his investments are very quickly parted.  
The markets, the markets, you've really got to hand it  
To the traders who've designed it so that you won't understand it.

### LIZA

*(spoken)* Very good, Adele. Shall we have a quick Q&A? Was Adele A or was she B? A – good, you were paying attention. And did she make a profit or a loss? Not so clever now! No, she didn't make a profit or a loss, she just got back her original investment which IS worth less today, but might be worth more tomorrow. The profit was made by B, and that's YOU! Do try to keep up...

### ADELE

*(spoken)* Yes, come along people, because we're getting to the easy bit. Liza's going to whisk you through hedge funds, futures and that old chestnut, arbitrage. Liza...

### LIZA

A hedge fund, as its name suggests, will spread the risk to better hedge its bets;  
They will buy distressed securities from companies who struggle with their debts;  
In fundamental growth or sector funds they may well opt for long positions;  
And through many types of arbitrage they'll build up an array of acquisitions.  
Now arbitrage itself, as an effective fiscal tool, has much attraction;  
As in when a hedge fund makes a killing in a clever synchronous transaction;  
Say they see the price of carrot futures lower on the FTSE than the Bourse;  
They buy in London, sell in Paris, make a pile and Froggy comes off worse.

### ALL

Oh the markets, the markets, they lead us to despair;  
What with bankers talking bull and the cupboards nearly bare.  
The markets, the markets; each trader's a magician;  
If his dealings lead to losses, he still gets his commission!

### DILLIE

*(spoken)* Well I think that's probably about as much as this lot can take in. We'll have to cut the new verse on quantitative easing. Seriously though, did you understand any of that? I thought not.

**LIZA**

That's the whole point; it's because they don't want you to understand it!

**ADELE**

And what's increasingly terrifying, is that they themselves don't understand it!

**DILLIE**

Hell, we wrote the song, we don't understand it!

**DILLIE**

So what, I hear you ask, exactly, is the reason for the credit crunch;  
Adele?

**ADELE**

The fault lies with the banks whose senior personnel are, frankly, out  
to lunch; Liza...

**LIZA**

They'd invent new ways to borrow so that we would borrow more to  
keep on spending; Dillie...

**DILLIE**

Then they borrowed from each other to facilitate their unsupported  
lending;

**ALL**

So now the Government will bale them out with money that it simply  
doesn't have;

It's just the same is if they took our bloody taxes and then flushed  
them down the lav;

With the result that we and future generations will be forced to work  
like coolies;

So if you ever meet a banker it's your duty to divest him of his goolies;

**ALL**

Oh the markets, the markets, diseased with debts like cankers;

Which leads us to conclude that the bankers are all wankers.

The markets, the markets, so complex and obscure,

It's cause no-one is accountable we're all in the manure.

The markets, the markets, where the likes of Bernie Madoff

Have created lots of paupers and caused thousands to be laid off;

The markets, the markets, where did it all go wrong?

It began with subprime mortgages but that's another song.