A Texan in King Arthur's Court

Diamonds are said to be a girl's best friend. If that's the case, why can't they impart wisdom? This year, I would like to share a gift I received years ago, one whose value cannot be measured in carats and nestled in robin's egg blue. The gift is a story, one that does however feature that iconic little box and a legendary banker. You will soon agree that the parable is a priceless gift that truly keeps giving.

It will come as no surprise to any who have met him that the giver of the gift was Arthur Cashin, one of the greatest storytellers of all time. Over the past decade, I've had the honor to call him friend. His infinite wisdom and consummate knowledge of the history of the financial markets were hugely helpful in fulfilling my role as advisor to Richard Fisher. Bringing those two gentlemen together several months before Fisher retired was bar none the highlight of my career at the Federal Reserve.

It's impossible to describe Cashin's breadth of knowledge of the most historic moments in modern day stock market history. It's an understatement to say that he has earned his stripes. One year ago, King Arthur, as Fisher and I are apt to call him, celebrated his 50-year anniversary as a member of the New York Stock Exchange. The NYSE commemorated the occasion by having Cashin ring the opening bell; the moment befitted the occasion perfectly.

Readers of Cashin's Comments, a daily missive that delights his followers the world round, would agree that it's hard to pin down the very best story he has told over the years.

Cashin's recollection of the day that **followed** the 1987 crash is among my favorites. Though the Dow initially opened up 200 points, trading quickly turned negative. Adding fuel to the panicked fire, banks were in the process of cutting off lines of credit to the specialists on the floor. What would have followed, if this had taken place, could have been catastrophic.

Few recall that Alan Greenspan was on an airplane headed back to Washington DC at the time. The freshly appointed Federal Reserve chairman had landed in Dallas on Black Monday just in time to learn that the Dow had fallen by 22 percent while he had been in flight. This shocking news prompted Greenspan's cancelling his Dallas engagement and heading back to DC. Unfortunately, for the markets, he was once again in the air as yet another historic sell off ensued.

As Cashin wrote on the 25th anniversary of the crash, news that Greenspan couldn't be reached was of little comfort to NYSE Chairman John Phelan: **"Desperate, Phelan called the President of the New York Fed, Gerry Corrigan. He sensed the danger immediately and began calling the banks to reopen the credit lines. They were reluctant but Corrigan ultimately cajoled them. The credit lines were reopened and the halted stocks were reopened. Best of all, the market started to rally and closed higher on the day."**

The story of the day the NYSE didn't crash harder is a classic. But it doesn't resonate as much as it once did. Since 1987, the stock market has operated in an increasingly contained vacuum thanks in large part to overly-easy monetary policy. That makes the following story, generously gifted to me in its entirety by King Arthur, the most relevant of the day. The two main characters of this timeless tale are Charles Lewis Tiffany and James Pierpont Morgan.

Being the astute jeweler that he was, Mr. Tiffany knew that Mr. Morgan had an acute affinity for diamond stickpins. One day, Tiffany came across a particularly unusual and extraordinarily

beautiful stickpin. As was the custom of the day, he sent a man around to Morgan's office with the stickpin elegantly wrapped in a robin's egg blue gift box with the following note:

"My dear Mr. Morgan. Knowing your exceptional taste in stickpins, I have sent this rare and exquisite piece for your consideration. Due to its rarity, it is priced at $5,000. If you choose to accept it, please send a man to my offices tomorrow with your check for $5,000. If you choose not to accept, you may send your man back with the pin."

The next day, the Morgan man arrived at Tiffany's with the same box in new wrapping and a different envelope. In that envelope was a note which read:

"Dear Mr. Tiffany. The pin is truly magnificent. The price of $5,000 may be a bit rich. I have enclosed a check for $4,000. If you choose to accept, send my man back with the box. If not, send back the check and he will leave the box with you."

Tiffany stared at the check for several minutes. It was indeed a great deal of money. Yet he was sure the pin was worth $5,000. Finally, he said to the man: "You may return the check to Mr. Morgan. My price was firm."

And so, the man took the check and placed the gift-wrapped box on Tiffany's desk. Tiffany sat for a minute thinking of the check he had returned. Then he unwrapped the box to remove the stickpin.

When he opened the box he found – not the stickpin – but rather a check from Morgan for $5,000 and a note with a single sentence – ***"JUST CHECKING THE PRICE."***

Ah, but for the days of old, for bygone times when markets operated as price discovery mechanisms.

Howard Silverblatt, the man behind the Standard & Poor's 500 index, has not been on Wall Street for quite as long as Cashin. Still, as he nears the 40-year mark at S&P, he too has earned the distinction of a true markets veteran.

Silverblatt's recent work on share buybacks has cast a harsh light on one of the unfortunate outgrowths of accommodative Fed policy. This year's third quarter marked the seventh consecutive three-month period in which over 20 percent of the S&P 500 constituents "bought their earnings per share (EPS) via buybacks," in Silverblatt's words.

Drilling down leads to the discovery that one-in-five companies have juiced their EPS by a minimum of four percent over the prior year via buybacks. How does this work? The act of reducing share count by at least four percent by definition boosts earnings PER share by the same amount. Looking ahead using companies' more recent activity as a gauge, this year's last three-month period will mark an eighth consecutive quarter of similar share count reduction.

At $559 billion over the past 12 months, buybacks are up 1.6 percent over 2014. Still, barring an extraordinary fourth quarter, 2015 will not be one for the record books. For now, the 2007 record of $589 billion looks to stand.

Of course, there is hope for short-sighted investors, if hope is what you'd call it. As Silverblatt quips, "The combination of low interest rates, even as Yellen & Co increases rates, and high cash levels continues to give companies the ability to set record shareholder returns."

Or, as Cashin has said of this corporate conduct, “Companies have raised financial engineering to a Botox state.” It won’t surprise you that I couldn’t agree more.

Perhaps we should all make a wish that the gift of price discovery is under the tree this year, symbolically wrapped in that beautiful robin’s egg blue. How lovely it would be to resurrect those wondrous words uttered so long ago by J.P. Morgan: **“Just checking the price.”**

Fittingly, Silverblatt and Wall Street’s most ardent and succinct Fed policy critic, Peter Boockvar, rounded out the merry New York gathering where Fisher and Cashin shared their stories whilst marinating an ice cube or two. This holiday season, I will count among my many blessings the friendship of such wise men, especially that of Wall Street’s very own King among Men.