

Bill  
Gross



# Investment Outlook

P I M C O

September 2000

## Shakespeare vs. J.P. Morgan (Bonds in a New Age Economy)

*"Lending is not based primarily upon money or property.  
No sir. The first thing is character."  
J.P. Morgan*

Being more "intro" than "extra"-verted, I always had a preference in my younger days for historical/biographical mentors, as opposed to the flesh and blood, live and in person kind. Besides, having lived in Newport Beach for all my career, at the geographical edge of the bond management universe for much of that time, the need for literary role models was all the more acute. There were lots of yoga gurus walking the beach, but hardly a bond maven in sight. And so it was that a picture of J. Pierpont Morgan came to grace the wall of my PIMCO office in the early 1980s complete with the quotation mentioned above. Admittedly, this politically incorrect, financial market titan with the bulbous nose and menacing stare may have seemed like an odd choice, but I liked that "character" quote, and so he joined my office wall of fame along with Bernard Baruch and Jesse Livermore, the quotations from whom will have to wait for another day and a future *Outlook*.

Baruch's emphasis on "character" was admittedly a little hard to implement.

It was one thing to envision ol' J. P. sitting at a partner's roll top desk, while scrutinizing the cringing applicant on the other side – but quite another to implement the same quality scrutiny in the late 20<sup>th</sup> century with increasing geographical dispersion and a plethora of deals coming to market on a daily basis. Balance sheets and assets were by far the easier of the two to analyze. Still, I wish I had relied more on character when I made a private placement loan to a rail equipment leasing company called Itel in the mid-1970s. The company's San Francisco office had the thickest carpets and best looking secretaries I had ever seen – surely in retrospect a sign of a profligate as opposed to a penurious corporate character. Within 6 months, the company was bankrupt and their railcar assets fetched only 30-40 cents on the dollar when all was said and done.

Morgan's emphasis on character was called to mind as I read a recent strategy piece from Tim Bond of Barclays Capital. Although the two of us have only met through our mutual Investment