

Chapter 22: The FIB Aftermath Breakfast:

The Hyde Park dinning room breakfast was a sombre affair in keeping with its surroundings, red carpet, dark wallpaper and inadequate lighting – the sombre mood in the room was surprising.

Smackers had no idea what was on the agenda for this early morning meeting away from the office, nor did Michael for that matter, it was a first for the three of them. Their obvious thoughts had to be about what was going on in Rudi's head. They would have both been wrong - his immediate thoughts were on the images of Smackers having his early morning squish with Kerry. Each of them had their thoughts and it was now time to talk.

Rudi was yet to bring Smackers completely up to speed on his views about perceived lack of Management protocols over the Treasury operations. Since joining only two weeks earlier, he was trying his hardest to get up to speed with the pace and purpose of the SBS operation. Turning a career from day trader to a portfolio investor with \$500 million to play with was taking some getting used to.

Rudi would give Smackers as much time as he needed to get up to speed – he had no doubt he would make the transition.

As for Michael, he continued to prove he loved his job and was enjoying his grandstand seat to the best show in town. He was doing everything Rudi asked of him and he was doing it well.

There had only been one hiccup in his initial few months. That came after Michael had only been there a month or so when he was dealing with the cash book. Michael had lent a large lick of cash 'unsecured', when it should have been leant on a secured

basis. The deal worked out well when unwound, but Michael learnt about his lending authority and respect for Inter-Bank/Merchant Bank Limits and never forgot the lesson.

It was a very serious breach of protocols and Michael was put in a pressured position by the dealer on the other end of the phone. When Rudi next spoke with that dealer he got a real blast from Rudi for what he did. That dealer knew what his limit was yet when Michael said he had more cash if he wanted it, he took advantage of Michael's ignorance and lack of experience about Limits. That Dealer was SBS blacklisted for a few months before Rudi would allow him back. Michael also learnt a lesson he would never forget.

The verbal assault Rudi gave him after he became aware of what had happened was the only time Rudi ever lost it with any of his staff, Trainee's, Dealers or settlements staff. Sue stood mouth agape when she heard the tongue lashing and Michael must have felt like a squashed bug.

To his credit, Michael learnt his lesson well and moved on. Rudi gave him immense credit for the character he demonstrated. Michael was a better dealer for the experience. He developed immense respect for the marketplace and the minefield of traps that you had to navigate when out there as a result.

At the early morning breakfast, Michael could read Rudi's mood, he knew all was not well. Rudi opened the meeting over cereals and fruit juices and gave detail about the overnight deals, and what was likely to happen this morning.

He was expecting a strong opening with prices up and yields down. He told them he wanted to collect on his option premiums and wanted to try to hold that in check. There was no real problem with that because he was massively long from the previous day's activity and was to be a futures seller into any strength on the day.

The purpose of this meeting was to fully explain to both Michael and Smackers the broad outline of what his strategy for the futures close out was. He thought they should be made aware of the risk and exposures that were being undertaken and for them to have some understanding about the intended activities and strategies planned.

Sean was not at this meeting – specifically because he was the son of Denis Cleary’s - the SBS’s General Manager and Rudi’s boss. Rudi did not want any of this conversation getting back to Denis at this stage – besides Sean was still very naive about the markets and was struggling to expand his knowledge base about the markets.

Rudi clarified this point to both Smackers and Michael and they both acknowledgment the reasoning. Rudi felt no guilt about this subterfuge. His concern would be that he would be distracted from the task at hand if Denis got some version of what was happening from Sean.

Sean was capable in doing what was asked of him on a day-to-day basis. This was his first real job, and he had a lot of other distractions on his mind. Rudi understood this and cut him slack accordingly – he was no Michael at the same stages of their Traineeships.

If Denis wanted to know what was happening - Rudi would give him full details. But in the six odd months since Rudi joined the SBS – Dennis had never wanted to know anything about the Treasury operation and how they made their profits.

Rudi had planned his strategy well in advance and at this stage it was still just a plan. He would bring all the Management up to speed if and when he decided to push ahead and commit 100% to the play. Until then, this was just normal trading activity undertaken to make money for the Society. The final commitment decision was at least still two weeks away. Rudi still

needed to tick a few more boxes before that decision would or could be taken.

The plan was clearly structured from Rudi's perspective – he could see it as if it were a chess game where initial moves had been taken. Trying to explain that image to both Smackers and Michael in a way that they understood was his immediate dilemma.

He went over the general outline of what he was trying to achieve – yet not fully commit too early. He commented that it was purely a plan at this stage and whether the SBS fully committed to it was still a decision to be made a week or so down the line.

After digesting the plan and the strategy as presented, each at their own knowledge levels, they asked a few questions and Rudi answered. They both understood the macro plan but the micro stuff was still well over their heads. Rudi did not go into great detail about the planned day to day strategies. They also understood the need for confidentiality about the plan.

Rudi moved onto the day ahead and how they were going to deal with the excess's of the previous afternoon. He told them the morning was going to be another ball-buster and this prospect had their attitudes focused on the task at hand.

When they arrived back at the office, the phones were buzzing from everywhere. Sean was doing his best but he was overwhelmed. Sue was in there helping him.

Rudi had advised her where he would be and said they might be a bit late getting back to the office.

Bain Refco was the first call Rudi picked up. Claudio had news, it was 10 minutes to future's open and Rudi's position from the previous afternoon had some alterations to the fill values. Rudi could not be bothered with that right then - he asked Sue to take the call and Claudio passed the phone over to an off-sider as well to give the detail. Rudi wanted to talk to Claudio.

Claudio rang him via an outside line and they had a general discussion about his thoughts and the expected opening.

He sounded OK - his voice was husky, but he sounded clear headed. The Cullen issue was still on the burner and Rudi asked how the 'Bank' was from what Claudio spoke of the night before. The SFE floor phones were taped, and they were both smart enough to realise not to talk directly about liquidity, and Floor Members not being able to meet client ICCH/SFE Clearing House account balance requirements on the floor phones.

Claudio indicated that it was still being worked on and he wanted lunch that day to talk further. Rudi's day was filling up quick. He already had a meeting with Greg Bartlett, the Treasurer of St George Building Society pencilled in for mid-morning. He was already thinking of cancelling.

Smackers was talking to the brokers and traders to get a line on the overnight Fixed Interest trades and activities. Michael continued checking the early cash requirements from forward settlements.

Rudi knew the previous days activities had placed him out of his comfort zone for the moment. His priority was now to maintain his control from the previous close move forward in his quest to pull off his bigger plan. Anything could happen this morning if things did not go his way or as expected.

He had an expectation and felt it was a 80-90% sure thing - he knew what had to be done and had some minor reservations whether the market would respond the way he wanted it to.

He had no real excuses - he got himself into this position in a stupid attempt to impress Quartermaine from FIB. The price to pay for that ego trip would be a money value if it did not work out, and perhaps more. Rudi did not like to lose in a situation like this. He was determined to not make the same ego driven mistake on his now inherited position. The futures open was about to started.