Taking Stock: The Big Board and the writing on the wall

by Malcolm_Berko

Dear Mr. Berko: I sold my shares of the New York Stock Exchange in February at $100.50 on you recommendation. Now the stock is $73. Do you think this is a buying opportunity because its almost 30 points lower? If not, please explain why. I know you don't like Robert Nardelli who has recently been appointed CEO of Chrysler. How do you think he will do at that auto company? He doesn't know anything about building cars so how can they put him in that position and expect him to turn the company around? Do you think the stock will be a good investment with Nardelli as CEO?

H.T.

Mount Clemens, Mich.

Dear H.T.: The New York Stock Exchange (NYX-$75) is run mostly by a "ship of fools," few of whom have ever had positions in a "for-profit-business" or understand bottom-line responsibility. The next few years will be difficult and defining years for the NYX as global stock markets continue to roil and expand. Liquidity is shifting to the electronic exchanges, making it difficult for the Big Board to maintain its share of the equity market.

Continuing integration of the Euronet and Archipelago mergers is creating confusion and turmoil among the null and boggy management at the Big Board. Large brokerages - Goldman Sachs, Merrill Lynch, CityCorp, etc. - are creating their own exchanges, truncating the Big Board's market share and forcing the exchange to lower fees. Other member firms are seriously questioning the high costs and benefits of their NYSE association.

With costs that are unrealistically high, plus serious losses of market share, the NYX is under enormous pressure to justify its functions. John Thain, the impuissant CEO, according to some observers can't figure out whether to turn right or left, and his feckless leadership is causing concern on Wall Street.

Now there's rumor that Thain's management could encourage some insiders to seek his resignation and replacement, especially after Thain's embarrassing and costly failure to establish a corporate bond trading post on the NYSE floor. Perhaps that's why Morningstar recently lowered its fair value estimate of NYX by 35 percent.

I'd short the stock in a Michigan minute. The terribly inarticulate Thain is seen as a weak leader, lacking the skills to bring the NYSE into the 21st century. Sadly, his current puerile management team basically mirrors Thain's abilities. But hear this: The big boys on the Street might agree because Goldman Sachs, JP Morgan and Bank of America Securities recently issued rarified "sell" ratings on NYX. Some believe Thain's wimpy confidence and halting competence make the stock worth about $59 a share.

My mama always said you gotta know somebody first before you can dislike him. Well, I don't dislike Robert Nardelli; I don't know him. But if I did know him, I'd probably dislike him! Rather I don't like the manner in which he treats people and runs a company.

I think that "Nasty" Nardelli will do a yeoman's job for Cerberus Management, the private equity firm that owns Chrysler. Nardelli wasn't Cerberus's first choice to run Chrysler. But recognizing that they could be stuck with Chrysler for much longer than anticipated, the "pinstripes" at Cerberus chose "Nasty" because they think his slash-and-burn style will provide more immediate results.

Nardelli was CEO at Home Depot between 2000-06. During the building boom he doubled revenues and store count but the stock price stalled, primarily because his offensive leadership style created broad dissension among HD's loyal troops. That was off-putting to institutional investors. Perhaps that's what Chrysler needs, a hard charging, coldblooded, insensitive son of a biscuit who won't mollycoddle the unions and piffle with the work force.

I know Nardellis is not an "auto man" and his previous stint was at General Electric, where his offensive style prevented his appointment as CEO when Jack Welch resigned. But I think Nardelli's mean, hands-on, nuts-and-bolts decisions might be what Chrysler needs to crank a profit.

Frankly, I blame the big shots at GM, Ford and Chrysler for the demise of the auto industry. During the glory years of the 1960s and '70s, the Big Three couldn't lose money if they burned it, and burn it they did. Their executives were in such high cotton that they literally and figuratively gave the unions carte blanche to make work rules and run the company. When the going got rough, the Big Three couldn't regain control of their companies from the unions.

Nardelli might not know a camshaft from a crankshaft, but he certainly knows how, when and where to make the right decisions so Chrysler's balance sheet and income statement run soundly. That's just what Chrysler needs. So when Chrysler begins to earn a profit, Nasty will resign and Cerberus can take it public with gusto.

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