Financial markets will always evolve to seize new opportunities for profitable transactions. However, the creation of new tactics and strategies often races well ahead of the ability of investors, and even regulators, to comprehend and address all the risks and weaknesses incorporated therein. Smaller investors must rely on the skills and experience of diligent investment professionals if they are to avoid disaster.

For many of us, that attentive diligence failed in 2008 on multiple fronts. While we all understood and accepted the constant possibility of losses in the purchase and sale of stocks and bonds, securities lending had been an area long considered to be fully immunized against losses. Custodial banks, after all, were major players throughout the marketplace and could be expected to perform the job of collecting and maintaining the correct amount and quality of loan collateral as a normal part of business. Yet something went badly wrong.

We are left now to consider whether the losses resulted simply from

- a cascade of unforeseeable events;
- all parties getting too comfortable with this 'bulletproof' method of enhancing returns and relaxing their controls, or
- some decisions executed by lending agents in the belief that regulators could not penetrate the thicket of trading activities and investment relationships which might allow insiders to profit while others suffer sudden unexpected losses.

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