

# Excerpts from “Comments on the Current Financial Crisis”

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*The views expressed are my own and do not necessarily reflect official positions of the Federal Reserve System.*

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Enough of this dismal stuff.

I want to now put on my hat as a former investor and address the purpose of this conference: identifying investment strategies and opportunities.

I opened with reference to Queen Elizabeth's "annus horribilis." To be sure, 2008 might not have been the only "annus horribilis" we will have. It might well be extended to a biennium as we work to untie the Gordian knot of the economic mess in which we find ourselves. However glum you may feel, I remind you that the queen's reference was a play on words from a poem written in the year 1667 by John Dryden, titled "Annus Mirabilis"—the "Year of Miracles"—about the period of 1665 to 1666.

Get this: The "Year of Miracles" that Dryden wrote about began with the Great Plague of London—a pandemic of something akin to bubonic plague—and ended with the Great Fire that burned London for five days.

So why did Dryden call it the "Year of Miracles?" Because from the wreckage, London rebuilt itself and arose from the ashes with wide streets, modern sewers and buildings commissioned by Charles II and designed by the great architect Christopher Wren that were so solidly constructed they last to this day. Our task is to turn the current "annus horribilis" into an opportunity, just as the Brits did 350 years ago—to emerge from the current economic wreckage stronger and better and more resilient than ever. If England could do it in the 17th century, we Americans, who face a far lesser challenge and have never, ever flinched from staring down and overcoming adversity, can certainly do it now. Turning something "horribilis" into a thing that is "mirabilis" is the American thing to do.

Viewed from this perspective, the current economic and financial predicament represents a potential gold mine rather than a mine field. Historically, great investors have made their money by climbing a wall of worry rather than letting a woeful consensus cow them.

Here is a take-home quote from Charles Mackay's classic tome *Extraordinary Popular Delusions and the Madness of Crowds*, written in 1841: "Men think in herds ... and they go mad in herds." Just as the astute investor should have resisted joining the thundering herd's mad euphoria, I suggest you resist joining in the current stampede of despair.

Be ever mindful of the power of economic Darwinism, of what the great economist Joseph Schumpeter called "creative destruction."

While today's economic equivalent of brontosaurus die a slow death or are eventually dismantled by regulators, new, more adaptable replacements will emerge. Your job as investors is to identify the new, rather than mourn the old, to ferret out from the general market malaise good financial and business operators whose franchises and prospects are overdiscounted at current prices.

Were I you—were I in my old business of being a market operator and investor—I would be licking my chops at the opportunities that always abound in times of adversity, while those who got too big or too dysfunctional lick their wounds.

In the parlance of the trade, there are a lot of dollar bills that can be found in the debris of the current markets that can be picked up for nickels and dimes.

Go out and pick 'em up.

Thank you.