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## Citigroup Tries to Buy Itself Out of a Mess

Posted by David Gaffen

**Citigroup continues to believe it can solve its woes by buying up businesses owned by former Morgan Stanley alumni.** The latest is Carlton Hill Global Capital, a hedge fund specializing in credit derivatives, run by James O'Brien and Jonathan Dorfman, both late of Morgan's fixed-income unit.

"The Carlton Hill team brings us extensive credit markets expertise that will significantly enhance our capabilities in developing and offering credit-based products for CAI's customers," said John Havens, head of Citi's alternative investments group.

Or, perhaps, they're being added in to help Citigroup **unscrew itself from the current quagmire it finds itself in**, with its ongoing CDO exposure and need to set up "The Entity" in order to extricate itself from the mess. It comes at a time when these obligations continue to be downgraded — yesterday, **ten classes of notes issued by Carina CDO worth nearly \$1.5 billion were downgraded by Moody's from AAA to Baa3**, and it was left on notice for further downgrades.

**"When you have bonds going from AAA to Baa3 in one fell swoop, does anybody know what anything's worth?"** asks Bennet Sedacca, president of Atlantic Advisors.

With more write-downs expected, clearly, the answer is no. The Citigroup acquisition is one of the first for major Wall Street firms since the credit crisis imploded as Wall Street firms do what they usually do during evolving market cycles — **buy or set up entities to take advantage of the dislocations that cost them dough in the first place.** Two days ago **Lehman Brothers** announced a new \$3 billion fund that will buy leveraged buyout loans at a discount from lenders, after it, too, lost a hefty amount of money on credit-market exposure. (Lehman's losses were nowhere near as bad as **Merrill Lynch** and Citigroup, it should be noted).

Here's a question: since the new Citigroup guys specialize in credit derivatives, **will they buy some of the paper from "The Entity" that's being put together by Citigroup, in effect allowing Citi to buy and sell to itself using a middle man created by itself?** Just wondering.

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