

Thursday, February 28, 2008

### The Grand Swindle

LTCM, Bre-x, Enron, Subprime, oh my, will we wake up before the Visa IPO scam plays out?

Last week while I watched *Orwell Rolls in His Grave* and *Enron: The Smartest Guys in the Room* I began to experience the feeling that I was hearing the same story again, only describing a different setting and different characters. There was a great line by an obscure singer named Tony Carey which sums it up: "Nothing changes but the names, one more ace shot down in flames, in Tinseltown".

It seems to be happening on both macro and micro scales at all levels of our society: whether it's billion dollar hedge-funds imploding because they can't mark their bullshit derivatives to market, or some Hollywood glam-addicted celeb whose exterior life is coveted by the masses publicly unravels or dies with a whimper and a thud; the consistent theme of today's Zeitgeist is *The Flameout*. It's been happening for years, their intensity is quickening while their ramifications expand and compound and yet, we rarely learn a damn thing from any of them.

Concurrent with this, the Grand Lies abound and Grand Swindles are routinely run against a gullible public that seemingly wants to be taken to the cleaners over and over again. It still baffles me to this day that so many politicians, beaurocrats and pundits have been caught out in so many deceptions and blunders and we still listen to them and assign them a modicum of credibility: Bear Stearns issuing an "upgrade" on a financial sector in full-on meltdown mode, a panel of economists stating that the US will avert a recession that it's already knee deep in, "keeping all options on the table" with respect to Iran despite being completely, utterly and inexcusably wrong about "WMD in Iraq"; whether it's all lies or just plain stupidity it doesn't matter: we can't seem to get enough of it and continue to eat it up.

It begs the question, where do we get all these guys? And why act on their prognostications, or at least sign-off on the misadventures they steer us into? Looking at their track records, it would make more sense to hang every expert authority on a meathook every time one opened his mouth. Instead we take them very seriously. It always ends badly.

The correspondences in the patterns continue to permeate our culture:

In "*Orwell Rolls in His Grave*", Robert W. McChesney tells us that reporters and news media take the bulk of their stories from official sources.

In *The Sleuth Investor*, Avner Mandelman tells us that most Wall (and Bay) Street analysts simply formulate opinions based on data supplied by the companies and investment banks. In many cases, they work for the same investment banks which underwrite deals of the companies they are covering. Surprise surprise: Buy recos abound.

Whether it's Enron, LTCM, even Bre-X and now the Subprime sludge, it astounds me how Wall St./Bay St. and the banks are either willing accomplices to sociopathic criminality or frictionless conduits of incompetence.

In the aftermath of the Enron debacle, Andrew Fastow received 10 years and had that reduced to 6 years in a country club for co-operating. The most pathetic moment of the "*Enron: Smartest guys in the room*" documentary depicted Ken Lay giving a speech in which professed to be the biggest victim of the entire scam. Complaining to his audience that he had seen his net worth dwindle from over 200 million to "around 20 million, with only about a million in liquidity". While nobody likes to see 90% of their net worth evaporate, I consider the fate of the lower echelon Enron worker who had his entire life savings of \$375,000 in Enron stock in his 401K more tragic. He managed to sell it for \$12,000 after the trading halt was lifted. The latter was but an example of thousands of loyal employees who, lack of investing acumen aside, lost everything for the sole crime of believing in the company they worked for.

Ken Lay never made it to prison but I had side bets out that Bush was going to pardon him on his last day in office anyway. Maybe Jeff Skilling still will be. Watch that pardon list in January 09 - I'm sure it'll contain a few outrages.

So where do all these sociopaths come from? And why do we as a society allow them to be coddled and cuddled when everything falls apart?

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Had Enron happened in China the three amigos of Skilling, Fastow and Lay would have been marched blindfolded into a windowless cell and been unceremoniously shot behind the ear with a revolver. Good riddance. Leniency for white collar criminals there isn't a prison term served in a country club - it's death by lethal injection instead of a bullet in the brain.

In the west we live in an entitlement saturated utopia, where political correctness is so extreme the criminals have more rights than the citizenry, and the white collar crooks are practically celebrated.

We have only ourselves to blame for collectively believing The Great Lie. That Grand Swindle that says Debt is Wealth, Pro Forma accounting is more important than positive net earnings, cashflow can be magically materialized out of our credit cards or home equity, teaser rates last forever, stocks always go up, savings are unfashionable, short-selling is unpatriotic, we think/they work, we have a strong dollar policy and the children are all above average.

As long as the above nonsense passes for conventional wisdom, Joe Public (a.k.a the "lumpeninvestor") will always be run off the edge of a cliff like a pack of lemmings while the insiders to this rigged game line their pockets.

That the game is rigged poses a deeper problem than the criminals running it getting rich while destroying lives en masse: because of the Grand Swindle, what passes for capitalism - isn't and free markets - aren't. We are constantly told that this all encompassing fraud is the free enterprise system and that's what will be blamed in the trough of the coming "Redepression".

The deception has been going on so long, and the imbalances and economic crises it is precipitating now will be so far reaching and bleak the words "capitalism" and "free trade" will be unusable after it all washes out.

As alluded earlier, what finally galvanized this post was my reaction to the news that Visa is to go public with the largest IPO in history. I had posited awhile ago that the wave of Private Equity IPOs like Blackstone and Carlyle Group seemed like a distribution operation for insiders more than anything else. Basically an attempt to create a market for otherwise unmovable debt paper. If you listen to Prem Watsa at Fairfax financial, that the subprime mess isn't over, and that it will be followed by meltdowns in the (pay attention to this one) credit card industry followed by auto lenders, the timing of the VISA IPO seems suspect.

Could the Visa IPO be one final mammoth swindle for the insiders to cash out their chips while the toxic waste gets sold to the general public just in time for the consumer debt bubble to implode? Who better to leave holding the bag? Why not the general public, by now they should be used to it.

Posted by Mark Jeftovic in Venture Capital at 22:17