ODOM'S RAZOR

Anatomy of the Stock Market Con

All past "bubbles" were cons. The only difference between the con executed in the movie "The Sting" and the current stock market con is the size, scope, cast of characters, and additional ingredients necessary to pull off history's largest con. In the movie one "mark" was targeted. The stock market's big con targeted half of all adult Americans as "marks."

For many years greedy and self-serving CEOs feathered their nests at shareholders' expense. Salaries, bonuses, and stock options swelled. Accounting manipulations and small cons increased. However, the big opportunity came in September 1998 when failing Long-Term Capital Management (LTCM) "threatened global capital markets," Alan Greenspan had the choice of doing nothing and allowing LTCM to fail, then let come what may. Rather, Greenspan bailed out LTCM and provided additional monetary liquidity on a scale previously unknown. Worse, he continued pouring money into the U.S. banking system. Greenspan provided excess monetary liquidity, the prime ingredient for the con. No excessive liquidity, no big con.

The next element needed for the con: weak members of boards of directors that can be easily co-opted (bribed). In every instance of corporate corruption and crooked corporate failure, outside directors were spineless, bribed, and willing participants of the con. Without such board members the con would fail.

Greenspan provided the excess money, and weak, larcenous board members provided the cover. The catalyst of the con is a crooked chief executive officer, or de facto CEO.

One of the first and easiest CEO actions is to have the corporation hire outside compensation consultants to recommend that his salary, bonus, stock options, and pension benefits be increased. Page after page of CEO pay comparisons are submitted, reviewed, and their recommendations for CEO increases rubberstamped by the board. The con moves forward.

America loves celebrities and big spenders. They must be brilliant or they would not be celebrities, so goes the logic. The CEO hires, at corporate expense, a public relations firm to make him a celebrity. It is successful, and the CEO ripens into a celebrity. The public now hangs on the CEO's every statement. He becomes a lion of society and a philanthropist, usually with company funds, endearing himself to all, particularly TV, the press, Wall Street, and potential marks.

A weak board of directors, that works hard at impressing others, is the most susceptible to being impressed. The crooked CEO celebrity now has his way with the board of directors. Demands for more salary, bonuses, stock options, corporate purchases of estates, yachts, penthouses, magnificent retirement benefits, and unlimited personal corporate loans for the CEO are approved quickly by the now bribed, cowed, and acquiescent board. What board member will question a national celebrity? Rather, the board sucks up to the CEO, eagerly awaiting his every pronouncement and figuratively kissing his behind in board meetings.

The next leaven in the big con requires bribing the financial arm of the corporation, the chief financial officer and his minions. Increased salaries, bonuses, corporate stock options, and even secret

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Anatomy of the Stock Market Con *Continued...*

off-book financial rewards make this simple. "Everyone else is doing it, why not us?" goes the litany. Overjoyed with such munificent and undeserved riches, they gleefully fall in line.

In a very short time everyone is aboard. The con comes into existence. How much to "milk the con" is the only remaining question. Since appeasement has no limit, CEO hubris dictates how much. And hubris itself has no limit.

Highly restrictive 401K plans stoked the con with new money. Their participants were among the marks. Unlike a self-directed IRA, the government made sure that individuals could not convert their 401K assets to Treasury Bills in 24 hours, nor could a 401K participant hold U.S. gold coins in the plan. Additional rules limited investment changes. President Bush now touts a doubling of individual contributions to 401K plans. A familiar ring? This is crap table patter for losers, "double up and catch up."

Alan Greenspan's excessive liquidity provided a money pie so large that a feeding frenzy by the clever and the crooked could not devour it all. The con's periphery of con artists included touts, investment bankers, brokerage firms, stock analysts, financial advisors, merger and acquisition specialists, lawyers, banks, and outside accounting firms. After the con was exposed, a mark could believe these particular participants were high-priced whores, wanting to get under the celebrity CEO, but no individual prostitutes in history received hundreds of millions of dollars for their services. Perhaps a more perfect mirror is a horde of Benedict Arnolds. However, betrayal in a con is nonexistent. Con artists play their roles as do marks. Should one wonder about the lack of nationwide marches, protests, and anger against politicians? Remember the role of a mark. Once he knows he has been had, most marks find it embarrassing to make public their foolishness.

I saw this coming when I wrote about corporate corruption in *America's Man on Horseback: A Fable?* (published Spring 1998), suggesting to a future strong-man president in 2013 how to deal with corrupt CEOs, their shameless staffs, and their boards of directors. Send them all to native prisons in either Africa or Siberia. Just imagine Ken Lay, Jeff Skilling, Andrew Fastow, and Enron's board of directors, including Wendy Gramm (pp. 156-7), pulling hard time in Brazzaville, Kigali, Kinshasa, Kisangani, or Mogadishu, as I described in Chapter 7, "Ending Crime, Riots, and Lawlessness."

Summary: Weak reforms by a weak Congress will fail. Corporate corruption will continue. No CEOs, their minions, or members of their boards of directors will serve time in an overseas prison. Alan Greenspan started it, is still "the most powerful man in America," and was even knighted (honorary) by Queen Elizabeth.

Thank you R.M.C. for your excellent verbal question, "How did they do it?"

Guy Odom
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