

# FRAUD FILES

## MARCH 2010

### Quick Reminder

Luis Fernandez of *Fernandez Financial* in Folsom, California has been indicted by a grand jury on charges of money laundering and wire fraud. Fernandez collected money from investors by promising a 3% monthly return on their money. Fernandez told investors that his clients were profitable in both good markets and bad and that he was consistently generating a 3% monthly return on investment. Fernandez used fake documentation to aide in duping investors. I see anywhere between fifty and one hundred cases like this a month, from all corners of the country. It seems like every third commercial on talk radio now-a-days is for some magical investment guru that can... ***“Show guaranteed stock-market linked results, no-downside investments, or when the market crashed my clients lost no money.”*** I would like to offer a friendly reminder... **The world’s second oldest profession is get rich quick con-artists.**

### Seize the House

One would assume that a good way to avoid foreclosure would be to pay for ones house in full. When it comes to big banks, do yourself a favor and assume nothing.

Charlie and Maria Cardoso of New Bedford, Massachusetts, paid \$139,000 in cash for a retirement home in Florida in 2005. They were foreclosed on, by Bank of America/Merrill Lynch. In a lawsuit filed in federal court, the couple said the bank changed the locks, took away the family photos, power tools and other possessions, scared their tenant into moving out and disconnected the utilities. Even Bank of America’s real-estate agent knew the bank had the wrong house and the bank still moved forward.

In Galveston, Texas, Dr. Alan Schroit and his wife arrived at their vacation home to prepare for a party, only to find the locks changed and a bank notice on the door. When they finally managed to get in, they were greeted by the “overpowering putrid smell of rotten fish,” from 75 pounds of salmon and halibut that had been in the freezer. Bank of America/Merrill Lynch admitted that they seized the wrong house, but in keeping with their grand tradition of screwing the public, refused to pay for the cleanup.

### Buy Our Bonds Please

This does not qualify as fraud, but it most certainly is a bit shady.

California recently was forced to pull a \$2 billion bond issue. They stated that it was due to some non-material problems, but the reality was that there really was not much institutional demand for California debt.

**Zero Hedge** made us aware that California in now advertising its debt directly to retail investors. Their pitch however is stuff that a boiler room penny stock operator would use. They are telling investors that they are getting a great deal by “getting in on the ground floor with institutions, and even front running major institutional investors. (The reality is major institutions are avoiding these bonds like the plague.) Tip for investors: There is pretty good reason, that doesn’t take a genius to figure out, why institutional investors are avoiding California debt.

### **Master of the Obvious Award Recipient**

The latest recipient of our Master of the Obvious Award goes out to Steve Eder of Reuters. He writes, ***“U.S. Banks that spent more money on lobbying were more likely to get government bailout money.”***

Congratulations Steve! Keep up the good work.

### **Wall Street and Crack Dealers**

From the *New York Times*...

***In late October 2007, as the financial markets were starting to come unglued, a Goldman Sachs trader, Jonathan M. Egol, received very good news. At 37, he was named a managing director at the firm. Mr. Egol, a Princeton graduate, had risen to prominence inside the bank by creating mortgage-related securities, named Abacus, that were at first intended to protect Goldman from investment losses if the housing market collapsed. As the market soured, Goldman created even more of these securities, enabling it to pocket huge profits. Goldman’s own clients who bought them, however, were less fortunate.***

Pension funds, municipalities, insurance companies and retail investors who were sold a product that they believed was solid, lost their proverbial shirts. The ratings on the toxic mortgage backed securities that firms peddled were rated investment grade according to Moody’s and S&P, but those ratings were ultimately useless because they were bought by the very firms that created them. The ratings agencies acted almost like a public relations firm putting a positive spin on every nefarious creation coming out of Wall Street. Goldman Sachs, by no means whatsoever, was the only firm that sold these securities and then made financial bets against them; Deutsche Bank and Morgan Stanley were deeply involved as well.

When Lloyd Blankfein, the CEO of Goldman Sachs was grilled in front of Congress in regards to Goldman’s involvement in the run-up to the crisis, he stated very clearly, and without any remorse, that neither Goldman Sachs nor any other firm was responsible for the poor investment choices of their clients. He stated very clearly that, investors who bought the securities wanted that exposure and Goldman was simply satisfying their appetite.

Blankfein is right. Goldman did nothing illegal. They and the other Wall Street firms are not fiduciaries. They exist to make money for themselves. They will sell to the public, what the public wants. If the public wants dot.com stocks with no earnings and future prospects, ***they will provide***. If they want mortgage securities filled with subprime mortgages sold to people who have no chance in paying them back; ***here you go***. This makes these firms very similar to drug dealers.

Drug dealers provide to the public what the public wants. If there was no demand for illicit drugs there would be no drug dealers. The major differences between drug dealers and the major firms is what the investment firms do is legal and they can buy insurance and profit on the eventual demise of their clients.

Drug dealers know that the drugs they sell will eventually lead to serious problems from their clients. Whether it be health problems, financial problems or even death. Bad things are inevitable. Now imagine if the drug dealers could go out and purchase insurance contracts or a derivative. We will call it a ***Junkie Addiction Swap***. This security would allow them to profit when their client’s lives spiral out of control.

***Sound ridiculous?***

Not really... Wall Street has managed to create such a contract that allows them to profit when it's products eventually blow-up in their clients portfolios, it is called a Credit Default Swap.

So what is the moral of this story?

I have been in this business for over fifteen years now. What I learned the hard way in my Wall Street infancy is that these big firms are not to be trusted. They have proven themselves to be completely unworthy of our patronage, yet people keep coming back to the poisoned well. Whether it be the **dot.com fiasco, pump and dumps, commodity manipulation or the housing blow-up**; people have yet to learn. There is an enormous amount of static out of Washington D.C. in regards to reforming Wall Street. ***Where have we heard this before? Remember Sarbanes/Oxley, that cure-all after Enron? Do you recall the Sheriff of Wall Street, Eliot Spitzer whose global settlement was to end all Wall Street abuses; which we correctly called a fraud, a parking ticket that was used to get Mr. Spitzer the governorship of New York?***

Wall Street needs to be broken up. We warned that all this nonsense would happen a decade ago when they repealed Glass/Steagall. Allowing Wall Street to consolidate all aspects of financial services under one roof was insane. Wall Street is protected by Washington. Wall Street funds Washington. Washington will not kill the goose that is laying the golden eggs. We the people, still hold the awesome power of our wallets. We ultimately decide with whom we are going to do business. If we decide to move our money, take our business elsewhere, Wall Street will be forced to change its ways. That is the only way we will see any real reform. The ball is in our court.

Source Material:

Eder Steve [Banks With Political Ties Got Bailouts](#) *Reuters* 12/21/09

Mears Teresa [Banks Take the Wrong House](#) *MSN Money* 2/12/10

Durden Tyler [Bill Lockyer Goes Direct To Retail Investors With The Terrific Opportunity To Front Run Institutional Investors In Cali Bonds](#) *Zero Hedge* 3/7/10

[Banks Bundled Bad Debt, Bet Against It and Won](#) *The New York Times* 12/24/09