Where Were Drama Pundits [Whitney, Taleb and Gasparino] When It Mattered?

***TSF* (Opinion) Roundup Commentary – July 29, 2009**

By Janet Tavakoli

Hundreds of people from clergymen to lawyers have claimed decorations for bravery that they never earned. Why should finance be any different?

Meredith Whitney's Unreported Death Threats (See also: "Reporting v. PR")

In the early part of 2007, Meredith Whitney appeared on *Cavuto on Business* with Jim Rogers and opposed his viewpoint. She rated Citigroup "sector perform." Rogers was *short*. By the end of October 2007, three other prominent analysts already had a sell on Citi; Whitney followed by rating it sector underperform and said Citigroup could trade in the low '30's and would have to cut its dividend. The dividend cut was a good call. Rogers made it months earlier when he shorted the stock. It was too late to give an early warning about Citigroup's toxic assets. Securitization had already ground to a halt, and everyone was taking losses. Citi hit $5 in January 2009, just as Rogers said it would.

According to *Reuters*, Whitney said she got "several death threats" as a result of her Citi call. The rumored death threats were widely reported. But who told the press about death threats? Security consultants advise the target of death threats not to discuss it, particularly not with the press. The threats were downgraded faster than Whitney downgraded Citigroup—a *Fortune* interview said she received "one death threat." Whitney rated Bear Stearns *perform* and downgraded it to *underperform* on March 14, 2008 as it tumbled 53% in one day. Clues to Bear Stearns' problems were publicly reported in May 2007 when the Everquest IPO became news, and CDOs from BSAM's hedge funds landed on Bear Stearns's balance sheet. Reportedly, Whitney hesitated Bear's fateful week of March 2008 due to her perceived pressure over her Citi dividend call, but pressure or not, she was already too late.

Jim Rogers also warned about Lehman when Bear Stearns imploded in mid-March 2008, but Whitney continued to rate Lehman outperform. Whitney downgraded Lehman to "perform" at the end of March 2008—so much for taking a hint or issuing an early warning. Lehman went under September 2009.

I first took an interest when Whitney was billed as the woman who gave early warning about AIG, because she did not as far as I know. In August 2007, I challenged AIG's earnings—specifically its failure to take losses on credit derivatives protecting "super senior" structures, the type of products on which we eventually paid out TARP money.

When asked by an economist to comment on my analysis of her calls that missed some death threats, Whitney retorted: "She is just jealous." Not true. My feeling is akin to that which I have for Rosie Ruiz, who appeared to run a marathon in record time, but had merely jumped in at the end of the race—it's a different feeling entirely.

Nassim Nicholas Taleb's Backfiring Blunderbuss (See "Taleb Kills $20 Billion and "Stranded Swan") According to *The Guardian*: "to establish his credentials as the sage of our current predicament, Taleb frequently refers to an August 2003 article in *The New York Times* in which he correctly predicted [Fannie Mae] had underestimated the risk of [a big move] in interest rates that would destroy the value of their portfolio." By the time Taleb spoke up in August of 2003, many others had already raised issues not only about the models, but also about the GSEs' massive exposure to a handful of counterparties (*Wall Street Journal* and *The Street.com*), a risk Taleb missed. The *New York Times* article also asserted that Fannie Mae's business plan seemed safe, "since people typically do not default on their mortgages," so it would not establish *anyone*'s credential's as the sage of our current predicament.

Malfeasance, not models, disrupted the global economy, and Taleb still gets that part wrong. Black Barts imitating the gentleman highway robber—not black swans—caused most of the damage.

Taleb's Empirica Kurtosis "black swan" fund had negative returns in 2001, the year of the 9/11 black swan event. Taleb later claimed he only called it a hedge fund "in May-Oct 2001." Perhaps he meant something else, because Empirica Kurtosis wound up at the beginning of 2005 with lackluster returns , and performance specifics are not public, but it may have been a stranded swan.

In the spring of 2009, Taleb prominently posted a *GQ* article on his web site that (inaccurately) attributed $20 billion in gains to a strategy employed by a new fund that Taleb advises. I had contacted Taleb about the obvious (to me) error and written that the mistake was not Taleb's. But silence may be interpreted as endorsement whatever the source of the original error. The error suggested his strategy had proven to be scalable (would apply to large investments), while the fund was attracting new investors. But there is actually no empirical evidence.

Taleb asserted the article was about philosophy, and one should ignore the numbers. *The Times* (among others) didn't seem to see it that way. *The Times's* original reference to *GQ's* article focused on the erroneous $20 billion in trading gains *months* before Taleb made his correction in the face of media pressure. As for Taleb's eventual explanation that the "$20 billion" referred to a "notional" amount of derivatives that produced between $250 to $500 million in gains, it raises further strategy questions.

Taleb has appeared in public with Arianna Huffington who has credited him with courage, yet he plays the victim and resorts to unwarranted name calling when asked legitimate questions. He has said Myron Scholes belongs in a retirement home and called Nobel Prize winners charlatans. Viciousness isn't the same as courage. It takes courage to be transparent not just when results look fabulous (temporarily or otherwise), but when they don't make you look as favorable.

Gasparino's Shadow Boxing (See also: Gasparino's Glass Jaw Is CNBC's Draw)
I did not give enough credit to some of CNBC's on air reporters when I wrote it should be viewed solely for entertainment. CNBC's Diana Olick did brilliant (and early) reporting during the onset of the housing crisis—the best on any news channel at the time. CNBC's David Faber provided context to the global financial meltdown and our nagging debt hangover. They aren't alone in good reporting at CNBC.

But Charlie Gasparino's reportage was more entertainment than substance in my opinion. I'm told Gasparino said he normally doesn't respond to "people who do not matter on Wall Street" (people like me who have appeared with him on CNBC) and called me a "publicity hound." He said it to *Dealbreaker*, a Wall Street Tabloid, because it was looking for something to publicize.

Gasparino also bashed bloggers, including *Crossing Wall Street's* Eddy Elfenbein (his real name) and Tyler Durden at *ZeroHedge*. (I would explain the pseudonym "Tyler Durden," but 1st Rule: You do not talk about [IT], and 2nd Rule: You DO NOT talk about [IT].) Why should anyone, including people who matter: Nobody But Me, Nobody But You, or Nobody But CNBC, take his posturing seriously? Gasparino's blogger bashing got further publicity, but not for opinions that matter.

Serious Issues For Serious People
This roundup is the last of my commentaries on pundits who may—inadvertently or otherwise—be associated with claims that their opinions carry more weight than others. All opinions, no matter what the source, should be backed up with facts. That goes double for hype. Legitimate questions deserve answers. Backlash unaccompanied by a fact-based argument is pointless. Many people are deterred from raising legitimate issues, because those who want "the worship of jackals by jackasses," as H.L. Menken put it, tend to lash out. That isn't the only reason people lash out, of course. Some people simply have very thin skins. If so, perhaps they shouldn't make provocative public comments.

We have tough issues to confront, and all of us should be prepared to deal with tough questions and have their representations, conceptions, misconceptions, and theories scrutinized. No pain, no gain. In my experience, people with the most substance are also the most pleasant when asked questions that most people find awkward. They realize that raising issues is often awkward for both the questioner and the person responding. Serious people are prepared to engage in serious discourse.

Looking back on true early warnings and how they were dismissed and discredited helps us understand the issues now threatening the global economy and the failings in our system. It is important to identify who provided thoughtful analysis when it mattered most, instead of those that simply said they did.

Janet Tavakoli's book on the causes of the global financial meltdown is ***Dear Mr. Buffett: What An Investor Learns 1,269 Miles From Wall Street*** (Wiley, 2009).

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