

AVOID THE MINEFIELD

MARCH 2008

Guaranteed stock trading strategies! Trade like the Pros! Proven trading strategies! Want to look over the shoulder of a seasoned stock trader?

These are just some of the tag lines used by unscrupulous radio show hosts, infomercials, software companies, and brokerage firms to sell you the dream. That dream, a newly discovered magic formula, that coveted holy grail of investing, the ability to get rich quick. Buy their software and become rich; attend their seminar and learn from the best; listen to their radio or television show and get their insider tips. The entire premise of their sales pitch is timeless and effective; the fable of getting rich quick. It is my personal contentions that “get *rich quick schemes*” are the world’s second oldest profession. (If you don’t know what the oldest is, contact Eliot Spitzer’s office).

Discount Brokerage Commercials

In the 90’s we had the crazy Stuart from the Ameritrade commercials who was going to “*take the market and shake it up*” after photocopying his posterior. We had the DLJ advertisements with the kid who was grounded from using his helicopter, and of course, Discover Brokerage’s good-Samaritan tow-truck driver that owned his own island.* Today we have E-Trades regurgitating infant guru and TD Waterhouse’s *Law and Order* approved trading ads. The sheer hyperbole of one T.D. advertisement is evident in the one with the “cool-guy” who is hitting balls at the driving range next to his lap-top while trades are firing off. An interesting observation is that he is doing it all at night. “Cool-guy” must be so sophisticated that he is trading the Asian markets. As Jon Lovitz, the pathological liar on Saturday Night Live, would say...“*Yeah, yeah that’s the ticket; I’m trading the Topix Exchange.*”

What all of these advertisements have in common is their desire to induce you to start making rash and often stupid investment decisions. Get online and trade; it’s easy, it’s your money. I remember when I was kid there was a shoe company that advertised their sneakers during Saturday morning cartoons. The ads featured kids wearing the sneakers with Flash-like speed and the ability to jump over fences. I was a little chubby and slow when I was a kid, so I was sold on the shoes. I had to have those sneakers. If only I had those sneakers, I too would wield that awesome backyard power of the cool athletic kids in the ads. Don’t laugh, I was only six years old.

Unfortunately fully grown adults are buying into the “*I want a sub-zero-refrigerator-lifestyle*” advertisements, in the same manner a six year-old thought that special sneakers could give him super-human power. Everyone get this straight...all of those cool-looking people with the huge houses that look suspiciously like the people from either the Viagra or the Sunday New York Times advertisements are just that...ACTORS. If real people were actually successful trading at any of these firms at any reasonable rate these companies wouldn’t need to sell you a lifestyle. They could essentially, to quote another famous ad, “*Show You the Beef.*” If investors were even the slightest bit successful using *Strategy Desk* software, or some other trading system, or formula, they would most certainly be **very** vocal in telling you about it.

*Travis McKenna, the tow-truck driver with his own island country was last seen, according to IMDB as an extra in National Lampoon’s *Van Wilder* and an episode of *Boston Legal*. There must have been a coup d’état.

Radio Gurus

There are numerous pay-for play radio stations throughout the country that derive their entire income selling block time to anyone who has a couple of nickels to spare. You too could be a

radio show host at these stations. Talent, credibility, and integrity are not required. Just bring your checkbook. These stations are especially prolific in states with large populations of retirees such as Arizona, California, Florida, North Carolina and Nevada. They are often branded as “*Money Talk*” stations, when in reality they are nothing more than one long infomercial disguised as legitimate advice. These buy, sell, and hold shows induce bouts of nausea in me, and I still ride roller coasters and never get sea sick. The analogy I like to give to people who follow these shows is...Would you call into a talk radio show hosted by a brain surgeon and follow his advice to have brain surgery in a sixty second phone call? The stupid arrogance of these people who go on air and dispense investment advice without any knowledge of the individual on the other end of the phone is appalling. When Mr. or Mrs. Guru implores their audience to buy XYZ, he or she is telling everyone who is unfortunate enough to be listening to follow his or her lead. The reality is that all securities carry risk. Risk tolerance and suitability can only be determined on an individual basis. Everyone’s situation is unique. A buy for you might not be a buy for your Grandmother.

This past month, a federal court ruled that Ken Brown, host of a daily investment radio program heard throughout the state of Florida, netted 4.5 million through securities fraud while illegally passing more than \$9.6 million in trading losses on their customers. The case involves “*hundreds if not thousands*” of investors, according to Christopher Martin the senior trial counsel at the Securities and Exchange Commission. The sad thing is that this case was filed in 2005. Ken Brown remained on the air until 2008. The case contends that Brown and his investment company caused investor losses of \$200,000 a month for over four years. The SEC alleges that Brown’s firm engaged in a pattern of cherry-picking profitable trades for the firms’ benefit while passing money-losing trades to their clients. Martin stated, “*He had the discretion to buy or sell on his clients behalf, it was a heads- I win, tails-you-lose situation.*”

Infomercials

Two self-proclaimed experts at trading stocks who used infomercials and hotel seminars to tout their faux abilities were indicted on federal fraud charges. Linda Woolf and David Gengler passed themselves off as successful investors and persuaded consumers to pay anywhere from \$3000 to \$40,000 to learn the “*Teach Me to Trade*” stock picking system according to an indictment in the U.S. District Court in Alexandria. Prosecutors in the case state that the duo lied and omitted pertinent information about their own stock picking prowess; fabricating their stock market gains during presentations given at hotel seminars across the country. One of Teach Me to Trade’s stock picking experts was recruited by Woolf from a nail salon due to that person’s sales ability. The duo were so good at what they did, they helped consumers talk their credit card companies into increasing their spending limits so they could purchase expensive *Teach Me to Trade* materials.

The duo also aired infomercials on television. In one, Gengler touts how he doubled a \$10,000 investment in one week while the studio audience clapped and oohed with enthusiasm. Gengler stated in the infomercial, “*Luck has absolutely nothing to do with this. This is simply a system. If you can follow the rules...you can find your financial future.*” Both Woolf and Gengler worked as independent contractors for *Teach Me to Trade*’s publicly traded parent company, Whitney Information Network based in Cape Coral, FL.

James Cramer

On March 11 James Cramer told his readers at the Street.com that Bear Stearns was a buy at \$62 a share. Later that day he told his CNBC audience that “Bear Stearns is fine! Do not take your money out of Bear.” Later that weekend J.P. Morgan Chase swooped in with an offer of \$2 a share which is less than the Yankees pay Alex Rodriguez. They later upped the offer to \$10. TheStreet.com backtracked faster than Hillary Clinton and removed Cramer’s “buy” recommendation from its web page. Cramer once again, eerily reminding me of the former first lady explaining a terrifying trip to Bosnia, stated that he never really intended for anyone to actually go out and BUY shares in Bear Stearns. He just was telling people not to take their money out of the firm.

Note to Jim: Bear Stearns is not a commercial bank. Nobody is opening up checking accounts at Bear Stearns. I know this will hurt your ego, but I'm quite sure that hedge fund managers are not calling up your show to ask your glorious opinion on whether they should continue to do business with Bear.

Taking a page from the Bill Clinton triangulation handbook James Cramer hedges his position on March 18, 2008 with two articles: [Buying When We're Oversold Can Be Dicey](#) and [Shorts Don't Work in an Oversold Market](#). In other words the longs don't work and shorts don't work, but be sure to tune in to the lightning round where Jim will opine on a hundred stocks to buy and sell.

Bill Alpert of Barron's magazine did an entire piece regarding the stock-picking abilities of James Cramer. After a thorough and comprehensive review, Barron's concluded that his picks have not beaten the market (and this is before Bear Stearns.) This is according to a record of 1,000 of Cramer's buy recommendations compiled by YourMoneywatch.com. Barron's also looked at a database of Cramer's Mad money picks maintained by the Street.com, which covers 3,458 picks over six months. These picks were flat to down in relation to the market. Alpert stated, *"When we asked Cramer and CNBC for their own records of Mad money's stock-picking performance, they had more excuses than a Tour de France cyclist dodging a blood test."*

To sum it all up...

You are standing at the edge of a minefield. On the other side of the field are all of your financial goals, hopes and dreams. Those dreams seem so close you can see them with High-Definition clarity. To obtain and get to all of those hopes and dreams you have two choices. You can take the highly dangerous short route across the minefield or take the long road and walk around the minefield knowing that it will take much longer to reach your destination? Another caveat, next to the minefield are a multitude of carnival-barkers hawking detailed guides on crossing the minefield without injury and reaching your dreams quick and easy. You take a look at these guides and realize that they are all different. Which one is right? Which one will lead you to a financial bomb? Once again...Do you take long, more arduous, yet sure-fire way to your dreams or chance it?

The choice is yours.

Source Material:

Brackey Harriet [Lessons Learned From Boca Raton Radio Host's Investment Fraud](#) *South Florida Sentinel* 2/10/08

Brackey Harriet [Delray Beach Radio Host, Wife their Firms Fined Millions in Fraud Case](#) *South Florida Sentinel* 12/20/08

Barakat Matthew [Infomercial Stars Charged with Fraud](#) Alexandria, Va

Alpert Bill [Shorting Cramer](#) *Barrons*

Lewis Michael [What Wall Street's CEO's Don't Know Can Kill You](#) *Bloomberg* 3/26/08

Starkman Dean [Mad Money Bad Blood](#) 2/15/08