

BLODGET RETURNS

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I couldn't believe my eyes this past month when I saw the infamous Henry Blodget being quoted as expert on American Online and their new foray into making their service free. This guy has more lives than Jason Voorhees. I cannot understand for the life of me why the *Wall Street Journal* would go to a disgraced former Merrill Lynch analyst who was instrumental in the whole dot com pump and dump scheme by the major brokerage firms. Isn't there anybody else out there to give comment on the future of AOL? To jog your memory this is the guy who was writing glorious research reports about Merrill Lynch's investment banking clients while making fun of the stocks in his personal emails to his friends.

For example...

COMPANY NAME	PUBLIC ASSESSMENT	INTERNAL ASSESSMENT
Excite @ Home (ATHM)	<p>6/3/00: Merrill Lynch published rating: 2 (accumulate) -1 (buy)</p> <p>7/20/00: "We do not see much more downside to the shares." Research report</p> <p>Short-term rating: Accumulate</p>	<p>6/3/00: "ATHM is such a piece of crap!" - Henry Blodget E-mail</p>
Lifeminders (LFMN)	<p>12/4/00: Merrill Lynch published rating: 2 (accumulate) - 1 (buy)</p> <p>12/21/00: "We think LFMN presents an attractive investment." Research report</p>	<p>12/4/00: "I can't believe what a POS [piece of sh-t] that thing is." Merrill Analyst Henry Blodget e-mail.</p>
Infoseek.com	<p>12/19/99: Analyst Henry Blodget suggests 3 (neutral) -2 (accumulate) rating</p>	<p>12/19/99: Analyst Henry Blodget calls stock a "dog"</p>
Internet Capital Group	<p>10/5/00: Merrill Lynch's published rating: 2 (accumulate) - 1 (buy)</p> <p>Placed on Merrill Lynch's list of the top ten technology stocks ("Top Ten Tech" list), as late as September 12, 2000</p>	<p>10/5/00: "Going to 5" (closed at \$12.38)</p> <p>10/06/00: "No helpful news to relate [regarding ICGE], I'm afraid. This has been a disaster-there really is no floor to the stock."</p>
InfoSpace.com	<p>7/11/00: Report says, "InfoSpace continues to be one of the best ways to play the wireless Internet."</p> <p>Rating: 1 (buy) - 1 (buy), the highest possible rating</p> <p>InfoSpace was on the "Favored 15" List from at least August 2000 until December 5, 2000.</p> <p>Was a major investment banking client.</p>	<p>7/13/00: Analyst Henry Blodget had acknowledged as early as June 2000 that the stock was a "powder keg" and that "many institutions" had raised "bad smell comments" about it and in October had referred to it as a "piece of junk."</p> <p>5/17/00: "This company [InfoSpace] is very important to us from a banking perspective, in addition to our institutional franchise."</p>

The business press and the Wall Street elite loved this deal. We panned it. In early 2000 we compared AOL to the internet service for novices stating *"Once people understand how to use the internet they will take the AOL training wheels off and use a free browser. Why pay for something, if you can get it for free."* This was not a brilliant observation on my part, I was just stating the obvious, the emperor had no clothes.

It was a collective party when this deal was announced. Champagne flowed, stock options were cashed in (AOL executives sold close to a billion dollars worth of stock right before the deal) and Wall Street cheered. This past month Steve Case the former CEO of AOL stated that he is sorry about the deal. What a crock. Steve Case made a fortune. He currently owns practically the entire state of Hawaii. The AOL/Time Warner deal was classic Wall Street deal making, doing a merger for the sole purpose of collecting investment banking fees. We estimate that Morgan Stanley pocketed tens of millions of dollars on this deal, not including all the money they made in debt offerings.

Resident genius Henry Blodget was a huge proponent of this deal, along with the other 41 equity analysts covering the stock. All of them looking for a piece of what Morgan Stanley lead analyst and cheerleader said was *"our best money making idea."* They weren't kidding, it was a huge money making idea for them, colossal failure for their clients. Mary Meeker survived the mass-firings of incompetent analysts on Wall Street because Morgan Stanley conveniently **lost** all of their internal emails and subsequently could not provide them to regulators. (Amazing how a multi-billion dollar company is lacking back up hard drives) She is still offering her brilliant opinion to Morgan Stanley clients. Now Henry Blodget is being quoted as internet/technology expert.

What's next...? Michael Jackson opening up a day-care center?

On a side note I have made the argument over the years that most stock analysts are a bunch pointy-head, theory only types that love playing with the obscure functions on their calculators. They try to prove why a company with no earnings, a lousy product and a *visionary* CEO who still wears his fraternity letters is a good investment for your IRA. I believe that the best stock analysts would be business owners themselves, having actually lived and worked in the real world, not the theoretical one. Blodget was neither. Get a load of this resume...

Charles Gasparino in his tremendous book *"Blood on the Street"* documents Blodget's rise to Wall Street glory. Prior to becoming the big cheese analyst at Merrill Lynch, he was an aspiring journalist. (I am feeling nauseous.) He was then a proofreader for the socialist *Harper's Magazine* when he stated *"I believe capitalism is evil."* (Note: Blodget made over \$10 million a year at Merrill) Before he got a job using the spell-check at *Harper's* he worked for a non-profit environmental group in San Francisco. The only published piece he managed to get printed ironically enough was a letter to the editor of the *New York Times* attacking then vice-president Dan Quayle and his lack of qualifications. (I couldn't make this stuff up.)

To summarize, Merrill Lynch the self-proclaimed **"King of all Brokerage Firms"** let a socialist proof-reader with a degree in creative writing be their number one equity analyst directing their 15 thousand plus brokers what to buy and sell.

Maybe he stayed at a Holiday Inn Express last night?