

Fleecing Your Pocketbook?

In *The Golden Fleece*, Walter Stewart weaves a caustic diatribe condemning the stock market for "skulduggery, scandal, cheating and the use of insider information to empty the pockets of the unwary."

***The Golden Fleece: Why The Stock Market Costs You Money.*
by Walter Stewart. McClelland and Stewart Inc., 1992, \$14.98**

by Steven Bright

Stock marketeering is not for the faint of heart or weak of pocketbook. Market fluctuations can catch both the experienced trader and the novice investor by surprise. Those who doubt this assertion need only remember the example set by the Canadian steel manufacturer Stelco. The once-mighty blue chip stocks plummeted from the mid-\$20 range in 1990, to an ignominious \$0.90 in November, 1992. As a result of sagging markets, millions of dollars worth of investments were eradicated, resulting in crippling financial losses. Yet, a glance at newspapers today shows that Stelco's shares are pushing \$10. Millions have been made on the resurgence, though this is little compensation for someone who bought at the initial high four years ago.

Such ups and downs reflect the very nature of the stock market. This game of 'poker for the rich,' as some might call it, is played by an estimated seven million Canadians—and countless others around the world. Some play for long-term security, and some to gain control of companies through leveraged buyouts; still others play for recreation, and often profit.

If you are a player, looking at the stock market tables every morning can set your mood for the day. Your stocks are up, so are you. A slight drop brings on mild disappointment. A precipitous fall-out induces palpitations and frantic phone calls to your broker. Whether you are a

Friends say Steven Bright is a dartist with chartist tendencies. He has been investing in stock markets since he was 16 years old, and now, is a lobbyist in Ottawa.

dartist—believing that random dart throws at market tables are the best way to pick lucrative stocks—or a chartist—trusting in number-crunching analyses and extrapolations to point the way to untold millions—you cannot help but be

"The market is an ass. The market will tell you on Monday that a share in Old Fossil Mining is worth \$70 and a week from Thursday that it's worth about fifty cents. The market rushes to extremes and responds to rumors."



Walter Stewart, author of *The Golden Fleece*.
[McClelland & Stewart]

lured in by the fast pace and high stakes of the stock market.

Stewart: The Game is Rigged

If you accept that stock market investing is a game, then knowing the rules is of obvious importance. Yet mastering these rules is of little consequence to Walter Stewart, author of *The Golden Fleece* and stock market cynic.

For Stewart, stock market strategies are unimportant as 'the game' is rigged. "Like a crap game, this institution offers the opportunity for great gain and stupendous loss in the act of gambling; much of the money is ventured on side-bets and, as with every established, permanent floating crap game, the fix is in."

Stewart is a well-known Canadian journalist and one-time managing editor of Canada's national news magazine, *Maclean's*. In previous books, he has tackled several finance-related topics, including the Canadian banking system and the collapse of the Reichmann real estate empire. *The Golden Fleece* is a 302-page indictment of the entire stock market industry. "We will discover," he tells us, "that skulduggery, scandal, cheating and the use of insider information to empty the pockets of the unwary have been part of stock markets since the days of the infamous South Sea Bubble three centuries ago."

The Dark History of a Dubious Institution

In building his case, Stewart takes readers back to seventeenth century England and the origins of modern stock markets.

Then, the lure of profits from overseas trading was irresistible for many wealthy Europeans. Pooling their resources, thereby increasing their individual profits through the use of leverage, investors paid the expenses of trading ships and in return were given stock certificates from the treasury of the shipping company. These certificates gave the holders the right to elect and/or appoint officers to manage their joint investments.

The Hudson's Bay Company was one of the earliest of these joint stock ventures, incorporated on May 2, 1670. Originally chartered to oversee a large tract of land in British North America and seek a northwest passage to the Pacific, the company made its profits in the fur trade. The financial success of the Hudson's Bay Company (which still exists today, though in substantially different form) encouraged promoters to seek out similar joint investments to support their money-making schemes.

As a result, the South Sea Company was formed in 1711. With the War of

Spanish Succession soon to end, British speculators opined that trade with Spanish America (primarily in slaves) would soon be re-opened and that money could be made servicing the cross-Atlantic route. The company's original stock was sold with a guaranteed return of six percent.

Early ventures met with only limited success, however, as treaties with Spain proved less favorable than had been expected. Nevertheless, stock values skyrocketed in 1720 when the South Sea Company proposed to Parliament—which accepted the offer—to take over the national debt. Stock prices rose over 300 percent between January and August 1720. Unwise investors rushed to purchase overvalued South Sea Company stock, or else were coerced into spending their money on equally unstable ventures.

In September, the over-inflated market collapsed. The national treasury and thousands of investors were left in financial ruin. By the end of the year, shares in the South Sea Company were at their lowest point in twelve months.

A subsequent House of Commons investigation revealed that three government ministers had accepted bribes and invested in the company. The speculative hoax, that became known as the "South Sea Bubble," had burst. Centuries later, Stewart suggests that investing in modern stock markets offers little more security.

Taking Apart the TSE

Stewart's book reads like a stroll through the visitor's gallery of the Toronto Stock Exchange (TSE) with the author, as tour guide, providing his unique perspective on the activity of the trading floor below. The brokers, the regulators, the banks which own the brokerage houses, and

the media which reports the movements of this maelstrom are all soundly reproached by Stewart.

Especially caustic is the treatment given the media. From his background as managing editor of Canada's largest news magazine, Stewart is well qualified to criticize. He writes: "One problem with journalists trying to cover the stock markets is that their lords and masters [the CEOs of corporations] are made comfortable by chummy reporting and uncomfortable by rude reporting." Unfortunately, for the average person relying on the average news publication, the truth about the stock market is not easily uncovered.

Not as Bleak as it Seems

What Stewart overlooks in his diatribe, is that thousands of ordinary North Americans with no access to insider information, have profited from playing the markets. They have put their faith and money into a number of stocks, bonds and funds, watched their money grow, and have walked away with safe capital gains and/or handsome dividends. They played the game and won—no tricks, no scandal and no skulduggery.

Accounts of brokers hoodwinking gullible grandmothers and regulators caught in the same cozy financial bed as dodgy stock promoters make for lively reading, but these stories are hardly commonplace. The Michael Milken and Ivan Boesky's of the world are the exception, and not the rule. Tales of the stock market may not always end happily, or unfold purely, but the reality is not quite as grim and cynical as Stewart projects.

Despite this, *The Golden Fleece* serves up valuable insights on the development of one of the world's oldest and most powerful financial institutions. Whether one chooses to ride out the ups and downs of the markets, or consciously steers clear, thinking them to be crooked and rigged, reading *The Golden Fleece* is well worthwhile.

Dartists will find in Stewart's book an enjoyable, quotable summary of—and justification for—their paranoias. While chartists will enjoy the story Stewart weaves, they will have to look elsewhere for support for their number-crunching ways. Those of us caught somewhere in the middle can learn a tremendous amount from Stewart, while still navigating through the troughs and crests of investing. ●

