Contents

Acknowledgments		xvii
PART I	What Happened to Investors' Money?	1
chapter 1	Why You Should Read This Book	3
	Investors Aren't Primarily to Blame for Their Losses	4
	Power Is at the Root of the Corporate Financial Scandals	6
	The Internet Bubble and The Big Company Scandals	7
	The Decay of American Capitalism	9
	Returning to a More Honest America	10
	Talking Points	11
chapter 2	Scandals and More Scandals	13
	The Scandals in a Nutshell	13
	Why We Didn't See This Coming	22
	Talking Points	24
chapter 3	Systematic Deception	25
	What Was Going On?	26
	Corrupt Accounting	26
	Restatements	27
	CEOs Ask for Misrepresentation	28
	Hiding Relative Importance	28

xii Contents

	Just Like the Others	29
	The Common Accounting Dodges	30
	SEC Oversight	39
	The Criminal Mind	40
	Talking Points	41
chapter 4	More Than a Few Bad Apples	43
	A Lot of Dirty Little Piggies	43
	Bad Actors but No Scandals	44
	Few Prosecutions Doesn't Mean Few Violations	45
	Investors Made Too Little, and CEOs Too Much	46
	Changes in CEOs' Attitudes Led to a Decline	47
	in Investors' Trust	47
	Business Isn't Only to Blame	47
	Not a Great Depression—Yet	48
	The American Economic System Is Not Broken	48
	The Business System as a Whole Is Not Broken	49
	Conflicts of Interest: The Core of the Problem	
	in the Securities Industry	52
	Awards for "the Best" in Corporate America	54
	Talking Points	59
PART II	Infectious Greed: Who Got the Money?	61
chapter 5	Shareholders versus CEOs: The CEOs Make It Big	63
	CEOs Made Fortunes without Building Companies	65
	Aligning CEO and Investor Interests	65
	Stock Options Begin to Dominate CEOs' Pay Packages	67
	Behind the Executive Pay Explosion	71
	Why Options Pay Off When Companies Don't	73
	Stock Options and the Link to Performance	73
	Shareholder-CEO Alignment in Tatters	77
	Is Alignment of CEO and Shareholder Interests Possible?	78
	Talking Points	78
chapter 6	Osama Bin Andersen: The Role of the Accountants	81
	Peer Review	83
	Deceiving Investors Legally	84
	An Insidious Dynamic Develops	83
	Other Commercial Ventures	87
	The "Integrated Audit"	88
	Widespread but Not Ubiquitous	88

contents	XIII

PART III	The Failure of Checks and Balances	91
chapter 7	Neither Prevent nor Punish	93
•	Rubber Stamps—Boards of Directors	94
	Protection for Deception: The Role of the Attorneys	95
	The Failure of the Regulators	97
	What the Prosecutors, Courts, and the SEC Didn't Do	97
	What the Fed Didn't Do	100
	Talking Points	102
chapter 8	Ordinary Business at the Banks	103
	Conniving with Corporations to Deceive Investors	104
	Greasing the CEO's Palm via IPO Allocations	107
	Talking Points	108
chapter 9	The Corruption of the Analysts	109
	Use It or Lose It	111
	May Day	112
	Maybe 20 Percent Are Honest	113
	What's Said Isn't What's Done	115
	Actual and Potential Clients	115
	The Language of Recommendations	117
	Efforts at Reform	118
	Independent Analysts	119
	Praise (or Rebuke) for Pay	122
	Stealth Marketing	123
	Talking Points	126
PART IV	Why It Happened	127
chapter 10	The Temptation to Steal	129
	The New Very Rich: CEOs	129
	How CEOs Get Rich	130
	The Ignorant CEO	134
	So Strong a Temptation	136
	The Crucial Importance of Leadership	136
	The Courage to Speak Out	138
	Talking Points	139
chapter 11	The Ethics of the Gutter	141
	Do What's Right: Why Ethics Are Very Important	141
	What Are Ethics?	143
	The Failure of Ethics Programs in Companies	144
	The Decline of American Ethics and How it Happened	146

xiv Contents

	The "Push the Limits" Environment	149
	Hamstringing Ethics in America	151
	The Role of the Business Schools	153
	Talking Points	156
PART V	Reforms to Help Investors	159
chapter 12	Ties, Belts, and Shoelaces:	
	Changing Incentives for CEOs	161
	What To Do about CEO Compensation	163
	A Critical Change Needed in Federal Tax Law	165
	Boards of Directors versus the CEO in Setting Pay Packages	165
	The CEOnistas—A Parody	168
	Talking Points	169
chapter 13	Total Regulatory Reform	171
	A System Full of Holes	172
	Imperiling Investors by Keeping the SEC Weak	174
	Strengthening Investor Protection via a Consolidated Agency	176
	Letting Investors Leave the Market	177
	Keeping Investors in the Market	178
	Overuse and Abuse—the Gnomes of Norwalk	179
	Talking Points	180
chapter 14	Restraining the Imperial CEO	183
	American CEOs Have Too Much Power for the Safety	
	of American Investors	183
	Proposals to Strengthen Corporate Boards	185
	Increased Shareholder Activism	186
	America's Imperial CEOs	188
	The Danger of Ineffective Reforms	191
	Power Struggle: What Will Happen with Governance Reforms	
	if the Imperial CEO Retains His or Her Power	192
	America's Leadership Paradigm Is Upside Down	194
	We Don't Have to Have Imperial CEOs	195
	Reining in the CEO	196
	Talking Points	197
PART VI	The Market's Role in a Solution	199
chapter 15	Let the Market Choose	201
	Limitations of the Market	201
	Freeing the Market from Ideological Constraints	202
	Trusting the Imperial CEO Again	203
	Finding a Market Solution in the Not-for-Profit World	204

Contents xv

	Relying on the Market to Reform the Securities Industry Comments of Fed Chairman Alan Greenspan on the	205
	Corporate Financial Scandals	206
	Talking Points	209
chapter 16	Ethics Can Make the Market Work	211
	Corporate Leadership's Role	212
	Business Schools' New Role in Teaching Ethics	213
	The Importance of Continuing Education about Ethics	217
	Will Society Reinforce Courses in Ethics?	218
	Talking Points	220
PART VII	Getting Your Money Back	221
chapter 17	Freezing and Seizing:	
	A Direct Route to the CEO's Pocketbook	223
	Three Routes to the Money	223
	Getting the Company to Sue for You	224
	Appropriate Limitations	224
	Filing a Claim against Your Broker	225
	Going Directly to the Courts	225
	Can Investors Get the Law Enforced?	226
	What Happened to Chainsaw Al	227
	Proving that CEOs Were at Fault	227
	Getting Money if You Win the Suit	230
	Talking Points	231
chapter 18	Getting Congress to Get it for You	233
	Taking Money from Perpetrators and Giving It to Victims	233
	Idle Redress—Excessive Legalism	236
	Talking Points	240
PART VIII	Protecting Yourself from New Dangers	241
chapter 19	How Should I Invest?	243
•	A Tough Time for Investors	243
	How to Invest	245
	The Fundamentals of the Market:	
	The Economic Environment	247
	Deciding Whether the Market as a Whole Is Becoming	
	Less Dangerous for Investors	248
	Which Way Will the Market Go?	251
	Special Considerations for Investing Pension Money	253
	Talking Points	254

xvi Contents

chapter 20	Hedge Funds That Don't Hedge	255
	The Next Big Thing—The Fund of Funds	255
	Hedge Funds	257
	Talking Points	260
chapter 21	Do Investors Dare Return to the Market?	261
	A Bear Market, Yes, But Not Only a Bear Market	261
	Diagrammatic Summaries of CEO and Investor Conflict	
	in the Securities Markets	263
	The Temptation Remains	268
	It's Still Going On	270
	Reform, Justice, and Restitution	272
	The Irony of the Investor as a Victim of American Capitalism	275
	The Trembling Foundations of Wall Street	276
	Sources of Investor Risk	278
	American Investment Markets without Investors	279
	Key Ideas of This Book	280
	Talking Points	281
Notes		283
Index		297