CHAPTER 1

THE BROKER'S HIDDEN AGENDA

To give you a more complete understanding of what will happen and why, this book has been written as a novel, including a few fictional individuals and companies. However, these are included strictly to help guide you, step-by-step, through the maze of events and decisions that you will face in the months ahead.

Unlike a novel, this book is about the real world. The advice is solid and well documented. Step-by-step instructions are offered throughout to give you a practical guide that you can put to use right now—to get out of danger and achieve your financial goals.

We begin with a focus on the deceptions and dangers you face as an investor and consumer; plus we give advice on how to get your money to safety. Advice on how to achieve crash profits will follow.

Linda Dedini, the 30-something daughter of one of the highest-paid executives in America, didn't like to talk about her father.

She was attached to him emotionally but completely detached financially. She valued his love but did not want any of his money.

She and her husband, also very independent-minded, wanted to prove they could make it on their own without a penny of fatherly assistance. Other than her most intimate friends, she avoided telling anyone that her dad was a famous CEO. Her world was teaching physics at an Arlington, Virginia, high school, and she wanted to keep it that way.

FICTION OR FACT?

This book contains information about real companies and their executives. However, as it is written as a novel, the primary characters and their affiliations, including the following, are fictional:

Individuals	**Corporations**
Linda and Gabriel Dedini	Harris & Jones
James Dubois	MetroBank
Paul E. Johnston	UCBS
Oliver Dulles	CECAR
Tamara Belmont	ABC Corp.
Don Walker	XYZ Corp.

She didn't even want his investment advice. Instead, for almost all her financial decisions, she relied on one of the largest brokerage firms in America: Harris & Jones. The company had over 5 million customers and was among the most widely respected on Wall Street. She felt she could trust them.

The New York broker handling her account, James Dubois, had done very well for her throughout most of the 1990s. So she had a lot of confidence in him too.

One Monday morning, she called him for advice. She had $160,000 in new funds available to invest–the proceeds from the sale of a second home–and she hoped to grow that amount into a fund that would comfortably cover her and her husband's retirement and most of their kids' college tuition.

"I have a great stock for you," declared the broker enthusiastically. "It was selling as high as $64 per share, but it's come down now to $40. The great news is that it's expected to make $2 per share in earnings this year. So at $40, it's selling for just 20 times its earnings!"

"Is that good?" she asked.

"Good? Are you kidding? It's a fantastic bargain! Most companies in this industry are selling for 30 or 40 times earnings. So this company is really worth 30 or 40 times the $2 per share it's gonna make. Multiply it out and what do you get?"

"$60 or $80 per share?"

"Exactly. I'd say it's worth $80. But you're going to get it for just $40! That's the main reason our research analyst has just put out a 'strong-buy' rating on this stock. Were you watching CNBC this morning? No? Too bad. You could have seen our analyst talking all about it just a couple of hours ago."

"What's its name?"

"United Communications and Business Systems–UCBS. I'm sure you've heard of it."

She nodded slowly. After deflecting personal concerns, she decided to invest $80,000 in the company. The broker put her into 2,000 shares at $40 each, and she waited for the shares to go up.

The shares did precisely the opposite. Rumors were flying that UCBS had somehow exaggerated its earnings. Details were sketchy, but according to several sources (some of which seemed credible), instead of making $2 per share, the company was really making as little as $1 per share.

Since most investors still valued the stock at about 20 times its earnings, if these rumors proved true, the stock would really be worth only 20 × $1, or $20 per share. Almost instantly, investors started dumping their shares as the price plunged toward $20. Within days, she lost nearly half her money.

Adding insult to injury, it was also revealed a few months later that some of the great, positive ratings that this company had earned from Wall Street were effectively bought and paid for by the company itself. The analysts were getting huge payoffs to push the company, and they were sugar-coating the company's already-exaggerated earnings outlook. As the bad news hit, some analysts downgraded the company to "hold," which was really a Wall Street code for "sell." The stock promptly plunged in half *again* to $10. Of her original $80,000 investment, all she now had left was about $20,000.

As she pondered her predicament one afternoon, the phone rang and interrupted her thoughts. It was Dubois again. To her utter dismay, he recommended that she buy *another* 2,000 shares in the same company that was now sinking her portfolio like a torpedo.

"Look," he said. "All these bad rumors you hear about the company are a blessing in disguise. They've driven the share prices down to way, way, *way* below what the company is really worth. All you have to do now is throw in a few more bucks and you can cut your average cost down dramatically. In addition to the 2,000 shares at $40, you'll now have 2,000 shares at $10, for a total of 4,000 shares at an average cost of $25 per share. That's what's called 'dollar-cost averaging.' "

She balked. She told him that she was actually thinking of selling.

"*Oh no!*" he responded, jumping several octaves in one breath. "This is the *worst* possible time to do that. Instead, you should buy more! And if you don't have the guts to buy more, then, for God's sake, just *hold!*"

Dubois paused to gauge her response, but she remained silent. "Remember the golden rule of winning in the stock market!" he added with a professorial tone. "*Always invest for the long term.* The market has always outperformed other investments over a long period of time. It always comes back eventually."

She had heard this claim many times before from virtually everyone–friends, financial planners, even TV anchors and independent commentators. It seemed to be backed up with decades of historical evidence. She had never heard anyone say otherwise, so she accepted the claim without question.

For the next few days, she struggled with this decision, and each time she talked to Dubois, he passed on a new piece of investing wisdom to persuade her to "tough it out" and "hang in there."

The broker had a hidden agenda: He wanted to keep her as a customer, and he knew from experience that once customers sell out their stocks, they often give up on the stock market entirely, or worse, they close their brokerage accounts. With this in mind, he was absolutely determined to prevent her from selling in any way he could.

The first tactic he deployed was the "paper-loss" pitch. "Don't worry about your losses," he declared. "They're just on paper right now. If you sell, all you'll be doing is locking them in." He never mentioned that there is no fundamental difference between a paper loss and a realized loss. Nor did he reveal that the Securities Exchange Commission (SEC) even requires that brokers themselves value the securities they hold in their own portfolio at the current market price–to recognize the losses as real whether they've sold the securities or not. He was well aware that, either way, a loss was a loss. It was a fact of life.

When the paper-loss tactic didn't seem to be working, he tried the "don't be a fool and sell at the bottom" argument. He even used a script that a former sales manager had developed for him, which read, "We're very, very close to rock bottom. We may even be right *at* the bottom. If you sell now, three months from now, you'll be kicking yourself. Don't be a fool."

The truth: The broker didn't have the faintest idea where the bottom was. Nor did anyone in the firm. At the same time, he knew from years of experience that *stocks didn't hit bottom just because they look cheap*. In fact, for his own personal portfolio, the broker had decided that he wouldn't start bottom-fishing until most other brokers like himself finally gave up fishing for a bottom.

As often occurred, at midweek the market suddenly enjoyed a very sharp bounce, and Linda Dedini figured that this was her chance to finally get out. She gave Dubois a call to end it then and there, but he had an immediate comeback for that as well. He launched into his "big rally" pitch. "Look at this big rally!" he said, reporting the details of the Dow's action. "Your UCBS shares are starting to come back now. You don't want to get out, do you? You do? I don't believe it! After waiting all this time through thick and thin, you want to run away *now*–just when things are starting to turn around in your favor!?"

The last ace-in-the hole in the broker's arsenal of pitches was the patriotic approach. "Do you realize," he asked her, "what will happen if everyone does what you're talking about doing? That's when the market would *really* nosedive. But if you and millions of other investors would just have a bit more faith in our economy–in our country–then the market will recover and everyone will come out ahead."

Months later she would learn that there are many alternative investments she could use to profit from a stock market decline, and, after a couple of false starts, she would hone her skills at making large crash profits. For now, however, she knew of only three choices: buy, sell, or hold. She decided to hold.

Unbeknownst to the broker, she also had personal reasons for doing so: Her father was the company's CEO.