



The Ghouls And Monsters On Wall Street

by Andrew Beattie ([Contact Author](#) | [Biography](#))

It's Halloween and adults and children alike have been browsing costume shops for teeth, fake scars and the occasional severed hand. Running around with a gorilla mask and a chain of severed heads around your neck can have shock value, but if you want to be truly terrifying, it might be better to put on a power business suit, carry a briefcase and flash everyone a quick smile. This article will look at the biggest monsters ever to hound Wall Street – the people whose crimes were so heinous that investors still flinch whenever their names are mentioned.

Robert "The Ripper" Brennan

Robert Brennan, the founder of the [penny stock](#) brokerage firm First Jersey Securities, is remembered by some for the slogan, "come grow with us". Perhaps a better slogan would have been, "give me your wallet". By 1995, Brennan was up for securities fraud and on the hook for \$75 million – a fraction of the money investors lost when his firm went belly up.

Cornered, Brennan filed for personal [bankruptcy](#) while neglecting to mention \$500,000 in cash and \$4 million in [municipal bonds](#). The bonds were sold by a friend and invested in stocks, but the police caught him and traced his \$22 million nest egg. In 2001, Brennan was sentenced to 10 years in prison for [money laundering](#) and bankruptcy fraud.

The Phantom of the Mine, David Walsh

Much like the Phantom of the Opera ruled the opera house, David Walsh lorded over the Toronto Stock Exchange (TSX) for a short time. His company, [Bre-X](#), was the [Bay Street](#) darling. And just as the Phantom of the Opera's mask hid his disfigured face, David Walsh's Bre-X also kept a dark secret.

In the mid-1990s, Bre-X, a junior mining company in Canada, reportedly found one of the largest gold deposits ever. At one point, the deposit was estimated to be roughly 200 million ounces, which would have represented nearly 8% of the world's total amount of gold. As one can imagine, this sent the company's shares skyrocketing, and by 1997 they had reached \$280 per share up from the mere pennies they traded at before the find.

When evidence emerged that Bre-X had been salting (using outside gold) their samples, the bubble quickly burst on this darling, and investors – particularly funds investing for public sector employees – lost billions. Criminal charges were never laid against Walsh. Walsh died in 1998, of an apparent stroke, in the Bahamas where he had been living after the fraud came to light. His involvement in the scandal has not been determined and he never admitted wrongdoing.

Bernie "The Mad Cowboy" Ebbers

There a lot of ways to inflate revenues, and almost all of them involve savaging the [Generally Accepted Accounting Principles](#) (GAAP) system. [WorldCom](#), the infamous telecommunications giant made a "minor" alteration in its accounting records and ended up overstating its revenue by a few billion dollars. Actually, WorldCom didn't just exaggerate its earnings; it conveniently forgot that it lost well over \$100 million. (For more insight, see [Earnings: Quality Means Everything](#) and [Cooking The Books 101](#).)

When WorldCom started treating everyday expenses (pencils, papers, etc.) as [capital expenditures](#), money used to improve assets or buy new ones, the bomb started ticking. This accounting manipulation capitalizes the expenses, or puts on the balance sheet as an asset, instead of expensing them, which increases reported income.

The bomb finally exploded on June 25, 2002, when the company announced a \$3.85 billion earnings [restatement](#), which would eventually climb to \$11 billion. This forced the company into bankruptcy protection less than a month later on July 21. When WorldCom collapsed, it cost investors more than \$150 billion dollars and left 20,000 people unemployed.

Bernard Ebbers, the CEO of WorldCom during the fraud, was once granted a \$366 million dollar loan by the company. He was known on Wall Street for his down-home charm, but Ebbers ran out on WorldCom just before the fraud came to light, putting in his resignation just two months before the scandal hit the news. Ebbers was reeled back into to answer for accounting fraud that originated during his time at the helm. In the end, his "aw shucks" defense failed and was sentenced to 25 years in prison in 2005.

Charles "The Pharaoh" Ponzi

Charles Ponzi, an Italian immigrant who started his career in America as a waiter, had an excellent idea. It was not the idea that he advertised – that of buying international reply coupons in countries with lower currency values and redeeming them in the states to make money off the currency differences. Ponzi found that if he could keep money flowing in from new investors, he would be able to pay out returns to his original investor who, more often than not, would then reinvest.

While this smacks of what we have come to think of as a [pyramid scheme](#), it is actually a creature of a different breed – what is now called the [Ponzi scheme](#). Whereas a pyramid disperses the wealth from bottom to top, meaning that the top of the pyramid receives a small amount from each investor in a steadily growing base, in the original Ponzi scheme, all the money went straight to Ponzi and he decided what he would do with it. Ponzi could have run off with it, and, given what happened, probably should have. Ponzi had hopes of becoming legitimate, however, and that kept him paying out. Eventually the money ran out as people caught on. After squandering millions and bounding through a Florida real estate scam on his way to Brazil, Ponzi died penniless in a charity hospital in Rio de Janeiro. (For more see [The Biggest Stock Scams Of All Time](#), [What Is A Pyramid Scheme?](#) and our [Online Investment Scams Tutorial](#).)

The ENRON Blob

There is no way to sum up all of the horrible things [Enron](#) did in a catchy name. The "blob" was an unstoppable digestive system, but Enron didn't just shred papers and swallow investors' money – it made a science of prolonged decay.

One of the reasons that Enron's implosion was so destructive was that it had managed to hide its problems through complex [voodoo accounting methods](#) on a scale that even WorldCom couldn't match. By co-opting Anderson, formerly one of the world's top five accounting firms, Enron was able to spin out [shell companies](#) and [special purpose vehicles/entities](#) (SPVs) to hide its fatally wounded core.

Whereas most fraudulent companies see a general decrease as suspicions increase, investors were buying into Enron right up to the end. By the time Enron was finally discovered, it had already been dead for quite some time, yet the smell had been hidden amongst the darkest corners of its financials. Enron showed investors some of the most intricate and immoral accounting ever practiced. (See also [What Enron Taught Us About Retirement Plans](#).)

Barry Minkow, The Reformed Beast

For every beast that has rampaged through Wall Street, there are some that just miss the mark. Minkow seemed like a perfect candidate for a financial slasher flick at first glance, but recent events may yet tip the scales in his favor.

Barry Minkow founded [ZZZZ Best](#) when he was a teenager. Minkow's carpet cleaning company went quickly from doing modestly well to being a publicly traded corporation. For a while, Barry was the golden child of corporate America – an ambitious youth from a generation characterized by its apathy. Apparently, that wasn't good enough for Minkow – he began faking invoices and booking false insurance contract revenue to keep interest in him and his company high.

As things began to disintegrate upon closer accounting scrutiny, allegations surfaced that Minkow had been walking hand in hand with the mob on top of all his foggy accounting. Because Minkow's little company was publicly traded, shareholders took a \$100 million hit when the founder of the company was carted off to prison to serve more than five years for fraud (of a possible 25). Upon release, however, a newly religious Minkow began working with the [Securities and Exchange Commission](#) (SEC) and other regulatory bodies to help uncover fraud like the one he committed. On top of this, Minkow has been making monthly payments to restitution funds for the victims of the scam.

Conclusion

Fraud, especially accounting fraud, is a disturbingly common crime on Wall Street. Riské accounting is sometimes used by firms for "income smoothing" – making their year-to-year earnings a little more consistent. They do this by compiling reserves in good years and using them in bad ones (via write downs and such). Although it's not on the top of the prudent business practices list, income smoothing is not the devil in and of itself; companies may use it to keep shareholders who do not understand the cyclic nature of business from panicking when earnings dip in a given year. However, manipulating the accounting records becomes an unforgivable transgression when a

company is hiding the fact that it is heading toward significant losses or insolvency.

Although the CEOs at the head of these operations bear much of the responsibility, investors may have blood on their hands as well. In the glut of information, the advent of day trading and the razor edge of analyst's predictions, companies and the CEOs running them are facing increasing pressure from investors to perform. This is, by and large, the natural evolution of a more efficient market, but it also creates an environment that will continue to produce desperate men like those listed in this article. We can rage and groan at Enron, WorldCom and Bre-X, but like Dr. Frankenstein cursing the patchwork behemoth that murdered his love, we are only blaming the monsters that we helped create.

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