Dedicated to former mayor of New York City, Michael Bloomberg, without whom this book would not have been possible.
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At its crux, short selling is about failure. Things break down. Whereas most of mankind basks in a natural optimism, there are those who navigate the darker side of events—the miscalculations, fraud, and follies that spur us onward toward disaster. Catastrophe’s natural handmaidens are greed and, yes, plain evil.

The natural state of a collapsing universe is the breaking down of order. Short sellers understand this and seek to profit from it.

I knew these dynamics before starting this project in 2012. After all, I quoted the pessimist philosopher Arthur Schopenhauer in college and still enthuse over Samuel Beckett plays. In hindsight, I’m embarrassed to say, my effort was more about careerism than anything else. Colleagues and rivals were churning out acclaimed books in the wake of the 2008–2009 financial crisis. I was toiling for Bloomberg News, at a sparsely read monthly magazine under the yoke of a petulant editor. Yes, I was proud of a good portion of my work—racking up a record 23 cover stories. Some of it explored the underside of the financial crisis. But my peers were on Charlie Rose or, worse, had even penned movie deals.

John Wiley & Sons approached me, suggesting I write a book profiling short sellers—something I suspect they soon came to regret. Short sellers, a misfit breed of investor tilting against the relentless onslaught of
hype emanating from Wall Street’s powerful marketing machinery, make a colorful cast of characters—an assortment of loners, firebrands, cynics, liars, and losers. What could go wrong?

My paranoid suspicion—evidence for which is utterly circumstantial—is that the wheels began to fall off the project before it began, with an investigative story I wrote for the January 2012 issue of the magazine. In July 2008, U.S. Treasury Secretary Henry Paulson met at the offices of Eton Park Capital Management with a group of hedge fund managers and other Wall Street types, many of them alumni of Goldman Sachs, where he was CEO from 1999 to 2006. According to a source at the meeting, the secretary disclosed material nonpublic information—that the government was planning to put mortgage guarantors Fannie Mae and Freddie Mac into conservatorship—wiping out equity holders in those state-sponsored companies. Disclosing this was not illegal, as I reported, citing legal experts. Yet Paulson had recently said such a move was unlikely.

Nothing much came of that story until September 2012, when the Wall Street Journal reported that the U.S. Securities & Exchange Commission (SEC) had launched an investigation into the matter. I was on book leave, and Bloomberg News did not, according to standard practice, match the story. Nothing much seems to have come of the SEC investigation.

Except perhaps this: A month or so after the Journal story, while still on book leave, I was summoned to Bloomberg headquarters and informed that I was being demoted to essentially a data entry position. They somehow neglected to change my senior writer title. Of course plenty of people are demoted all the time. Later, Bloomberg LP revealed that then-mayor Michael Bloomberg had a business relationship with Paulson. Indeed, they are co-chairs of an environmental organization called the Risky Business Project, along with ex-hedge fund manager and Goldman Sachs alumnus Thomas Steyer.

But if this book was to chronicle breakdowns—financial, regulatory, ethical, structural—my star-crossed efforts to bring the project together seemed to eerily reflect that. Subjects declined to be interviewed. Others did so only off the record. I was given bogus information, including a false address by one subject, and others claimed to have no record of past returns. A retired woman short seller relayed to me that she had become
so averse to the short-selling profession that she no longer dated men under six feet tall.

One source, after an Italian dinner in a rough part of town, asked to talk to me on “deep background” in a dark and deserted parking lot behind the restaurant, away from prying eyes and ears. I thought, briefly, I was about to get whacked.

Bad news mounted. The façade of my Greenwich Village apartment building required immediate replacement, costing $30 million in total. The jackhammers were merciless. On the eve of a key investment conference in Dallas, Superstorm Sandy swamped New York. My flight was canceled, scuttling interviews, and the resulting floodwaters knocked out electricity and forced battalions of mice into my co-op, necessitating bouts of successive efforts to eradicate them. Fortunately, we already had a good exterminator, because my crisscrossing of the country staying at cheap hotels had ushered in a virulent infestation of bed bugs. Interestingly, they seemed to prefer my voluminous cartons of interview notes and books to our beds.

The last of my roster of short sellers agreed, after initial refusals, to cooperate in the first half of 2013. I was on course to blow my deadline not by weeks but months. Like so much else, in this project, it was humbling, embarrassing—but nothing like what I was about to experience.

On July 5, the lion’s share of reporting and writing was complete. My book leave had ended and the new job in data entry was going surprisingly well, in its own fashion.

The phone rang. It was from the hospital. My special-needs daughter Nina was in septic shock. “It’s bad,” the doctor intoned, when my wife passed the phone to him, panic in his voice. “It’s really bad.”

Toxins were filling her body. The window of opportunity to arrest it is vanishingly small—every hour from its inception increases the mortality rate by 20 percent, I’ve been told.

A series of operations on Nina proved successful—she would spend months in and out of intensive care. I returned to data entry at Bloomberg, but struggled to complete my remaining chapters with my daughter in the hospital. She is recovering.

Next came a series of unrelated deaths in a staccato procession: A brother-in-law (of a heart attack), my 90-year-old mother-in-law, and my first editor at Fortune magazine, John Curran, 59 (of amyotrophic
lateral sclerosis). Sources and characters in my narrative were dying, too—*Barron’s* Alan Abelson, 87, died of a heart attack, and Doug Millett, 49, formerly of Kynikos Associates and largely responsible for exposing the Enron fraud, succumbed to a cancer of the salivary glands. Already suspicious, I was fast becoming superstitious.

In November 2013, Bloomberg LP, in company argot, fired me—along with a raft of vastly more talented journalists. Another phenomenally expensive operation for Nina lay ahead, but of course I had no idea whether her medical care had influenced the decision (Nina’s hospital tab for her first night was $330,637.54). Short sellers had taught me that paranoia is often well-founded. “What you see,” one short seller told me, “is not what really is.”

Fictions and delusions collapse as a consequence of their internal dynamics. Bad things happen. That’s the most important thing that short sellers—damaged, battered, often nearly broke—can remind us. If they make a buck or two in the process, who am I to judge?
Chapter 1

Ackman: The Activist
Grandstander

It had taken William Ackman more than 18 months to get this far—with zero to show for it. Over that time, the founder of Pershing Square Capital Management, with more than $15 billion in assets under management, had been hammering away at Herbalife, what can only be called a marketing machine that used so-called independent distributors to peddle nutrition and weight-loss products through a vast pyramid scheme. There was an enormous amount of money at stake—Ackman, who goes by Bill, had at one point borrowed some 20 percent of Herbalife's stock, worth more than $1 billion, through his brokers and then sold it. His goal: Expose the company as a fraud and repay those borrowed shares for pennies on the dollar—or nothing at all.

That's how short-selling works—and Pershing Square had by now spent more than $50 million in research and fees alone on the effort.

Now, in July 2014, the six-foot-three-inch-tall Ackman was wrapping up an impassioned, polished presentation for the media
and investors that laid out the details of how Herbalife entrapped its distributors through a system of so-called “nutrition clubs” that were meant to lure people into the base of the pyramid scheme and goose sales by foisting products on them. In the U.S., the lion’s share of distributors were low-income people, typically Hispanic-Americans, but Herbalife was pushing its weight-loss products in countries from India to Zambia.

Ackman singled out the Herbalife CEO. “Michael Johnson will go down in history as the best CEO of a pyramid scheme in the world,” he said, pointing out that the former Walt Disney and Univision Communications executive had extensive experience in marketing to Hispanic-Americans. He alluded to another famed notorious pyramid scheme, that of financier Bernard Madoff, who duped investors of some $20 billion. He compared Herbalife’s marketing to that of the Nazis.

Then things got personal. His voice trembling with emotion, Ackman detailed his immigrant forbears’ history in the United States, his great-grandfather apprenticing as an assistant tailor, the family’s coat business, and his father’s own formidable achievements as a mortgage broker. “I am a huge beneficiary of this country, okay?” he said, choking up with emotion. “Michael Johnson is a predator. Okay? This is a criminal enterprise. Okay? I hope you’re listening, Michael. It’s time to shut the company down!”

“This is an ingenious fraud,” Ackman said and, wrapping himself in the Stars and Stripes, added that Pershing Square preferred to invest in companies that help America. “I said I’m going to take this to the end of the earth. We’re going to do whatever makes sense.”

Before taking a break, he fired off: “This company is a tragedy and it’s also a travesty.”

Whew! Pass the water.

Beyond the Ackman histrionics, his argument had merit.

The accusation was that Herbalife virtually forced its distributors to commit to buying more product than they could sell to earn a living wage, and Ackman, with the help of a contract research firm, had just furnished the evidence for his claim that Herbalife was a sophisticated pyramid scheme, illegal under U.S. Securities & Exchange Commission (SEC) and Federal Trade Commission rules.
The son of a successful commercial real estate broker, Ackman was born with a proverbial silver spoon in his mouth—and a highly polished one at that. He grew up in lush Chappaqua, New York—these days home to former President Bill Clinton and his wife, former Secretary of State Hillary—graduating from one of the nation’s foremost public secondary educational institutions, Horace Greeley High School. Ackman picked up both a B.A., magna cum laude, and an M.B.A. from Harvard. Immediately after graduation in 1992, with no formal training, Ackman launched his own hedge fund, Gotham Partners, which he eventually shuttered in the face of investor withdrawals—but not before making a high-profile, unsuccessful bid to gain control of New York’s Rockefeller Center. Even friends say the hyperambitious Ackman comes off as overconfident and a know-it-all—but one whose big bets and relentless drive have generated 20 percent–plus returns for investors in his current flagship fund, called Pershing Square Capital Management.

Ackman began his Herbalife campaign at a December 2012 event sponsored by the Sohn Conference Foundation—a charity that finances pediatric cancer research and care. Dubbing the presentation “Who Wants to Be a Millionaire?” after the television game show, he and colleagues spent an astonishing three-plus hours detailing a convincing case that Herbalife, which peddles nutrition bars, vitamins, and powdered smoothie mixes of soy, sugar, and protein, was a giant pyramid scheme with sales that year that would amount to $4.1 billion.

The business model required that independent Herbalife distributors pull in more and more distributors into their network to make real money, pushing those newbies in turn to recruit other hapless friends, acquaintances, and relatives to do the same. The takeaway: Products went in large part to distributors themselves instead of end customers, with the lion’s share of the money paid to distributors for bringing in fresh candidates to the sales force, not selling the products.

That’s basically the definition of a pyramid scheme—in which an ever-growing number of recruits is duped into paying off the previous set. “Basically, the large numbers are such that if you go back to that pyramid, you need a bigger and bigger base at the bottom to support it,” Ackman explained. “Problem is, the money at the top is made from losses of the people at the bottom, and there are a very few people at the